STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF SOUTHERN INDIANA GAS AND ELECTRIC COMPANY D/B/A CENTERPOINT ENERGY INDIANA SOUTH PURSUANT TO INDIANA CODE CH. 8-1-40.5 FOR (1) AUTHORITY TO (A) ISSUE SECURITIZATION BONDS; (B) COLLECT SECURITIZATION CHARGES; AND (C) ENCUMBER SECURITIZATION PROPERTY WITH A LIEN AND SECURITY INTEREST; (2) A DETERMINATION OF TOTAL QUALIFIED COSTS AND AUTHORIZATION OF RELATED ACCOUNTING TREATMENT; (3) AUTHORIZATION OF ACCOUNTING TREATMENT RELATED TO ISSUANCE OF SECURITIZATION BONDS AND IMPLEMENTATION OF SECURITIZATION CHARGES; (4) APPROVAL OF PROPOSED TERMS AND STRUCTURE FOR THE SECURITIZATION FINANCING; (5) APPROVAL OF PROPOSED TARIFFS TO (A) IMPLEMENT THE SECURITIZATION CHARGES AUTHORIZED BY THE FINANCING ORDER IN THIS PROCEEDING, (B) REFLECT A CREDIT FOR ACCUMULATED DEFERRED INCOME TAXES, AND (C) REFLECT A REDUCTION IN PETITIONER'S BASE RATES AND CHARGES TO REMOVE ANY QUALIFIED COSTS FROM BASE RATES; AND (6) ESTABLISHMENT OF A TRUE-UP MECHANISM PURSUANT TO INDIANA CODE § 8-1-40.5-12(c).	)	**CAUSE NO. 45722**

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

PUBLIC'S EXHIBIT NO. 2

TESTIMONY OF WITNESS LEJA D. COURTER

AUGUST 3, 2022

Respectfully submitted,

T. Jason Haas
Attorney No. 34983-29
Deputy Consumer Counselor

SOUTHERN INDIANA GAS AND ELECTRIC COMPANY
D/B/A CENTERPOINT ENERGY INDIANA SOUTH
CAUSE NO. 45722
TESTIMONY OF OUCC WITNESS LEJA D. COURTER

I. INTRODUCTION

Q: Please state your name and business address.

A: My name is Leja D. Courter. My business address is 115 West Washington Street, Suite 1500 South, Indianapolis, IN 46204.

Q: By whom are you employed and in what capacity?

A: I am employed by the Indiana Office of Utility Consumer Counselor ("OUCC") as a Chief Technical Advisor. For a summary of my educational and professional experience, as well as my preparation for presenting testimony in this case, please see Appendix LDC-1 attached to my testimony.

Q: What is the purpose of your testimony?

A: The purpose of my testimony is to address Southern Indiana Gas and Electric Company, d/b/a CenterPoint Energy Indiana South's ("CEI South" or "Petitioner") request for authority to issue securitization bonds, also referred to as Ratepayer-Backed Bonds ("RBBs"), collect securitization charges, and encumber securitization property with a lien and security interest pursuant to Ind. Code ch. 8-1-40.5 ("Securitization Act").

Q: To the extent you do not address a specific item or adjustment, should that be construed to mean you agree with Petitioner's proposal?

A: No. Not addressing a specific item CEI South proposes does not indicate my agreement or approval. Rather, the scope of my testimony is limited to the specific items addressed herein.

Q: How would you characterize CEI South's proposal in this Cause?

A: Take it – and leave it. Take the Financing Order and Issuance Advice Letter as CEI South has presented those documents. Leave it solely to CEI South to negotiate the marketing, structuring, and pricing of the RBBs.

Q: Do you agree with CEI South's proposal?

A: No. The financial consequences of the securitization will cost CEI South's customers around $350 million. The OUCC and its consultant need to actively participate in the post-financing order processes to ensure CEI South's customers' interests are well represented.

Q: Does the OUCC oppose the use of securitization as a method to address CEI South's retirement costs?

A: No. Securitization in this situation may reduce costs to CEI South's customers. However, as discussed in my testimony, the participation of the OUCC, as the statutory representative of Indiana ratepayers, is necessary to ensure the lowest securitization charges for the structuring, marketing, and pricing of the RBBs, maximizing savings for CEI South's customers. Otherwise, there is little to no incentive for CEI South to ensure the lowest securitization charges.

Q: What are your recommendations in this Cause?

A: I recommend the OUCC and Saber Partners, LLC, the OUCC's consultant in this proceeding, fully participate in negotiations throughout the post-financing order

structuring, marketing, and pricing discussions until the RBBs are issued. CEI South and the OUCC would have joint decision-making authority. I recommend an alternative proposal at the end of section V. regarding the OUCC's participation in the post-financing order processes.

I recommend CEI South and the OUCC file certifications as to whether the Issuance Advice Letter is consistent with market conditions and the terms of the financing order and is just and reasonable by the statute. Ind. Code §§ 8-1-40.5-10(d)(3) and (6).

I recommend detailed information explaining the securitization charges be mailed (U.S. or email) to customers within 30 days of the bonds' issuance. Given the unique nature of this case, I also recommend CEI South coordinate with the OUCC regarding securitization information CEI South presents to its customers, including messaging for web-based and marketing communications, as applicable, along with customer mails, emails, and any billing inserts/messaging.

Q: Is it the OUCC's intention to re-litigate the terms of the Financing Order during the post-financing order processes?

A: No. The terms of the Financing Order will be determined in the first phase of the securitization process. The OUCC views this securitization as a three-phase process as explained in OUCC witness Joseph Fichera's testimony. (Public's Exhibit No. 3, pages 21-25.) The first phase includes writing and approving a detailed financing order and establish conditions for pre-issuance review. The second phase is implementing the financing order and any conditions the order establishes for final review by the

Indiana Utility Regulatory Commission ("Commission" or "IURC."). The third phase is bond pricing, and the final Commission decision on whether the Financing Order's conditions have been met.

II. STATUTORY AUTHORITY AND RESPONSIBILITIES

Q: Is electricity an essential service?

A: Yes.

Q: Is it important for CEI South's customers to have affordable electric service?

A: Yes.

Q: If the Indiana Utility Regulatory Commission ("Commission") approves a final order in this Cause, who will be responsible for paying the securitization charges?

A: CEI South electric customers, and only CEI South's electric customers.

Q: What are the OUCC's responsibilities in proceedings before the Commission?

A: The Indiana Code states: "In all proceedings before the commission…the consumer counselor *shall* have charge of the interests of the ratepayers and consumers of the utility…" (Ind. Code § 8-1-1.1-5.1(e), *emphasis* added.) The OUCC is designated by statute to be the representative of ratepayers' interests in any proceeding before the Commission. In that role, the voice of consumers should be empowered to balance the otherwise unilateral development of a complex report from the utility.

Q: Is that statutory duty encompassed in the OUCC's Mission Statement?

A: Yes. The OUCC's Mission Statement is, "To represent all Indiana consumers to ensure quality, reliable utility services at the most reasonable prices possible through dedicated advocacy, consumer education and creative problem solving."

Q: Can the Commission represent utility customers?

A: No. Ind. Code § 8-1-1-5(a) states in part:

> The commission shall in all controversial proceedings heard by it be an impartial fact-finding body and shall make its orders in such cases upon the facts impartially found by it. The commission *shall in no such proceeding, during the hearing, act in the role either of a proponent or opponent on any issue to be decided by it.* (*Emphasis* added.)

Q: Does the Commission have a Mission Statement?

A: Yes. Part of the Commission's Mission Statement, on its website, reads: "…the Commission is required by state statute to make decisions in the *public interest* to ensure the utilities provide safe and reliable service at just and reasonable rates." (*Emphasis* added.) This language supports the statutory mandate because the public interest would include the public interest of the utility as well as the public interest of the utility's customers.

Q: Have you read the Securitization Act?

A: Yes.

Q: Does the Securitization Act discuss involvement of parties in the post-financing order process?

A: Yes, to a degree. Ind. Code § 8-1-40.5(k) states in part:

> After the issuance of a financing order in response to the petition of an electric utility, the electric utility retains sole discretion regarding whether to assign, sell, or otherwise transfer securitization property or to cause securitization bonds to be issued, including the right to defer or postpone assignment, sale, transfer, or issuance.

This statutory language gives CEI South sole discretion regarding the disposition of the RBBs and securitization property. However, the Securitization Act is silent regarding interested parties' rights and responsibilities in the post-financing order

bond structuring, marketing, and pricing processes. Further, no procedure is defined in the statute to govern the finalization of those processes or the standard by which it is tested. Public Utility Commissions in states with similar statutory provisions have adopted processes to ensure the bond provisions are in the best interests of applicable ratepayers. CEI South has proposed a process and the OUCC proposes our alternative. As I explain later, due process requires the OUCC to be actively involved in the post-financing order processes.

III. TESTIMONY, TECHNICAL CONFERENCE SLIDES, AND DATA RESPONSES REGARDING POST-FINANCING ORDER PROCESSES

Q: Does Petitioner's testimony discuss the post-financing order processes?

A: Yes, Petitioner's witnesses Chang and Jerasa discuss the post-financing order processes.

Q: Does Petitioner's testimony indicate whether Petitioner is willing to collaborate with intervening parties during the post-financing order processes?

A: Petitioner's witness, Brett Jerasa, discusses the Issuance Advice Letter on page 29, line 32 through page 31, line 8 of his testimony. The Issuance Advice Letter is filed with the Commission as one part of the post-financing order processes. In this testimony, there is no discussion of collaboration or participation of intervening parties in the post-financing order processes. However, Mr. Jerasa does extend an invitation to the Commission to appoint a representative to "observe the pricing discussions." (Petitioner's Exhibit No. 2, page 30, line 27.). While the OUCC believes the IURC should not mix its roles to become an advocate *and* the ultimate approval authority,

this would give the IURC insight into the genesis of the bond terms that it would not have as just the reviewer of a bond package.

Q: What is the Issuance Advice Letter?

A: The Issuance Advice Letter contains the final pricing terms of the bonds and updated estimates of up-front and ongoing costs. (Petitioner's Exhibit No. 2, page 30, lines 2-3.) The Issuance Advice Letter also confirms the securitization bonds to be issued are consistent with the Financing Order and Securitization Act. (*Id*., lines 3-5.)

Q: Did Mr. Jerasa provide any information regarding when Petitioner plans to provide the draft Issuance Advice Letter?

A: Yes. Mr. Jerasa indicated a copy of the draft Issuance Advice Letter will be provided to the Commission no later than two weeks before pricing the securitization bonds. (Petitioner's Exhibit No. 2, page 30, lines 12-14.) He also expected the Issuance Advice Letter will reflect then-market conditions and include any credit-enhancements required by the rating agencies to achieve the desired securitization bond ratings. (*Id*., lines 14-16.)

Q: When will the final Issuance Advice Letter be submitted?

A: Mr. Jerasa indicates Petitioner will provide a copy of the final Issuance Advice Letter, with final terms and pricing, to the Commission within three (3) business days after pricing the securitization bonds. (*Id*., lines 16-18.)

Q: How much time will the Commission have to review the final terms and pricing in the Issuance Advice Letter?

A: The Commission will have to review and reject the final terms and pricing no later than noon on the fourth business day after pricing if the RBBs are inconsistent with the Financing Order or the Securitization Act. (Petitioner's Exhibit No. 2, page 30, lines

18-21.) That timeframe does not give the Commission much time to review, investigate, analyze, and finally accept or reject the final terms and pricing, especially if the final terms and pricing are not submitted until the third business day. It also leaves it to the Commission to quickly investigate whether the bond terms do conform to current market terms, structuring, marketing practices, and the Financing Order by the "drop dead" date.

Q: What happens if the Commission does not reject the final terms and pricing by the fourth business day?

A: Mr. Jerasa stated, "Absent a rejection of the Issuance Advice Letter by the Commission, the securitization bonds would close on the fifth business day after pricing." (*Id*., lines 21-23.)

Q: Who will pay all costs associated with the RBBs' final terms and pricing?

A: CEI South's customers will be legally responsible for paying the securitization charges.

Q: Did Petitioner indicate the OUCC will be an active participant in the pricing discussions?

A: No. Mr. Jerasa indicated "…we will keep the Commission apprised of the pricing process and invite the Commission to appoint a representative (either a Commissioner or a senior staff member) to observe the pricing discussions. (*Id*., lines 25-27.) Also, Petitioner responded, "The Issuance Advice Letter process cannot allow the opportunity for anyone but the Commission to object. Doing so would prevent the bonds from receiving the AAA rating." (Attachment LDC-1, page 2; Petitioner's Response to Industrial Group ("IG") DR 02-10(b).)

Q: Do you disagree with Petitioner's response in the quotation above?

A: The securitization process involves measures intended to remove investor risk. A pending objection to their issuance would undoubtedly add an element of risk which might jeopardize the issuance or rating. That would apply to the Commission as well as any intervenor. I agree the Commission should be the only party with an opportunity to object to the final bond pricing prior to issuance of the bonds, and the CEI South proposal would create a short period for review by a Commission that has no prior experience with these types of bonds. But since the Commission retains its obligation to ultimately determine if the Bond issue complies with the statute and the Financing Order, every opportunity must be provided for the Commission to make an informed decision on a complicated matter. It is incumbent on the Commission to provide for observation and analysis by experienced participants. That involvement should be by the statutory representative of the ratepayers who will bear the weight of the bond obligations.

Q: Have Petitioner's testimony or DR responses specifically stated why allowing the OUCC to participate in the post-financing order structuring, marketing, and pricing processes would prevent the bonds from receiving the AAA rating?

A: No, other than mentioning the Issuance Advice Letter process indicated above. But there is no clarification as to why allowing the OUCC to participate in the post-financing order structuring, marketing, and pricing processes would prevent the bonds from receiving the AAA rating.

Q: Do you have any concerns about a Commission representative observing the pricing discussion?

A: No. My concern is not with the Commission representative observing the pricing discussion, and the OUCC is not opposed to this. My concern is a Commission representative should not be substituted for the OUCC and its consultant representation during the post-financing order processes. The Commission representative does not have the statutory duty to represent the interests of CEI South's customers who will be paying the securitization charges. The OUCC is the statutory representative of CEI South's customers. The OUCC and its consultant would have the necessary technical expertise and should be negotiating on behalf of CEI South's customers in the post-financing order structuring, marketing, and pricing discussions.

Q: Was Petitioner asked any questions about intervening parties' participation in post-financing order structuring, marketing, and pricing discussions?

A: Yes. Petitioner was asked how intervenors will be kept apprised of the Issuance Advice Letter events described in his testimony. (Attachment LDC-2, pages 1-2; Petitioner's Response to Citizen's Action Coalition, Inc. ("CAC") DR 02-8(b)). Petitioner responded intervenors would not receive a copy of the Issuance Advice Letter or have an opportunity to object to the Issuance Advice Letter. (*Id*., page 1, Petitioner's Response to CAC DR 02-8(b)(i) and (ii).) Petitioner reiterated this position when it stated, "Once an order is issued in this cause approving the proposed bond issuance and said order has become final and no longer subject to appeal, no parties will have any further rights in this docket to object to the bond issuance." (Attachment LDC-3, page 1; Petitioner's Response to IG DR No. 9-8(a).) It also is Petitioner's position that other parties may not participate in pricing discussions even

if they execute a nondisclosure agreement. (*Id*., page 3; Petitioner's Response to IG DR No. 9.10(a).)

Q: What was Petitioner's response when asked whether intervenors will be allowed to appoint a representative to observe pricing discussions?

A: The response was "no." (Attachment LDC-2, page 2; Petitioner's Response to CAC DR 02-8(b)(v).)

Q: Do you have an opinion regarding the post-financing order processes discussed in Mr. Jerasa's testimony and Petitioner's DR responses mentioned above?

A: Yes. The post-financing order structuring, marketing, and pricing processes outlined in Mr. Jerasa's testimony, and the data responses, are not acceptable and do not include necessary consumer protections. CEI South proposes to shut out its customers from the structuring, marketing, and pricing processes - even though it is those same customers paying the entirety of the securitization charges.

The structuring, marketing, and pricing processes are complex as detailed throughout OUCC witness Fichera's testimony. (Public's Exhibit No. 3.) The OUCC's active participation will ensure the Commission's final decision is based on post-financing processes where CEI South's customers' interests were well represented – rather than from a unilateral proposal from CEI South and its underwriter.

Q: How are the procedural processes different in this Cause from the normal ratemaking process?

A: The procedural order is reversed in this Cause. Normally, the parties file their evidence, the Commission weighs the evidence, financial amounts are determined, and a Final Order is approved by the Commission. Even in traditional financing cases, the

utility and the OUCC present their evidence before a Final Order is approved. Also, the Commission has ongoing jurisdiction of financed debt.

In this Cause, the Financing Order comes first, and the actual financial numbers are determined later. The Commission does not have ongoing jurisdiction once the RBBs are issued. Under CEI South's proposal, the OUCC would not have the opportunity to present evidence for the Commission to weigh when the Commission makes its phase three determination on whether the lowest securitization charges have been achieved.

Q: Why is it important for the lowest securitization charges to be achieved?

A: It is important because CEI South's customers will be paying RBB charges for the next 15-20 years. The lower the RBB charges – the more affordable the rates to those customers.

Q: How transparent is CEI South's proposed post-financing order process?

A: It is not transparent. Under CEI South's proposal, the structuring, marketing, and pricing of the bonds would occur without the OUCC viewing these processes and representing CEI South's customers' interests. CEI South's proposal asks the Commission to make its final phase three determination based on CEI South's unilateral presentation of evidence. Under CEI South's proposal, CEI South is essentially asking the Commission to approve a Financing Order with fill-in the blanks for the financial information, and trust that CEI South will achieve the lowest securitization charges for the individuals paying the bill – CEI South's customers.

CEI South's customers deserve better. The only way full transparency and due process can be met, and an opportunity for CEI South's customers to be heard, is for the OUCC to fully participate in the structuring, marketing, and pricing processes.

Q: Would a prudent person sign a blank check, hand it to another person and say, "Fill in the amount. I'm willing to pay whatever you think is fair."?

A: No. A prudent person would negotiate the amount before signing the check. Similarly, CEI South's 150,000 prudent customers should not be required to sign the checks and pay RBB charges for the next 15-20 years without being represented at the negotiating table by the OUCC during the structuring, marketing, and pricing processes.

Q: Did Petitioner submit a proposed Financing Order?

A: Yes. The proposed Financing Order was attached to Mr. Jerasa's testimony, (Petitioner's Exhibit No. 2, Attachment BAJ-6.)

Q: Do you have any comments regarding the proposed Financing Order?

A: Yes. The language needs to be modified to include the OUCC and its consultant as joint decision-making participants in the post-financing order structuring, marketing, and pricing processes. The Financing Order needs to include the "Best Practices" language detailed in OUCC witnesses Klein, Schoenblum, and Fichera's testimonies.

Q: Did you review the draft Issuance Advice Letter?

A: Yes. The draft Issuance Advice Letter was attached to Mr. Jerasa's testimony. (Petitioner's Exhibit No. 2, Attachment BAJ-5.)

Q: Do you have any comments regarding the Issuance Advice Letter?

A: Yes. The OUCC and its consultant need to fully participate in the drafting of the final Issuance Advice Letter.

Q: Were you present at the Commission's Technical Conference on July 7, 2022?

A: Yes. I have attached the technical conference slides as Attachment LDC-4. CEI South indicates on slide 6, "Final net benefit to customers will be impacted by final pricing when the Securitization Bonds are issued." However, CEI South also indicates in its testimony and DR responses that it does not want CEI South's customers' statutory representative to participate in the meetings where final pricing will be determined.

Q: Did you review Slide 10 from the Technical Conference titled "Indicative Utility Issuance Process"?

A: Yes, and I do not see any step indicated on that chart where the OUCC cannot or should not participate in the process.

Q: Did you review Slide 11 from the Technical Conference titled "Indicative Marketing Timeline"?

A: Yes, and I do not see any step on that timeline where the OUCC cannot or should not participate in the process.

Q: Did you review slide 12 from the Technical Conference titled "Proposed Issuance Advice Letter Process"?

A: Yes, and again, I do not see any bullet point listed where the OUCC cannot or should not participate in the process.

IV. BENEFITS AND LIABILITIES TO SHAREHOLDERS AND CUSTOMERS BEFORE AND AFTER SECURITIZATION

Q: Why is issuing RBBs different than issuing traditional utility bonds?

A: When traditional utility bonds are issued, the shareholders are responsible for paying the debt service and recovering the cost of the debt service through general rate cases. The utility has an economic incentive to lower the interest costs its shareholders are

paying. Also, the Commission has *ongoing* review of the debt service in each general rate case. Conversely, in securitization issuances, all costs are passed directly to the utility's customers and the utility's incentive is to obtain the money as quickly as possible because no costs are borne by the utility's shareholders. Additionally, there is no Commission review of the bonds once they are issued and only period true-up proceedings for the securitization charge to ensure there are sufficient revenues to pay the bonds.

Q: What happens to CEI South shareholders' financial position if the Commission approves the proposed securitization?

A: CEI South will receive the proceeds from the issuance of the RBBs, and CEI South's shareholders are no longer liable for any debt associated with A.B. Brown Units 1&2. Petitioner estimated the securitization proceeds will be about $350 million. (Petitioner's Exhibit No. 2, Attachment BAJ-1.)

Q: If the Commission approves the securitization, who will be responsible for paying the $350 million in securitization charges?

A: CEI South's electric customers, and only its electric customers, will be legally responsible for paying all securitization charges. There will be no legal obligation by CEI South to pay the bonds nor will the bonds be backed by any CEI South assets.

V. PUBLIC INTEREST REQUIRES OUCC AND ITS CONSULTANT'S PARTICIPATION IN THE POST-FINANCING ORDER PROCESSES

Q: Does CEI South, or any other participant in the post-financing order processes have a statutory duty to represent CEI South's customers in proceedings before the Commission?

A: No. The statutory duty to represent ratepayers belongs to the OUCC.

Q: Does the Commission have a statutory duty to represent CEI South's customers?

A: No. As previously discussed, the Commission's statutory duty in this Cause is to weigh the public interests of CEI South and CEI South's customers.

Q: Does CEI South, Barclays (CEI South's financial advisor), or any underwriters, rating or marketing agencies have any incentive to minimize securitization costs?

A: I am not going to say they do not have *any* incentive to minimize securitization costs. But their *primary* duty is to parties other than CEI South's customers. CEI South's executives and Board of Directors have a duty to maximize profits for CEI South's shareholders, in this case, the corporate parent. Barclays and the rating and marketing agencies have the same primary duty to their shareholders. The only party with a statutory duty to represent CEI South's customers is the OUCC.

Q: The Securitization Act is titled "Pilot Program for Cost Securitization for Retired Utility Assets." Is this a case of first impression before the Commission?

A: Yes. This is the first utility securitization case in Indiana, which is another reason to ensure the procedures established in this case provide a "Win-Win for Customers and the Company." (Attachment LDC-4, page 5.) This is the pilot case, and it is establishing a template for future Indiana utility securitization cases. The people responsible for paying the securitization charges, CEI South's customers, need to be represented at the negotiating table in the post-financing order structuring, marketing, and pricing processes to ensure the bonds are issued with the lowest securitization charges.

Q: Which parties have an economic interest in the securitization process?

A: CEI South's shareholders, Barclays, underwriters, rating and marketing agencies, and the investors purchasing the bonds, have an economic interest in the securitization

process, and those parties are represented at the negotiating table. The OUCC and its consultant need to be present to represent the economic interests of CEI South's customers. I once read utility securitization is like a breakfast of eggs and bacon. The chicken is involved but the pig is committed. In utility securitization, the utility is involved, but the ratepayer is committed. CEI South's customers' commitment needs to be represented throughout the post-financing order processes by the OUCC and its consultant.

Q: What is the consequence to CEI South's customers if the financing order is approved and the RBBs are issued?

A: The financing order and securitization charges are irrevocable, with limited exceptions specified in the Securitization Act. Ind. Code § 8-1-40.5-10(f)(1)(2). Also, Ind. Code § 8-1-40.5-10(g) states: "Securitization bonds issued under a financing order of the commission under this section are binding in accordance with their terms, even if the financing order is later vacated, modified, or otherwise held to be invalid in whole or in part." Therefore, even if the financing order is held to be invalid – CEI South's customers will be required to pay the full amount of the securitization charges.

Q: Is there a difference between structuring, marketing, and pricing the bonds, and issuing the bonds?

A: Yes. The former is the form of the bonds, the latter is the actual sale and delivery of the bonds to the underwriters who are the initial purchasers. The OUCC and its consultant need to be at the negotiating table for the structuring, marketing, and pricing of the bonds. The OUCC and its consultant do not need to participate in the actual sale and delivery of the bonds.

Q: What does the Securitization Act state regarding sole discretion of the utility after a financing order is issued?

A: Ind. Code § 8-1-40.5-10(k) states in part: "After the issuance of a financing order…the electric utility retains sole discretion regarding whether to assign, sell, or otherwise transfer securitization property or to cause securitization bonds to be issued…" However, I do not interpret this language to exclude CEI South's customers – who are going to pay the securitization charges – from representation by the OUCC at the post-financing order structuring, marketing, and pricing negotiations. As previously mentioned, the OUCC has a statutory duty to act in the best interests of CEI South's customers. Unlike traditional corporate debt financing, CEI South is not responsible for any costs of borrowing for the RBBs. Therefore, CEI South has no immediate stake in the outcome of the securitization or incentive to achieve the lowest securitization charges - other than to receive the cash as quickly as possible, which will provide capital and improve its balance sheet. These are not unworthy goals, but those goals do not necessarily represent the public interest and the best interests of CEI South's customers.

Q: Are you aware of any other jurisdictions with similar language in the statute regarding "sole discretion"?

A: Yes. I have attached a copy of Florida Public Service Commission ("FPSC") Order No. PSC-06-0464-FOF-EI as Attachment LDC-5. This is a case decided on May 30, 2006 when Florida Power & Light ("FPL") securitized over $1 billion to recover losses from hurricane damages.

Q: Did the Florida securitization statute contain similar language to the Indiana statute regarding sole discretion of the utility to issue the bonds?

A: Yes. The FPSC, citing Section 366.8260(2)(b)(4) of the Florida Statutes, stated: "FPL retains sole discretion regarding whether to assign, sell, or otherwise transfer Bondable Storm-Recovery Property or to cause the storm-recovery bonds to be issued, including the right to defer or postpone such assignment, sale, transfer or issuance." (Attachment LDC-5, page 48, paragraph 32.)

Q; Did the FPSC allow consumer representation in the post-financing order processes?

A: Yes. The FPSC rejected FPL's proposed review procedure and stated: "To ensure that customers are represented in the transaction process and that customers' interests in achieving the lowest cost objective will be served, we do not approve the review procedure originally proposed by FPL." (Attachment LDC-5, page 41, Finding No. 127.) Instead, the Commission created a Bond Team actively involved in the bond issuance on a day-to-day basis in all aspects of structuring, marketing, and pricing each series of storm-recovery bonds. (*Id*.) The FPSC stated the interactions of the Bond Team would allow for meaningful and substantive cooperation among FPL, the FPSC and its representatives to *achieve the lowest cost objective* and to *protect the interests of customers*. (*Id*., *emphasis* added.) The Order details additional responsibilities of the Bond Team in Finding Nos. 128-136. (*Id*., pages 41-43.)

Q: Was there any discussion in the FPSC Findings about the procedure if the Bond Team didn't reach a consensus?

A: Yes. Finding No. 136 states in part: "Any issue that all Bond Team participants are unable to resolve to their mutual satisfaction should initially be presented in writing by

the Bond Team participants for resolution by a designated Commissioner, subject to de novo review by the full Commission." (*Id*. at 43.)

Q: Would you recommend a similar resolution process in this Cause?

A: Yes.

Q: Has another CenterPoint electric utility issued RBBs?

A: Yes. The Public Utility Commission of Texas ("PUCT") issued a securitization financing order for CenterPoint Energy Houston Electric Company in 2005. (Attachment LDC-6.) The PUCT also has approved securitization orders for CenterPoint affiliates in Cause Nos. 21665, 34448, 37200, and 39809. (Attachments LDC-7 to LDC-10.)

Q: Did the PUCT, acting through its designated representative or financial advisor, have a decision-making role in the post-financing order processes?

A: Yes. In PUCT Docket No. 30485, the Commission found:

> [I]t is necessary for the Commission, acting through its designated representative or financial advisor, to have a *decision-making role* co-equal with CenterPoint with respect to the structuring and pricing of the transition bonds and that all matters relating to the structuring and pricing of the transition bonds *shall be determined through a joint decision of CenterPoint and the Commission's designated representative or financial advisor*.
>
> (Attachment LDC-6, page 56, Section 15, Finding No. 108, *emphasis* added.)

Similar language is included in the Financing Orders in the other four CenterPoint securitizations before the PUCT. (Attachment LDC-7, page 68; Attachment LDC-8, pages 58-59; Attachment LDC-9, pages 57-58; Attachment LDC-10, pages 53-54.)

Q: What did the PUCT find regarding designated representative or financial advisor participation?

A: The Commission found:

> The Commission's designated representative or financial advisor *must, however, have an integral role in the structuring, marketing, and pricing of the transition bonds* in order to provide competent advice to the Commission. This requires the Commission's designated representative or financial advisor *to participate fully and in advance in all plans and decisions related to the structuring, marketing, and pricing of the transition bonds and that it be provided timely information* as necessary to fulfill its obligation to advise the Commission in a timely manner…
>
> (Attachment LDC-6, page 56, Finding No. 109, *emphasis* added.)

Again, similar language is included in the Financing Orders in the other four CenterPoint securitizations before the PUCT. (Attachment LDC-6, pages 5, 9, 56-59, 67-69; Attachment LDC-7, pages 8, 37, 50, 52, 61-63, 67-68; Attachment LDC-8, pages 58-60, 70-71, 80-81; Attachment LDC-9, pages 57-59, 69, 80; Attachment LDC-10, pages 53-55, 64, 66, 72-74.)

Q: Did the PUCT's designated representative have an obligation to ensure the lowest transition bond charges?

A: Yes. The Commission stated in PUCT Docket No. 30485:

> To further ensure benefits to ratepayers, the Commission's designated representative or financial advisor should be charged with the obligation to ensure on behalf of the Commission that the structure and pricing of the transition bonds results in the *lowest transition bond charges consistent with market conditions* and this Financing Order.
>
> (Attachment LDC-6, page 42*, emphasis added*.)

Q: Was similar language included in the other Texas securitization orders?

A: Yes. *See*, Attachment LDC-7, page 38; Attachment LDC-8, page 10; Attachment LDC-9, page 9; and Attachment LDC-10, page 8.

Q: In typical utility debt financing, does the Commission have ongoing review?

A: Yes. The Commission has ongoing review of typical utility debt financing. That review would occur during a base rate case or Commission investigation.

Q: Did the FPSC recognize another distinction between typical utility bonds and RBBs?

A: Yes. Finding of Fact No. 125 from the May 30, 2006 Order states:

> We recognize that another difference between typical utility bonds and the storm-recovery bonds approved through this Financing Order is how these bonds impact FPL's financial position. *In more typical debt offerings, FPL has a strong incentive to negotiate hard with underwriters for the lowest possible interest rates as well as the lowest possible underwriting fees. FPL also has a strong incentive to minimize other issuance costs.* Between rate cases, the benefit from a low net cost of funds is enjoyed at least in part by FPL's shareholders, and the detriment from a high net cost of funds is borne at least in part by these same shareholders. These same checks and balances *do not exist* for the issuance of storm-recovery bonds. While typical utility bonds directly impact FPL's financial ratios, *storm-recovery bonds are not direct obligations of FPL and are non-recourse to FPL*. For these reasons, *the same incentives and consequences* for pursuing a lowest cost of funds with regard to FPL's typical utility bonds *are not present* with respect to the proposed storm-recovery bonds. (*Emphasis* added.)
>
> (Attachment LDC-5, page 41.)

Q: Does the Securitization Act limit the findings the Commission must make in the financing order?

A: No. The Securitization Act specifies certain findings and determinations the Commission *must* make in a financing order. Ind. Code § 8-1-40.5-10(d) and (e). However, the Securitization Act does not limit the findings and determinations the Commission *can* make.

Q: What is Barclays' role in this Cause?

A: Mr. Jerasa states a structuring fee is paid to Barclays for providing financial advisory services. (Petitioner's Exhibit No. 2, page 19, lines 12-13.) Petitioner's witness Eric K. Chang states, "Barclays has been engaged by CEI South as financial advisor and banking witness in connection with CEI South's review and assignment of various rating agency and capital markets considerations related to the contemplated securitization issuance…" (Petitioner's Exhibit No. 3, page 2, line 14.)

Q: Is it your understanding Barclays will be participating as CEI South's financial advisor in the post-financing order processes?

A: Yes. CEI South has hired Barclays to act as Petitioner's lead structuring agent and banking witness. (Attachment LDC-11, page 5; CEI South's Response to OUCC DR No. 9-2.) Barclays is engaged as the structuring advisor, though with a broad mandate. (*Id*.; CEI South's Response to OUCC DR No. 9-2(b).)

Q: Does Barclays have a fiduciary duty to CEI South's customers?

A: No. Barclays is an independent contractor. (*Id*. pages 5-6; CEI South's Response to OUCC DR No. 9-2(m)(i)(ii)(iii), (q) and (s).)

Q: Did CEI South send a Request for Proposals ("RFP") to selected investment banks interested in serving as the structuring agent and banking witness for this securitization case?

A: Yes. The RFP was sent on July 29, 2021. (Attachment LDC-11, pages 5, 11; CEI South's Response to OUCC DR No. DR No. 9-2(k)(1).) CEI South sought to evaluate investment banks' capabilities to help deliver the *lowest reasonable charges that are consistent with market conditions* and the terms of the financing order. (*Id*. at 11,

emphasis added.) This language is similar to the "lowest transition cost bond charges" language from the PUCT securitization orders cited above.

Q: Do CEI South's customers also have a financial advisor representing them in the post-financing order processes as proposed?

A: No, not under CEI South's proposal. Again, CEI South's customers - who will be paying the securitization charges - need to be represented by their statutory representative, the OUCC, and its consultant, during the post-financing order structuring, marketing, and pricing processes to ensure the lowest securitization charges.

Q: What is your recommendation regarding the OUCC's participation in the post-financing order processes?

A: I recommend the OUCC, and its consultant, fully participate in negotiations throughout the post-financing order structuring, marketing, and pricing discussions until the RBBs are issued. The OUCC, as the statutory representative of CEI South's customers, should have the same type of negotiating authority in the structuring, marketing, and bond pricing processes the PUCT found appropriate in the Texas securitization cases previously cited.

Q: Do you have an alternative recommendation regarding the OUCC's participation in the post-financing order process?

A: Yes. I recommend the OUCC, and its consultant, fully participate in every meeting during the negotiation of the structuring, marketing, and pricing of the bonds. The OUCC and its consultant should pose questions, make suggestions, and contribute our opinions. Under this alternative recommendation, CEI South would have the final and sole decision in each phase – structuring, marketing, and pricing of the bonds.

However, the OUCC will submit a filing, recommending approval or denial of the transaction for the Commission's consideration.

VI. CUSTOMER INFORMATION

Q: Do you have any recommendations regarding securitization information you recommend sending to customers and posting on the CEI South website?

A: Yes. I recommend detailed information explaining the securitization charge be mailed (U.S. and/or email) to customers within 30 days of issuance of the bonds. I also recommend CEI South coordinate with the OUCC regarding securitization information presented to customers. This includes direct, written correspondence via mail, email, and billing messages and inserts, web-based communications, customer service talking points, and marketing materials if utilized. This coordination will allow the OUCC's External Affairs personnel to be familiar with the securitization information to respond to CEI South customer inquiries.

VII. RECOMMENDATIONS

Q: Please summarize your recommendations.

A: For the reasons previously detailed in my testimony, I recommend:

- The OUCC and its consultant, fully participate in negotiations throughout the post-financing order structuring, marketing, and pricing discussions until the RBBs are issued.
- Alternatively, as detailed in section V, above, the OUCC and its consultant should fully participate in negotiations, but CEI South would have the final and

sole decision in each phase – structuring, marketing, and pricing of the bonds. However, the OUCC will submit a filing, recommending approval or denial of the transaction for the Commission's consideration.

- CEI South and the OUCC file certifications as to whether the Issuance Advice Letter is consistent with market conditions and the terms of the financing order and is just and reasonable by the statute. Ind. Code §§ 8-1-40.5-10(d)(3) and (6).
- Detailed information explaining the securitization charge be mailed (U.S. or email) to customers within 30 days of issuance of the bonds.
- CEI South coordinate with the OUCC regarding securitization-related correspondence with customers.

Q: Does this conclude your testimony?

A: Yes.

**APPENDIX LDC-1 TO TESTIMONY OF
OUCC WITNESS LEJA D. COURTER**

Q: Please describe your educational background and experience.

A: I graduated from Ball State University in Muncie, Indiana with Bachelor of Science degrees in Finance and Economics. I received my Juris Doctorate from the University of Dayton. In previous years, I have been engaged in the private practice of law, and I also served as an in-house counsel at Indiana Gas Company. I have been an attorney at the OUCC for over twenty years. I was the Director of the OUCC's Natural Gas Division for twelve years. I became a Chief Technical Advisor at the OUCC in December 2021. I am a Certified Rate of Return Analyst.

Q: Have you previously testified before the Indiana Utility Regulatory Commission?

A: Yes.

Q: Please describe the review and analysis you conducted to prepare your testimony.

A: I reviewed CEI South's petition, testimony, exhibits, and supporting documentation submitted in this Cause. I reviewed CEI South's responses to discovery requests. I reviewed securitization orders from Florida, Texas, North Carolina, Ohio, and California.

2-10. Please refer to Mr. Jerasa's Direct Testimony at page 30, wherein Mr. Jerasa testifies as follows:

> Following a Financing Order in this Cause, CEI South proposes to provide a copy of the draft Issuance Advice Letter to the Commission no later than two weeks before pricing the securitization bonds. We expect that this draft Issuance Advice Letter will reflect then-market conditions and include any credit-enhancements that are required by rating agencies to achieve the desired securitization bond ratings. CEI South would then provide a copy of the final Issuance Advice Letter within 3 business days after pricing the securitization bonds to provide the final terms and pricing Commission an opportunity to review and reject, no later than noon on the 4th business day after pricing, the Issuance Advice Letter if the securitization bonds about to be issued are inconsistent with the Financing Order in this Cause or the Securitization Act. Absent a rejection of the Issuance Advice Letter by the Commission, the securitization bonds would close on the 5th business day after pricing.

a. Is CenterPoint requesting authority to overcollateralize in any amount, charge the overcollateralization to ratepayers with no repayment until the final true-up mechanism, subject only to allowing the Commission one business day to review this decision? Please explain your answer in detail.

b. Is CenterPoint requesting authority to overcollateralize in any amount, charge the overcollateralization to ratepayers with no repayment until the final true-up mechanism, without any ability of the OUCC or intervenor parties to review and comment on this decision? Please explain your answer in detail.

Response:

a. and b.

Given past experience with securitization, Petitioner does not anticipate needing any credit enhancements such as overcollateralization beyond those that are described in Mr. Jerasa's testimony. That said, Petitioner seeks the flexibility to offer additional enhancements should circumstances change between now and marketing in order to preserve the best possible rating on the securitization bonds.

There seems to be confusion surrounding the issuance advice letter process that is proposed. It would be expected that all of the substantive non-pricing terms of the transaction will be known by the time of the draft Issuance Advice Letter, which would be no later than two weeks before marketing of the securitization bonds. If any credit enhancements were required to achieve AAA rating for the bonds, those enhancements will be known by the time that draft Issuance Advice Letter is submitted to the Commission. The only changes that would be expected to the final structure of the transaction after that draft Issuance Advice Letter would relate to the final pricing and resulting amortization schedules. These would then be reflected in the final Issuance Advice Letter, submitted within three business days after pricing of the securitization bonds.

The Issuance Advice Letter process is intended to provide an opportunity for the Commission to stop the transaction if the Commission sees something unexpected in the draft Issuance Advice Letter or final Issuance Advice Letter which would cause the Commission to change its

view of the transaction. It is not intended to impose an obligation on the Commission. Petitioner would be willing to consider alternative language in its proposed financing order to make this point clear.

The Issuance Advice Letter process cannot allow the opportunity for anyone but the Commission to object. Doing so would prevent the bonds from receiving the AAA rating.

2-8. Please refer to the direct testimony of Brett Jerasa.

a) At page 28, lines 24-29, a pre-tax WACC of 9.29% is identified as being used in the instant proceeding. In Cause No. 44909 CECA 4, Petitioner's Exhibit No. 3, Attachment CMB-2, Schedule 4 (Revised), page 1 of 2, a pre-tax WACC of 7.66% is identified. Please explain in detail the reason(s) for this discrepancy in the pre-tax WACC and provide an Excel file with calculations intact showing how the pre-tax WACC of 9.29% was calculated.
b) Refer to page 29, line 32, through page 30, line 30. Please describe in detail how intervenors in this proceeding will be kept apprised of the events described herein. In addition, please confirm or deny with detailed explanation:
    i. Whether intervenors will receive a copy of the Advice Letter at the same time as the Commission and without redactions, subject to intervenors executing a Non-Disclosure Agreement, if necessary.
    ii. Whether intervenors will have an opportunity to submit comments on the Advice Letter prior to the Commission's approval or rejection of the Advice Letter.
    iii. Whether CenterPoint will accept modifications and conditions from the Commission tied to any approval of the Advice Letter;
    iv. Whether intervenors will be copied on all communications between CenterPoint and the Commission with respect to CenterPoint's commitment to "keep the Commission apprised of the pricing process."
    v. Whether intervenors will be allowed to appoint a representative to observe the pricing discussions, subject to intervenors executing a Non-Disclosure Agreement, if necessary.

Response:

a) Please refer to Attachment BAJ-4 – ROR Disc Rate, and the Direct Testimony of Brett A. Jerasa, pages 28-29 for a discussion of the discount rate utilized for the NPV analysis. The 9.29% removes the cost-free capital component from the pre-tax WACC calculation, as those components are subtracted from the traditional rate making rate base calculation. The excel has already been provided in Petitioner's Exhibit No. 2, Attachment BAJ-4 via the BTFileShare link on May 10, 2022 as a courtesy copy to counsel with service of filing of Petitioner's case-in-chief.

b)
    i. No. Once the period for appeal has passed following issuance of the Finance Order, the Commission's *ex parte* rules will no longer apply. The process outlined in Mr. Jerasa's testimony for the draft and final Issuance Advice Letter is to provide the Commission and only the Commission an opportunity to stop the transaction before it closes if the Commission sees something unexpected in the draft or final Issuance Advice Letter that would cause the Commission to change its views on the appropriateness of moving forward with the transaction. e.
    ii. No. The Issuance Advice Letter process cannot allow the opportunity for anyone but the Commission to object. Doing so would prevent the bonds from receiving the AAA rating.

iii. The Issuance Advice Letter process is intended to provide an opportunity for the Commission to stop the transaction if the Commission sees something unexpected in the draft Issuance Advice Letter or final Issuance Advice Letter which would cause the Commission to change its view of the transaction. The Commission has the opportunity to review before the bonds settle, not to provide modifications of structure.

iv. See Petitioner's Response to 45722 CAC DR 2-8(b).i.

v. See Petitioner's Response to 45722 CAC DR 2-8(b).i.

9-8. Please refer to Mr. Jerasa's Direct Testimony at page 30, lines 11-23.

a. Is it CenterPoint's position that no party has the legal right to respond to the draft Issuance Advice Letter? If so, please explain in detail the legal basis for the Company's position, including citation to all applicable statutes, regulations, or case law.

b. Is it CenterPoint's position that the Commission lacks authority to allow parties to respond to the draft Issuance Advice Letter? Please explain in detail the legal basis for the Company's position, including citation to all applicable statutes, regulations, or case law.

c. Is it CenterPoint's position that the Commission will have the ability to respond to the draft Issuance Advice Letter? Please explain in detail the legal basis for the Company's position, including citation to all applicable statutes, regulations, or case law.

Objection: CEI South objects to IG DR 9-8 on the grounds and to the extent the request is vague and ambiguous in that the phrase "legal right" is undefined. CEI South further objects on the separate and independent ground that it seeks a legal conclusion.

Response: Subject to and without waiver of the foregoing objections, CEI South states:

a. Once an order is issued in this cause approving the proposed bond issuance and said order has become final and no longer subject to appeal, no parties will have any further rights in this docket to object to the bond issuance.

b. The question indicates a misunderstanding by the Industrial Group about securitization procedures. As noted in the response to IG DR 9-8a, the adversarial process, and accordingly the legal procedures IG asks CEI South to analyze, end upon the issuance of a final non-appealable order. Once the litigated phase of the proceeding is complete, CEI South will move forward to market bonds. In this regard, the process works similarly to a traditional financing application before the Commission. The addition of the Issuance and Advice Letter is to enable the Commission, the agency charged with regulating public utilities, the opportunity to stop the process before issuance of the bonds if the public utility is not in compliance with the requirements of the financing order or if the Commission otherwise does not want the transaction to proceed under the terms that have been negotiated. While the Commission is not issuing a formal order that CEI South is legally obligated to comply with, a Commission indication that the terms CEI South has negotiated are inconsistent with the Financing Order or that the Commission otherwise does not want the transaction to proceed under the terms that have been negotiated will stop the process as a practical matter because CEI South will be obligated to disclose the Commission's objection to investors, which will render the bonds, under the terms negotiated by CEI South, unmarketable. In many respects, this process is no different from Commission Staff reviewing a public utility's tariff after issuance of an order to confirm the tariff complies with the order before marking the tariff approved.

There is no need and no role for other parties to play in the Issuance Advice Letter. Issues raised by those parties will have been dealt with in the Financing Order and any associated appeal of that order. The Commission Staff review of the Issuance Advice Letter will be straightforward, much like reviewing whether a tariff complies with an order, to ensure that the terms fall within the confines of the order. A review of Petitioner's Exhibit No. 2, Attachment BAJ-5 substantiates the lack of a role for other parties. The Commission Staff members reviewing it

need only determine that (1) the principal amount of securitization bonds, (2) the terms of the securitization bonds, (3) the calculation of the projected savings, (4) the initial securitization charge and (5) identification of the special purpose entity conform to the terms of the Financing Order. The terms in the Issuance Advice Letter will all have been litigated and decided in the Financing Order.

CEI South's affiliates in Texas have never utilized a process that opens the Issuance Advice Letter to review by other parties and CEI South's consultants have never been involved in a securitization that involves parties other than the regulating utility commission in the issuance advice letter. The ability to abuse this process by the parties is also a material consideration. A party that opposes securitization, such as a coal supplier seeking to avoid the retirement of coal-fired generation to economically benefit themselves at the expense of utility customers, might misuse comments on the issuance advice letter process to create doubt in the minds of investors that the securitization bonds comply with the Financing Order. Imposing a formal procedure to review comments and resolve them through a Commission order would render securitization unworkable in the State of Indiana. CEI South believes its customers would be harmed by such a result.

c. The Commission Staff will be able to respond to the Issuance Advice Letter if it believes the terms are inconsistent with the terms of the Financing Order. As noted in the Response to IG DR 9-8b, this will stop the process of bond issuance.

9-10. Please refer to Mr. Jerasa's Direct Testimony at page 30, lines 25-30.

a. Is it CenterPoint's position that the other parties cannot participate in the pricing discussions, even if they execute a nondisclosure agreement? Please explain in detail the legal basis for the Company's position, including citation to all applicable statutes, regulations, or case law.

b. Will CenterPoint commit to complying with the Commission's *ex parte* rules after issuance of a Financing Order until the bonds are issued, with respect to any party that has executed a nondisclosure agreement?

Response:

a. Yes. Other parties may not participate. When an order has been issued in this Cause which is no longer subject to appeal, other parties' rights to participate in matters related to the issuance of the bonds will have closed.

b. Yes. Once the period for appeal from the order in this Cause has passed, the *ex parte* rules no longer apply.

9-11. Please refer to Attachment BAJ-6 to Mr. Jerasa's Direct Testimony, the draft Financing Order.

a. Please identify with specificity every sentence in this document for which CenterPoint believes that specific or precise language in the Order is necessary in order to obtain a bond rating of AAA.

b. For each sentence identified in response to subpart (a) above, please explain in detail the reason for CenterPoint's belief that specific or precise language is needed.

Objection: CEI South objects to IG DR 9-11 on the grounds and to the extent it is overbroad and unduly burdensome. CEI South further objects on the separate and independent ground that the request seeks a compilation or analysis that CEI South has not performed and that it objects to performing.

Response: Subject to and without waiver of the foregoing objection, CEI South states:

a. Every sentence in the Proposed Order is important. The Proposed Order includes several attributes that are uncommon in Commission orders. For example, the draft Financing Order includes more ordering paragraphs with greater detail than is typical in Commission proceedings. CEI South developed this language in consultation with counsel experienced in issuing securitization bonds. It isn't practical or feasible for CEI South to go through sentence by sentence and identify language that will be material to helping sell the bonds. The point is that the language matters and a Financing Order that deviates from the language carefully chosen in consultation with counsel experienced in securitization makes marketing the bonds at favorable rates harder and potentially impossible. Parties seeking to make substantial changes to the Financing Order proposed by CEI South should ensure that they have consulted with their own bond counsel experienced with utility securitizations to understand the potential ramifications if they desire a successful securitization that will generate significant savings for customers. CEI South is also willing to discuss with Industrial Group and any other party those portions of the Draft Financing Order about which the other parties have concerns, and Industrial Group and CEI South can discuss whether alternative language could address the concerns while not jeopardizing the AAA rating or marketing the bonds.

b. See response to IG DR 9-11a.

Focusing on our core utility businesses

Technical Conference IURC Cause No. 45722

July 7, 2022

CenterPoint Energy

- CenterPoint Energy Indiana South ("CEI South") Attendees
  - Matt Rice, Director Indiana Electric Regulatory & Rates
  - Brett Jerasa, Director and Assistant Treasurer
  - Eric Chang, Managing Director, Securitization Products Origination, Barclays Capital Inc.

- Attorneys:
  - Jason Stephenson
  - Heather Watts
  - Nicholas Kile
  - Hillary Close

Summary of Qualified Costs As Filed

Type of Cost	Amount as of 2/28/2023
Brown 1 & 2 Original Cost	$798,297,876
Accumulated Depreciation (excluding Cost of Removal)	($534,035,130)
Cost of Removal Reserve	($6,042,788)
Regulatory Asset	$59,557,019
Estimated Total Cost to Decommission, Demolish and Restore Site	$26,771,245
Subtotal	$344,548,222
Estimated Expert Support Costs	$885,000
Estimated Cost to Issue Securitization Bonds	$4,691,778
Estimated Total Qualified Costs subject to securitization at issuance	$350,125,000
Estimated Ongoing Costs	$9,272,933
Estimated Total Qualified Costs[(1)]	$359,397,933

CenterPoint Energy

Purpose	• Senate Bill 386 was enacted by Indiana Legislature and signed into law by the Governor to act **as a pilot in Indiana** • This will be a pilot program for Indiana and modeled after similar securitizations
Goal	• **Win-Win for Customers and the Company** • Allows Company to sell bonds/receive proceeds for the undepreciated plant (before unit retired) rather than using traditional recovery (through base rates and return on/of investment) • In exchange for bonds (cash), Company removes the assets & associated costs from its books • Customers pay a low debt interest rate ('AAA' rated), resulting in significant savings over remaining life of asset compared to paying the return on/of investment over the remaining book life of the asset
Use of Proceeds	• **Receiving money before retirement allows the Company to reinvest such funds in Indiana** • Utility issues the bonds and collects the charges • Proceeds of bonds will be used for the reimbursement of Qualified Costs

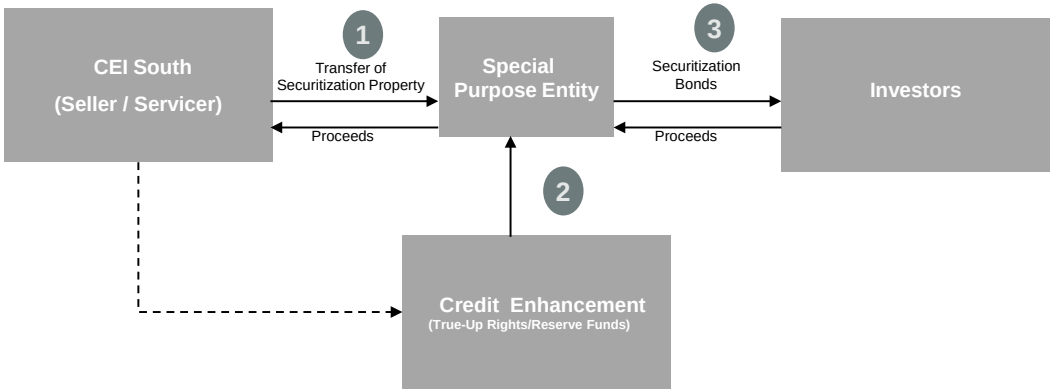
CenterPoint Energy

NPV of Total Proposed Securitization Charges vs. NPV of Traditional Ratemaking

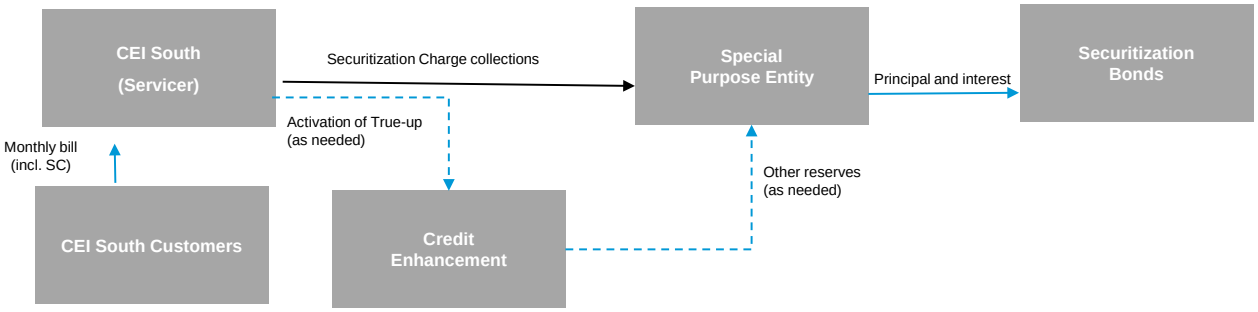
	Net Present Value
Traditional Ratemaking: NPV of Revenue Requirement	 $286.0 million
Securitization Financing: NPV of Revenue Requirement ADIT Benefit to Customers	 ($249.4) million $20.9 million
Net Benefit to Customers	**$57.5 million(1)**

- Final net benefit to customers will be impacted by final pricing when the Securitization Bonds are issued
  - Higher interest rates will increase the securitization financing revenue requirement, lowering the net benefit
  - Bonds will not price until first half of 2023
- CenterPoint is committed to structuring and marketing the bonds to optimize benefits to customers

- A securitization involves the packaging of assets or cash flows (Securitization Property) into a special purpose vehicle and the issuance of bonds backed by such assets or cash flows



1. Securitizable assets (the Securitization Property per SB 386) are transferred to a bankruptcy-remote special purpose entity ("SPE") in accordance with a "true sale" of the Securitization Property
2. Credit enhancement is provided to protect against credit and timing risks of cash flows
3. Securities, backed solely by the Securitization Property and credit enhancement, are issued (the "Securitization Bonds"). The Securitization Property includes the right and interest of the electric utility to impose and collect Securitization Charges and revenues under the financing order



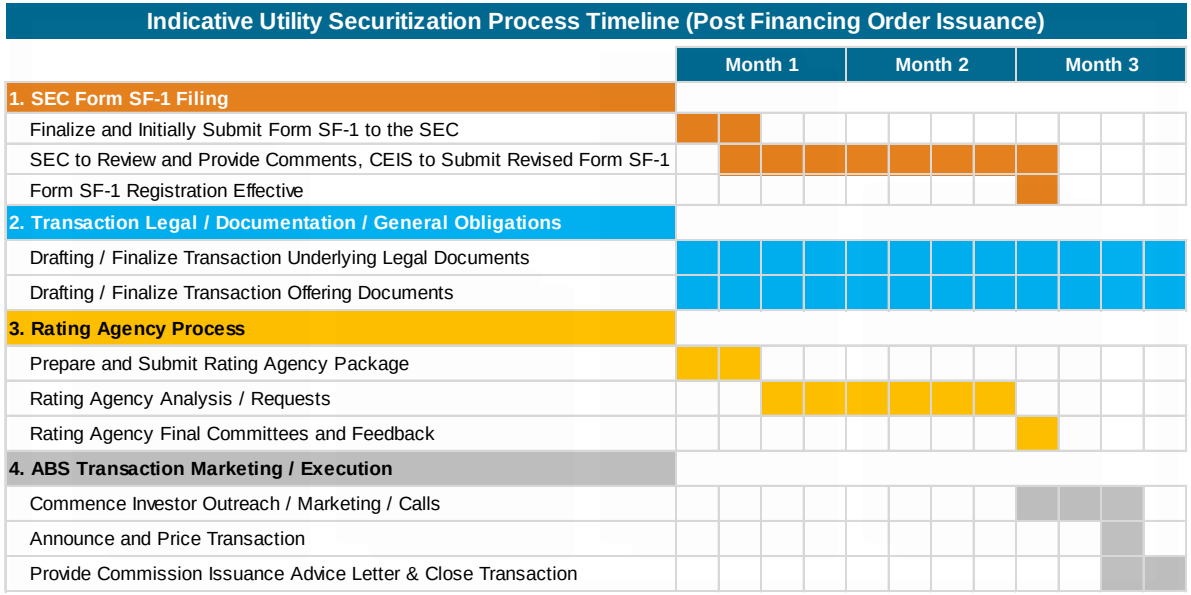
- The non-bypassable Securitization Charges ("SC") will be charges approved by the Commission under the financing order for the full recovery of Qualified Costs
- CEI South, as servicer on all utility charges, will remit the collections to the SPE (this is typically done routinely during each month), where it will be reinvested until interest and principal on the Securitization Bonds become due
- Typically, level payments of interest and principal on the Securitization Bonds will be payable by the SPE quarterly or semiannually, according to a mortgage-style amortization schedule
- To the extent that Securitization Charges are insufficient to make payments on the Securitization Bonds, CEI South will be able to petition for periodic adjustments to the charges (the "True-up Mechanism") no less frequently than annually but not earlier than 45 days before the anniversary of the issuance of the bonds

CEI South Securitization Overview

CEIS Illustrative SB 386 Securitization Capital Structure #2									
Class	Balance (mm)	WAL	Benchmark	Benchmark[(1)] (UST)	Spread[(1)] (Tsy)	Yield[(1)]	Expected Final	Principal Window	Legal Final
A-1	180.00	4.97	5-year Treasury	2.788%	140	4.188%	4/15/2032	0.5 - 9.0	4/15/2034
A-2	170.13	12.33	10-year Treasury	2.829%	175	4.579%	4/15/2038	9.0 - 15.0	4/15/2040
Total:	**350.13**	**8.55**				**4.462%**			

Offering Size:	$350,130,000
Securities Offered:	Senior Secured Securitization Bonds; expect to be SEC-Registered
Bloomberg Ticker:	Bonds are expected be listed on Bloomberg (e.g., CORP ticker)
Expected Ratings:	'AAA' ratings expected from at least two major rating agencies
Pricing Benchmark:	Bonds are expected to be priced to treasury benchmarks / I-Curve
Payment Frequency:	Semi-annual scheduled payments
Interest Type:	Fixed rate
Optional Redemption:	Bonds are non-callable for life of transaction
Purpose / Use of Proceeds:	Proceeds of the Securitization Bonds will be used solely for the purposes of reimbursing the electric utility for Qualified Costs associated with the retirement of certain qualifying electric generation facilities

The below table provides an overview of the key workstreams and deliverables to bring the securitization to market once the financing order is issued



Recent utility securitization bonds have been marketed using similar approaches to the below marketing timeline, which involves a multi-step formal marketing process that will unfold over several weeks. The timing of the marketing stages is outlined herein and could contract or expand, depending on reception and market backdrop

1. Marketing Preparation

- Draft Issuance Advice Letter will be submitted to the Commission no later than two weeks before official marketing
- Bond structure is finalized and the SF-1 becomes effective prior to the start of marketing

2. Pre-Marketing

- Roadshow materials are made available and investor calls / meetings are conducted
- Regular update calls are held between bank syndicate, CEI South and the Commission
- Initial price talk ("IPTs") is disseminated to the market

3. Announcement

- After the pre-marketing period ends, the transaction is broadly announced to the market
- Lead bookrunners 'open the books' and begin taking orders, and joint syndicate update calls are held regularly

4. Guidance Levels

- The joint syndicate recommends appropriate price guidance levels to CEI South and the Commission, further refining pricing as necessary
- Updated guidance levels announced to the market; investors adjust orders accordingly
- Lead bookrunners continue to build investor book and may take tranches "subject", after which investors can no longer place orders

5. Test / Launch / Pricing

- Once all tranches are subject, the joint syndicate will look to revise / tighten levels based on subscription levels
- CEI South will be asked to sign off on final spread levels and the transaction will price at those levels
- The Final Issuance Advice Letter will be submitted to the Commission within three business days after pricing for an opportunity to review and reject no later than noon on the 4th business day after pricing

6. Closing

- All transaction documents finalized
- Rating Agencies provide final Letters
- Transaction is settled and funds are transferred typically five business days after pricing

- CEI South proposes using an Issuance Advice Letter process to present final pricing, customer savings and structure details of the securitization for Commission review
- The Issuance Advice Letter will contain final pricing terms and updated estimates for up-front and ongoing financing costs, an updated customer savings analysis, the updated securitization charge, and other key transaction details (a form of Issuance Advice Letter was provided in Petitioner's Exhibit No. 2, Attachment BAJ-5). Importantly, the Issuance Advice Letter will confirm that the securitization bonds to be issued are consistent with the Financing Order and the Securitization Act
- CEI South proposes providing a copy of the draft Issuance Advice Letter to the Commission no later than two weeks before pricing the securitization bonds. We expect the draft Issuance Advice Letter will reflect then-market conditions and include any credit enhancements required by the rating agencies
- CEI South proposes then providing a copy of the final Issuance Advice Letter within 3 business days after pricing the securitization bonds to provide the final pricing and structure terms and provide the Commission an opportunity to review and reject, no later than noon on the 4th business day after pricing, the Issuance Advice Letter if the securitization bonds are inconsistent with the Financing Order or the Securitization Act
  - CEI South believes the final Issuance Advice Letter will be very similar to the afore provided draft Issuance Advice Letter, but updated with the final pricing details

- The primary form of credit enhancement available to the CEI South Securitization Bonds will be the true-up mechanism
- The Servicer will adjust the securitization charge to correct for any over- or under-collections, and to ensure timely payment of interest, principal, and ongoing financing costs
- CEI South proposes the Commission authorize CEI South to adjust the securitization charge at least annually, and more often if necessary
- The Financing Order will include the approval of the use of annual and interim true-up mechanisms

Mechanism	Description and Use	Timing
Annual True-Up	• Regular schedule of adjustments for the over-collection or under-collection of Securitization Charges • Ensure timely and complete payment of the Securitization Bonds and other required amounts and charges • Includes updating the data and assumptions underlying the calculation of the Securitization Charges, including projected electricity consumption and payment and billing requirements over the next two Payment Periods following the adjustment date	• The Petitioner must submit an application each year up to 45 days before the anniversary of issuance • The Commission then provides approval within 45 days of application submission • Additionally, during the final year of the life of the Securitization Bonds, regular true-ups will occur at least every three months
Interim True-Up	• Used when necessary if the Servicer projects that collections will be insufficient to pay interest, scheduled principal, and ongoing costs and maintain the Capital Subaccount at the Required Capital Level • Similarly requires updating the projections of revenue requirements and necessary Securitization Charges over the next two Payment Periods	• The Petitioner, on its own initiative, may file additional applications with the Commission at any time of the year • The Commission then provides approval within 45 days of application submission

- Generally, allocations will remain the same in routine annual or interim true-ups. Annual or interim true up filings are not the appropriate mechanism to propose updated allocations
- Adjustment to allocations of qualified costs to avoid unreasonable rates to customers in customer classes that have experienced material changes in electric load or in the number of customers may occur under limited circumstances
  - If allocations are updated in a general rate case
  - If allocations are updated based on significant change in load or number of customers
- An allocation adjustment must ensure that the adjustment of the allocation of Securitization Charges:
  - Will preserve the rating of the securitization bonds; and
  - Will not impair or reduce the total Securitization Charges; and must be just and reasonable

	Securitization of Coal Plant (SCP)	Securitization Rate Reduction (SRR)	Securitization ADIT Credit (SAC)
Description:	Non-bypassable, irrevocable Charge to collect total Qualified Costs subject to the securitization at issuance and the estimated ongoing costs	Credit to reflect a reduction in rate base associated with ABB1&2 qualified costs currently in customer rates	Credit for the remaining ADIT balance associated with A.B. Brown Units 1&2
Effective:	With receipt of proceeds from securitization bonds	With receipt of proceeds from securitization bonds	With receipt of proceeds from securitization bonds
Life:	Until legal maturity of securitization bonds	Following the next general rate case	Until legal maturity of securitization bonds
Applicable to:	Paid by all existing and future electric customers and customer classes.	All billed kWh usage	All billed kWh usage
Minimum Chare to Applicable Customer Classes:	Residential (RS), Small General Service (SGS), Demand General Service (DGS), Off Season Sales (OSS)	n/a	n/a
Charge/Credit:	Revenue Requirement based on 4CP (kW), applied volumetrically (by kWh)	Revenue Requirement based on 4CP (kW), applied volumetrically (by kWh)	Revenue Requirement based on 4CP (kW), applied volumetrically (by kWh)

This document has been prepared by Southern Indiana Gas and Electric Company d/b/a CenterPoint Energy Indiana South ("CEI South" or "CEIS") for information purposes only. This document is an indicative summary of the terms and conditions of the securities described herein and may be amended, superseded or replaced by subsequent summaries. The final terms and conditions of the securities will be set out in full in the applicable offering document(s) or binding transaction document(s).

This document shall not constitute an underwriting commitment, an offer of financing, an offer to sell, or the solicitation of an offer to buy any securities described herein, which shall be subject to CEIS' internal approvals. No transaction or services related thereto is contemplated without CEIS' subsequent formal agreement.

CEIS does not make any representation, express or implied, or guarantee as to the accuracy or completeness of information which is contained in this document and which is stated to have been obtained from or is based upon trade and statistical services or other third party sources. No representation is made as to the reasonableness of the assumptions made within or the accuracy or completeness of any modeling or back-testing or any other information contained herein. All opinions and estimates are given as of the date hereof and are subject to change and CEIS assumes no obligation to update this document to reflect any such changes. The value of any investment may fluctuate as a result of market changes. The information herein is not intended to predict actual results and no assurances are given with respect thereto. Nothing herein shall be deemed to constitute investment, legal, tax, financial, accounting or other advice.

NO ACTION HAS BEEN MADE OR WILL BE TAKEN THAT WOULD PERMIT A PUBLIC OFFERING OF THE SECURITIES DESCRIBED HEREIN IN ANY JURISDICTION IN WHICH ACTION FOR THAT PURPOSE IS REQUIRED. NO OFFERS, SALES, RESALES OR DELIVERY OF THE SECURITIES DESCRIBED HEREIN OR DISTRIBUTION OF ANY OFFERING MATERIAL RELATING TO SUCH SECURITIES MAY BE MADE IN OR FROM ANY JURISDICTION EXCEPT IN CIRCUMSTANCES WHICH WILL RESULT IN COMPLIANCE WITH ANY APPLICABLE LAWS AND REGULATIONS AND WHICH WILL NOT IMPOSE ANY OBLIGATION ON CEIS OR ANY OF ITS AFFILIATES.

THIS DOCUMENT DOES NOT DISCLOSE ALL THE RISKS AND OTHER SIGNIFICANT ISSUES RELATED TO AN INVESTMENT IN THE SECURITIES. PRIOR TO TRANSACTING, POTENTIAL INVESTORS SHOULD ENSURE THAT THEY FULLY UNDERSTAND THE TERMS OF THE SECURITIES AND ANY APPLICABLE RISKS.

BEFORE THE PUBLIC SERVICE COMMISSION

In re: Petition for issuance of a storm recovery financing order, by Florida Power & Light Company.	DOCKET NO. 060038-EI ORDER NO. PSC-06-0464-FOF-EI ISSUED: May 30, 2006

The following Commissioners participated in the disposition of this matter:

LISA POLAK EDGAR, Chairman
J. TERRY DEASON
ISILIO ARRIAGA
MATTHEW M. CARTER II
KATRINA J. TEW

APPEARANCES:

R. WADE LITCHFIELD, ESQUIRE, NATALIE FUTCH SMITH, ESQUIRE, and BRIAN S. ANDERSON, ESQUIRE, Florida Power & Light Company, 700 Universe Blvd., Juno Beach, Florida 33408-0420, and JOHN T. BUTLER, ESQUIRE, Florida Power & Light Company, 9250 West Flagler Street, Miami, Florida 33102
On behalf of Florida Power & Light Company (FPL).

HAROLD McLEAN, ESQUIRE, CHARLES BECK, ESQUIRE, JOSEPH MCGLOTHLIN, ESQUIRE, and PATRICIA CHRISTENSEN, ESQUIRE, Office of Public Counsel, c/o The Florida Legislature, 111 West Madison Street, Room 812, Tallahassee, Florida 32399-1400
On behalf of the Citizens of the State of Florida (OPC).

JOHN W. MCWHIRTER JR., ESQUIRE, McWhirter, Reeves Law Firm., 400 North Tampa Street, Suite 2450, Tampa, Florida 33601-3350, and TIMOTHY J. PERRY, ESQUIRE, McWhirter, Reeves Law Firm, 117 South Gadsden Street, Tallahassee, Florida 32301
On behalf of Florida Industrial Power Users Group (FIPUG).

ROBERT SCHEFFEL WRIGHT, ESQUIRE, and JOHN T. LAVIA, III, ESQUIRE, Yong van Assenderp, P.A., 225 South Adams Street, Suite 200, Tallahassee, Florida 32301
On behalf of the Florida Retail Federation (FRF).

MICHAEL B. TWOMEY, ESQUIRE, P.O. Box 5256, Tallahassee, Florida 32314-5256
On behalf of AARP (AARP).

CAPTAIN DAMUND WILLIAMS, AFCESA/ULT, 130 Barnes Drive, Suite 1, Tyndall Air Force Base, Florida 32403
On behalf of Federal Executive Agencies (FEA).

ATTORNEY GENERAL CHARLIE CRIST, CHRISTOPHER M. KISE, SOLICITOR GENERAL, and JACK SHREVE, SENIOR GENERAL COUNSEL, Office of the Attorney General, The Capitol – PL01, Tallahassee, Florida 32399-1050
On behalf of the Office of the Attorney General (AG).

WM. COCHRAN KEATING, IV, ESQUIRE, JENNIFER S. BRUBAKER, ESQUIRE, and ROSANNE GERVASI, ESQUIRE, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850
On behalf of the Florida Public Service Commission (Commission).

FINANCING ORDER

BY THE COMMISSION:

I. INTRODUCTION

On January 13, 2006, Florida Power & Light Company ("FPL" or "the Company") filed a petition for issuance of a storm recovery financing order or, in the alternative, an order approving the establishment of a storm cost recovery surcharge ("Petition"). This Commission has jurisdiction pursuant to Chapter 366, Florida Statutes, including Sections 366.04, 366.05, 366.06, and 366.8260, Florida Statutes.

History

Like other Florida investor-owned electric utilities, FPL operates under a self-insurance program for damage to its distribution and transmission facilities. This became necessary when windstorm insurance coverage was no longer practicably available following the devastation caused by Hurricane Andrew in 1992. In 1993, this Commission authorized FPL to implement a self-insurance approach through annual contributions from base rate revenues to its Storm and Property Insurance Reserve Fund (referred to herein as "Reserve" or "storm-recovery reserve"). From 1995 until 2005, FPL annually accrued $20.3 million to its Reserve.

At the start of the 2004 hurricane season, FPL's Reserve balance had reached approximately $354 million. As a result of Hurricanes Charley, Frances, and Jeanne in 2004, FPL incurred storm-related costs of approximately $890 million, net of insurance proceeds, which resulted in a deficit of approximately $536 million in its Reserve at the end of December 2004. In November 2004, FPL filed a petition seeking authority to recover $533 million of this estimated deficit through a monthly surcharge to apply to customer bills based on a 36-month recovery period. By Order No. PSC-05-0937-FOF-EI, issued September 21, 2005, in Docket No. 041291-EI, In re: Petition for authority to recover prudently incurred storm restoration costs related to 2004 storm season that exceed storm reserve balance, by Florida Power & Light

Company ("2004 Storm Order"), this Commission approved the initiation of a surcharge to recover prudently incurred storm restoration costs in excess of FPL's Reserve balance ("2004 storm costs"). For residential customers, this surcharge amounts to $1.65 for monthly usage of 1,000 kilowatt hours (kWh), with the surcharge expected to last three years or less. The Order did not address the replenishment of FPL's Reserve.

In its 2005 session, the Florida Legislature established a new financing vehicle by which electric utilities can recover their storm restoration costs and replenish their Storm-Recovery Reserves. This mechanism, referred to herein as "securitization," allows electric utilities to access low-cost funds through "storm-recovery bonds" issued pursuant to financing orders issued by the Commission. This new provision of Florida law is codified in Section 366.8260, Florida Statutes.

Also in 2005, FPL initiated a base rate proceeding before this Commission. The parties to that proceeding ultimately reached a settlement (the "Settlement Agreement") which provided, among other things, that FPL would, as of January 1, 2006, cease making any annual accrual to its Reserve. Instead, FPL would be permitted to recover its reasonable and prudently incurred storm restoration costs and to seek approval to replenish its Reserve (to a Commission-approved level) pursuant to the new securitization law and/or through a more traditional surcharge like the one approved in the 2004 Storm Order. This Commission approved the Settlement Agreement by Order No. PSC-05-0902-S-EI, issued September 14, 2005, in Docket No. 050045-EI, In re: Petition for rate increase by Florida Power & Light Company ("2005 Rate Case Order").

FPL's service territory was impacted by four named storms in 2005: Dennis, Katrina, Rita, and Wilma. The two storms inflicting the vast majority of damage to FPL's system in 2005 occurred subsequent to execution of the Settlement Agreement, leaving FPL with an even larger deficit in its Reserve. According to its Petition, FPL incurred storm-related costs of approximately $880 million, net of insurance proceeds, as a result of all four storms.

Summary of FPL's Petition

By its Petition, FPL requests that we issue a financing order approving the issuance of storm-recovery bonds in the amount of up to $1,050,000,000 pursuant to Section 366.8260, Florida Statutes. According to FPL's Petition, this would enable FPL to: (1) recover the remaining unrecovered balance of its 2004 storm-recovery costs; (2) recover its prudently incurred 2005 storm-recovery costs, less capital costs and insurance proceeds; (3) replenish its storm-recovery reserve; and (4) recover issuance costs associated with the storm-recovery bonds. If market rates rise to such an extent that the initial average retail cents per kWh storm-recovery charge associated with the storm-recovery bond issuance would exceed the average retail cents per kWh charge associated with the 2004 storm surcharge now in effect, FPL proposes that the aggregate amount of the storm-recovery bond issuance would be reduced to an amount whereby the initial average retail cents per kWh storm-recovery charge would not exceed the average retail cents per kWh 2004 storm surcharge currently in effect.

To repay the storm-recovery bonds and associated financing costs and tax liabilities, FPL proposes that a storm-recovery charge be applied on a per kWh basis to all applicable customer classes over a period of approximately twelve years. The storm-recovery charge will consist of two separate and distinct charges:

- a Storm Bond Repayment Charge which is authorized to provide for repayment of the storm-recovery bonds (including principal and interest), upfront bond issuance costs and ongoing financing costs other than taxes (including without limitation federal, state, and local income taxes, license fees, franchise, gross receipts and other taxes, and similar charges imposed on revenues generated from the collection of storm-recovery charges described in Section 366.8260(1)(e)4., 5., and 6., Florida Statutes) (sometimes referred to as "ongoing costs" as further described herein), and

- a Storm Bond Tax Charge, which is authorized to recover taxes (including without limitation federal, state, and local income taxes, license fees, franchise, gross receipts and other taxes, and similar charges imposed on revenues generated from the collection of storm-recovery charges described in Section 366.8260(1)(e)4., 5. and 6., Florida Statutes ("Taxes")), to the extent such Taxes are not otherwise recovered from customers through other rates or charges.

Case Background

On March 1-3, 2006, we held customer service hearings in the portions of FPL's service territory that were most affected by the 2005 storm season: Ft. Myers, West Palm Beach, Ft. Lauderdale, and Miami. We took testimony from several persons at these service hearings concerning FPL's restoration efforts, its quality of service, and its Petition.

On April 19-21, 2006, we conducted a technical hearing on FPL's petition.[1] Along with FPL, the Office of Public Counsel ("OPC"), Florida Industrial Power Users Group ("FIPUG"), Florida Retail Federation ("FRF"), AARP, Federal Executive Agencies ("FEA"), and the Office of the Attorney General ("AG") (sometimes referred to collectively as "Intervenors") participated as parties to the proceeding.[2] During the hearing, we accepted the prefiled testimony of 20 witnesses, heard cross-examination of most of those witnesses, and admitted 172 exhibits into evidence. Following the hearing, each party filed a post-hearing brief and/or statement of issues and positions.

Standard of Review

As noted above, the Florida Legislature enacted 2005 Senate Bill 1366, which has been codified in relevant part as Section 366.8260 of the Florida Statutes. This section allows electric

[1] At the technical hearing, we granted FPL's April 18, 2006, Motion for Temporary Protective Order to exempt from Section 119.07(1), Florida Statutes, confidential information used at the hearing.
[2] The AG was granted leave to intervene at the Prehearing Conference held April 13, 2006. All other Intervenors were granted leave to intervene by separate orders.

utilities, with the approval of this Commission, to finance the cost of storm-recovery activities with the proceeds of storm-recovery bonds that are secured by charges paid by the electric utility's customers.

Storm-recovery bonds are defined as bonds or other evidences of indebtedness or ownership that are issued by an electric utility or an assignee pursuant to a financing order, the proceeds of which are used directly or indirectly to recover, finance, or refinance Commission-approved storm-recovery costs, financing costs, and costs to replenish the storm-recovery reserve to such level as this Commission may authorize in a financing order, and which are secured by or payable from storm-recovery property. Section 366.8260(1)(l), Florida Statutes. Electric customers must pay the principal, interest, and related financing costs of the storm-recovery bonds through storm-recovery charges, which are nonbypassable charges that shall be paid by all customers receiving transmission or distribution service from the electric utility or its successors or assignees under Commission-approved rate schedules or special contracts, even if the customer elects to purchase electricity from an alternative electric supplier following a fundamental change in regulation of public utilities in Florida. Section 366.8260(1)(m), Florida Statutes.

Section 366.8260(2)(b)1.b., Florida Statutes, provides the standard of review applicable to a petition for issuance of a financing order:

> The commission shall issue a financing order authorizing financing of reasonable and prudent storm-recovery costs, the storm-recovery reserve amount determined appropriate by the commission, and financing costs if the commission finds that the issuance of the storm-recovery bonds and the imposition of storm-recovery charges authorized by the order are 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. Any determination of whether storm-recovery costs are reasonable and prudent shall be made with reference to the general public interest in, and the scope of effort required to provide, the safe and expeditious restoration of electric service.

Summary of Decision

Consistent with the time requirements of Section 366.8260(2)(b)1., Florida Statutes, we reached a decision on FPL's Petition at our Special Agenda Conference held May 15, 2006. This Financing Order reflects our decision at that Agenda Conference.

In this Financing Order, we find that the issuance of storm-recovery bonds and the imposition of related storm-recovery charges to finance the recovery of FPL's reasonable and prudently incurred storm-recovery costs, the replenishment of FPL's storm-recovery reserve, and related financing costs are reasonably expected to significantly mitigate rate impacts to customers as compared with alternative methods of recovery of storm-recovery costs and replenishment of the storm-recovery reserve. Thus, by this Financing Order, we approve

issuance of storm-recovery bonds in the amount of up to $708,000,000, provided the initial average retail cents per kWh for the storm-recovery charge will not exceed the average retail cents per kWh for the 2004 storm surcharge currently in effect. The proceeds from the issuance of the storm-recovery bonds authorized by this Financing Order shall be used by FPL to finance the after-tax equivalent of the following amounts: (1) $198,680,432 in unrecovered 2004 storm-recovery costs as of July 31, 2006 (estimated); (2) $735,569,138 in 2005 unrecovered storm-recovery costs (estimated); (3) replenishment of FPL's Reserve to the level of $200,000,000; and (4) $11,400,000 in financing costs (estimated) associated with the storm-recovery bonds. To the extent there are differences between the actual and estimated balances for unrecovered 2004 and 2005 storm-recovery costs and between the actual and estimated financing costs, the differences shall be reflected through an adjustment to the Reserve.

These storm-recovery bonds will be unlike any debt or equity securities previously approved by this Commission. In all other debt and equity offerings, the issuing utility is directly responsible to make payments to investors who purchase the securities. But neither the assets nor the revenues of FPL will be available to make promised payments of principal, interest, and other costs associated with storm-recovery bonds. Rather, by operation of Section 366.8260, Florida Statutes, this Commission must irrevocably commit that all such amounts will be paid from storm-recovery charges, a special tariff rate imposed on all retail consumers of electricity in FPL's service territory. This represents an extraordinary relinquishment of future regulatory authority and a shifting of all economic burdens in connection with storm-recovery bonds from FPL to its customers.

While we recognize the need for some degree of flexibility with regard to the final details of the storm-recovery bond securitization transaction approved in this Financing Order, our primary focus is upon meeting all statutory requirements and ensuring that the structuring, marketing, and pricing of storm-recovery bonds will result in the lowest storm-recovery charges consistent with (i) the terms of this Financing Order and applicable law and (ii) the prevailing market conditions at the time of the offering and pricing of the storm-recovery bonds (the "lowest-cost objective").

Because this Financing Order will be irrevocable, and because the true-up adjustment mechanism generally will result in the economic burden of all costs associated with storm-recovery bonds being borne by FPL's customers, we feel compelled to ensure from the outset that clear standards and effective procedures are in place to safeguard the interests of customers. Otherwise all the benefits potentially available to customers from this securitized storm-recovery bond financing might not be realized.

Section 366.8260(2)(b)2.j., Florida Statutes, directs this Commission to "[i]nclude [in a financing order] any other conditions that the Commission considers appropriate and that are not otherwise inconsistent with this section." In this Financing Order, we establish standards and procedures as conditions which we find will effectively safeguard the interests of customers. We find that these standards and procedures are most likely to ensure that the structuring, marketing, and pricing of storm-recovery bonds result in the lowest overall cost and the greatest possible customer protections. These standards and procedures are designed to allow for meaningful and substantive cooperation and collaboration between FPL, this Commission and their designated

advisors, legal counsel, and representatives through a "Bond Team" to ensure that the structuring, marketing, and pricing of the storm-recovery bonds will achieve the lowest cost objective. Each of the standards and procedures set forth in this Financing Order must be met. This Financing Order grants authority to issue storm-recovery bonds and to impose and collect storm-recovery charges only if the final structure of the transaction and the procedures followed comply in all respects with the standards and procedures set forth herein.

To ensure that these standards are met and these procedures are followed, this Commission - as represented at various stages either jointly or separately by a designated Commissioner, designated Commission personnel, the Commission's financial advisor, and the Commission's outside legal counsel, as these representatives deem appropriate - will participate in advance in all aspects of the structuring, marketing, and pricing of the storm-recovery bonds.

The authority and approval to issue storm-recovery bonds pursuant to this Financing Order is effective only upon FPL filing with this Commission an Issuance Advice Letter demonstrating compliance with all provisions of this Financing Order, and the Commission not issuing a stop order by 5:00 p.m. Eastern Time on the third business day following pricing of the storm-recovery bonds.

II. TRANSACTION STRUCTURE AND DOCUMENTS

FPL has proposed a transaction structure that includes all of the following:

a. The use of a special purpose entity ("SPE") as issuer of storm-recovery bonds, limiting the risks to bondholders of any adverse impact resulting from a bankruptcy proceeding of FPL or any affiliate.

b. The right to impose and collect storm-recovery charges that are nonbypassable and which must be trued-up at least semi-annually, but may be trued-up more frequently under specified circumstances, in order to ensure the timely payment of the debt service and other on-going financing costs.

c. FPL's sale to the SPE of a portion of the storm-recovery property (not including the right to recover tax-related financing costs described in Section 366.8260(1)(e) 4., 5. and 6., Florida Statutes, which tax-related storm-recovery property shall be retained by FPL) (hereinafter the "Bondable Storm-Recovery Property").

d. Additional collateral in the form of a collection account which includes a Capital Subaccount funded initially by a deposit from FPL equal to 0.5% of the initial principal amount of the storm-recovery bonds, resulting in greater certainty of payment of interest and principal to investors.

e. A servicer (initially FPL) responsible for billing and collecting the Storm Bond Repayment Charge from existing or future customers.

f. The use of credit enhancements or hedging instruments, including interest rate swaps, either in connection with the issuance of floating rate storm-recovery bonds or otherwise, if the use of such instruments is reasonably expected to result in lower overall costs to customers.

g. The Federal income tax consequences of the transaction meet the safe-harbor provisions as established in IRS Revenue Procedure 2005-62.

The transaction structure, described in this Order, is necessary to enable the storm-recovery bonds to obtain a triple-A bond credit rating, so as to further ensure that the proposed structuring, marketing, and pricing of the storm-recovery bonds would significantly mitigate rate impacts to customers as compared with alternative methods of financing or recovering storm-recovery costs and achieve the lowest cost objective.

FPL has submitted in connection with its Petition a form of each of the Storm-Recovery Property Sale Agreement, the Administration Agreement, and the Storm-Recovery Property Servicing Agreement, which set out in substantial detail certain terms and conditions relating to the transaction structure, including the proposed sale of the Bondable Storm-Recovery Property to the SPE, the administration of the SPE, and the servicing of the Storm Bond Repayment Charges and the storm-recovery bonds. FPL requested that we approve the substance of the form of each of the agreements between FPL and the SPE in connection with issuance of this Order, which agreements FPL has proposed would be executed substantially in the form submitted to this Commission, subject to such changes as are authorized pursuant to a Staff Pre-Issuance Review process proposed by FPL. FPL has also submitted a form of the Indenture between the SPE and the Indenture trustee, which sets forth proposed security and terms for the storm-recovery bonds. FPL requested that we approve the substance of the Indenture, which FPL proposed would be executed substantially in the form submitted to this Commission, subject to such changes as are authorized pursuant to the Staff Pre-Issuance Review process proposed by FPL. FPL has also submitted a form of the Limited Liability Company Agreement ("LLC Agreement") with FPL as the sole member, which FPL proposed would constitute the organizing document of the SPE. FPL requested that we approve the substance of the LLC Agreement, which would be executed substantially in the form submitted to this Commission, subject to such changes as FPL deems necessary or advisable to satisfy bankruptcy and rating agency considerations.

The SPE

FPL proposed to create an SPE as a Delaware limited liability company with FPL as its sole member, as set forth in the LLC Agreement. The SPE will be formed for the limited purpose of acquiring Bondable Storm-Recovery Property (not including the right to receive tax-related charges, which will be retained by FPL), issuing storm-recovery bonds in one or more series (each of which may be issued in one or more classes or tranches), and performing other activities relating thereto or otherwise authorized by this Financing Order. The SPE may issue storm-recovery bonds approved in this Financing Order, or in future financing orders, so long as

such future issuance does not adversely affect the ratings on the SPE's outstanding storm-recovery bonds.

FPL proposed that the SPE may issue storm-recovery bonds in an aggregate amount not to exceed the principal amount approved by this Order or any future financing order and will pledge to an Indenture trustee or trustees, as collateral for payment of the storm-recovery bonds, the Bondable Storm-Recovery Property, including the SPE's right to receive the Storm Bond Repayment Charges as and when collected, and other collateral described in the Indenture. The SPE will not be permitted to engage in any other activities and will 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 will be the SPE's only significant liabilities. These restrictions on the activities of the SPE and restrictions on the ability of FPL to take action on the SPE's behalf are imposed to ensure that the SPE will be bankruptcy-remote and not be affected by a bankruptcy of FPL or any of its affiliates.

FPL proposed that the SPE will be managed by a board of managers with power similar to those of boards of directors of corporations. As long as the storm-recovery bonds remain outstanding, FPL proposed that the SPE will have at least one independent manager, that is, with no organizational affiliation with FPL or its affiliates. The SPE will not be permitted to amend the provisions of the LLC Agreement or other organizational documents that ensure bankruptcy-remoteness of the SPE without the consent of the independent manager. Similarly, the SPE will not be permitted to institute bankruptcy or insolvency proceedings or to consent to the institution of bankruptcy or insolvency proceedings against it, or to dissolve, liquidate, consolidate, convert, or merge without the consent of the independent manager. Other restrictions to ensure bankruptcy-remoteness may also be included in the organizational documents of the SPE as indicated by the rating agencies.

FPL proposed that the SPE will have no staff to perform administrative services (such as routine corporate maintenance, reporting and accounting functions). FPL proposed that these services will be provided by FPL pursuant to the terms of the Administration Agreement.

We generally accept FPL's proposals concerning the storm-recovery bond transaction structure outlined above. However, we hereby approve only the general transaction structure outlined above and do not approve the specific forms of transaction documents filed by FPL. Prior to offering a series of storm-recovery bonds to investors, the specific terms and conditions of that series of storm-recovery bond transaction documents shall be approved pursuant to the terms of this Order. In addition, we authorize the issuance of storm-recovery bonds through multiple SPEs should this become appropriate.

The Servicer and the Servicing Agreement

FPL proposed to execute a servicing agreement with the SPE (the "Servicing Agreement") which may be amended, renewed, or replaced by another servicing agreement in accordance with its terms. FPL will be the initial servicer but may be succeeded as servicer as detailed in the Servicing Agreement. Pursuant to the Servicing Agreement, the servicer is

required, among other things, to impose and collect the Storm Bond Repayment Charges for the benefit and account of the SPE, to make the periodic true-up adjustments of storm-recovery charges required or allowed by this Order, including periodic true-up adjustments to the Storm Bond Repayment Charge, and to account for and remit its collection of Storm Bond Repayment Charges to or for the account of the SPE in accordance with the remittance procedures contained in the Servicing Agreement without any charge, deduction, or surcharge of any kind, other than the servicing fee specified in the Servicing Agreement. Under the Servicing Agreement, if any servicer fails to fully perform its servicing obligations, the Indenture trustee or its designee may, and upon the instruction of the requisite percentage of holders of the outstanding bonds shall, appoint an alternate party to replace the defaulting servicer. The obligations of the servicer under the Servicing Agreement, the circumstances under which an alternate servicer may be appointed, and the conditions precedent for any amendment of such agreement will be more fully specified in this Order and in the Servicing Agreement. The rights of the SPE under the Servicing Agreement will be included in the collateral pledged to the Indenture trustee under the Indenture for the benefit of holders of the storm-recovery bonds.

Trust Accounts

FPL proposed that the SPE will establish a Collection Account as a trust account to be held by each Indenture trustee as collateral to ensure the timely payment of the principal, interest, and other costs related to the series of storm-recovery bonds. The Collection Account will include the General Subaccount, the Capital Subaccount and the Reserve Subaccount (referred to in this Order as the Excess Funds Subaccount), and may include other subaccounts if required to obtain triple-A ratings on the series of storm-recovery bonds.

FPL proposed that Storm Bond Repayment Charge remittances from the servicer with respect to any series of storm-recovery bonds will be deposited into the General Subaccount. On a periodic basis, the money in this subaccount will be allocated to pay expenses of the SPE, to pay principal and interest on the series of storm-recovery bonds, and to meet the funding requirements of the other subaccounts. The money in the General Subaccount will be invested by the Indenture trustee in short-term high-quality investments with minimum management and other fees, and such money (including investment earnings) will be available to pay principal and interest on the series of storm-recovery bonds and all other components of the ongoing costs payable by the SPE.

When a series of storm-recovery bonds is issued, FPL proposes that FPL will make a capital contribution to the SPE, which the SPE will deposit into the Capital Subaccount. The storm-recovery bond proceeds will not be used to fund this capital contribution. The amount of the capital contribution will be 0.5 percent of the original principal amount of the series of storm-recovery bonds. The Capital Subaccount will serve as collateral to ensure timely payment of principal and interest on the storm-recovery bonds. To the extent that the Capital Subaccount must be drawn upon to pay these amounts due to a shortfall in the Storm Bond Repayment Charge remittances, it will be replenished to its original level through the true-up process described below. The money in this subaccount will be invested in short-term high-quality investments with minimum management and other fees, and such money (including investment

earnings) will be available to pay principal and interest on the storm-recovery bonds and all other components of the ongoing costs payable by the SPE. Investment earnings in this subaccount will be released to the SPE in accordance with the Indenture, to the extent not required to pay principal and interest on the storm-recovery bonds and other financing costs under the Indenture.

FPL proposed that the Excess Funds Subaccount will hold any Storm Bond Repayment Charge remittances and investment earnings on the Collection Account in excess of the amounts needed to pay current principal and interest on the series of storm-recovery bonds and to pay all of the other components of the ongoing costs payable by the SPE including, but not limited to, funding or replenishing the Capital Subaccount. Any balance in the Excess Funds Subaccount on a true-up adjustment date will be subtracted from amounts required for such period for purposes of the true-up adjustment. The money in this subaccount will be invested in short-term high-quality investments with minimum management and other fees, and such money (including investment earnings thereon) will be available to pay principal and interest on the storm-recovery bonds and all other components of the ongoing costs payable by the SPE.

FPL proposed that the Collection Account and the subaccounts described above are intended to provide for full and timely payment of scheduled principal and interest on the series of storm-recovery bonds and all other authorized components of the ongoing costs payable by the SPE. If the amount of Storm Bond Repayment Charges remitted to the General Subaccount is insufficient to make all scheduled payments of principal and interest on the series of storm-recovery bonds and to make payment on all of the other components of the ongoing costs payable by the SPE, the Excess Funds Subaccount and the Capital Subaccount will be drawn down, in that order, to make those payments. In addition to the foregoing, there may be such additional accounts and subaccounts as are necessary to segregate amounts received from various sources, or to be used for specified purposes. Upon the maturity of the series of storm-recovery bonds and the discharge of all obligations with respect to such bonds, remaining amounts in the Collection Account will be released to the SPE free of this lien of the Indenture and will be available for distribution by the SPE to FPL. As noted in this Order, equivalent amounts, less the amount of the Capital Subaccount and earnings thereon, will be credited by FPL to current customers' bills in the same manner that the charges were collected, or through a credit to the Reserve or the capacity cost recovery clause if this Commission determines at the time of retirement that a direct credit to customers' bills is not cost-effective.

True-Ups of the Storm Charges

Pursuant to Section 366.8260(2)(b)2.e. and (2)(b)4., Florida Statutes, the servicer of the Bondable Storm-Recovery Property will file for routine true-up adjustments to the storm-recovery charges at least semi-annually to ensure the recovery of Storm Bond Repayment Charge revenues sufficient to provide for the timely payment of the principal and interest on the storm-recovery bonds and of all of the other components of the ongoing financing costs payable by the SPE in respect of storm-recovery bonds as approved under this Order. This required periodic payment of all such amounts, including deficiencies on past due amounts for any reason, is referred to as the "Periodic Payment Requirement." The required periodic payment of all such amounts other than tax-related amounts described in Section 366.8260(1)(e)4., 5. and 6. is

referred to as the "Periodic Bond Payment Requirement." Pursuant to Section 366.8260(2)(b)2.e., Florida Statutes, this Order must include a formula-based mechanism for making expeditious periodic adjustments in the storm-recovery charges that customers are required to pay under this Order and for making any adjustments that are necessary to correct for any overcollection or undercollection of the charges or to otherwise ensure the timely payment of the Periodic Bond Payment Requirement.

Pursuant to Section 366.8260(2)(b)4., Florida Statutes, FPL shall file with the Commission at least once every six months a petition or a letter applying the formula-based mechanism and, based on estimates of consumption for each rate class and other mathematical factors, requesting administrative approval to make the necessary adjustments. The review of such a request shall be limited to determining whether there is any mathematical error in the application of the formula-based mechanism relating to the appropriate amount of any overcollection or undercollection of storm-recovery charges, including Storm Bond Repayment Charges, and the amount of an adjustment. Such adjustments shall ensure the recovery of revenues sufficient to provide for the payment of principal, interest, acquisition, defeasance, financing costs, or redemption premium and other fees, costs, and charges in respect of storm-recovery bonds approved under the Order (i.e., the Periodic Bond Payment Requirement).

If necessary to secure the targeted triple-A credit ratings, FPL proposed that the servicer be authorized to seek a routine true-up as frequently as quarterly.

FPL proposed that the servicer also be authorized to seek a non-routine true-up at any time following a base rate change that includes any change in the rate allocation among customers used in determining the storm-recovery charges, such changes to go into effect simultaneously with any changes to FPL's other base rates. FPL proposed that the servicer also be authorized to seek a non-routine true-up to amend the true-up methodology to address any systemic variances between estimated and actual collections of Storm Bond Repayment Charges. Any such amendment would be subject to Commission approval and confirmation that such amendment would not adversely affect the ratings on the storm-recovery bonds. FPL proposed that the Commission would have 90 days in which to process a non-routine true-up.

FPL proposed that the servicer will file true-up adjustments in the manner described in the Servicing Agreement, received as Document No. WO-7 [Hearing Exhibit 35] to the testimony of Wayne Olson, Managing Director of Credit Suisse First Boston LLC, in this proceeding. FPL proposed that the form[s] and methodology for the true-ups shall be substantially as provided in Document No. KMD-8 [Hearing Exhibit 24] to the testimony of K. Michael Davis, FPL's Vice President, Controller and Chief Accounting Officer and described in the testimony of Dr. Rosemary Morley, FPL's Rate Development Manager.

Bondable Storm-Recovery Property

The Bondable Storm-Recovery Property to be sold by FPL to the SPE consists of: (1) certain rights and interests of FPL or successor or assignee of FPL under this Order, including the right to impose, bill, collect, and receive the Storm Bond Repayment Charge authorized in

this Order and to obtain periodic adjustments to such Storm Bond Repayment Charge as provided in this Order, and (2) all revenues, collections, claims, rights to payments, payments, money, or proceeds arising from the rights and interests specified in clause (1), regardless of whether such revenues, collections, claims, rights to payment, payments, money, or proceeds are imposed, billed, received, collected, or maintained together with or commingled with other revenues, collections, rights to payment, payments, money, or proceeds. The Bondable Storm-Recovery Property to be sold does not include any rights in and to the Storm Bond Tax Charge, which will be retained by FPL.

State Pledge

To encourage utilities to undertake securitization financing to fund storm-recovery activities, and to encourage investors to purchase storm-recovery bonds, the State of Florida has pledged to and agrees with bondholders, the owners of the Bondable Storm-Recovery Property, and other financing parties that the State will not impair the value of the Bondable Storm-Recovery Property, as further described in Section 366.8260(11), Florida Statutes; provided, however, that nothing in this State Pledge shall preclude limitation or alteration of this Order if full compensation is made by law for the full protection of storm-recovery charges collected pursuant to this Order and of bondholders and any assignee or financing party entering into a contract with FPL.

FINDINGS OF FACT

I. STORM-RECOVERY BONDS

1. The issuance of storm-recovery bonds in the amount of up to $708,000,000 will reimburse FPL for reasonable and prudently incurred storm-recovery costs associated with the destructive back-to-back 2004 and 2005 storm seasons. Specifically, this represents the after-tax amount that will enable: (i) recovery of the unrecovered balance of FPL's 2004 storm-recovery costs currently being recovered through the 2004 storm surcharge and expected to be remaining as of July 31, 2006; (ii) recovery of FPL's unrecovered prudently incurred storm-recovery costs related to the four storms that affected its service territory in 2005; and (iii) replenishment of FPL's Reserve to a level of approximately $200 million. It also includes the amount needed to recover the estimated upfront bond issuance costs. Any difference between the estimated and actual balance of unrecovered 2004 and 2005 storm-recovery costs and between the estimated and actual financing costs shall be reflected in the amount of replenishment of the Reserve. Also, if market rates rise to such an extent that the initial average retail cents per kWh storm-recovery charge associated with the storm-recovery bond issuance would exceed the average retail cents per kWh charge associated with the 2004 storm surcharge now in effect, the aggregate amount of the storm-recovery bond issuance shall be reduced to an amount whereby the initial average retail cents per kWh storm-recovery charge will not exceed the average retail cents per kWh 2004 storm surcharge currently in effect, recognizing that any such adjustment may affect the resulting balance of the Reserve.

II. STORM-RECOVERY COSTS

2. Traditional methods for recovering storm-recovery costs and for establishing a Reserve include an accrual in base rates that is contributed to the Reserve and implementation of surcharges or special assessments to recover storm-recovery costs in excess of amounts in the Reserve. Most recently, in the 2004 Storm Order, this Commission approved (i) recovery of FPL's reasonable and prudently incurred restoration costs related to the hurricanes that struck FPL's service territory in 2004 in excess of the Reserve balance, subject to adjustments and terms set forth in that Order; and (ii) initiation of the 2004 storm surcharge to recover such restoration costs as adjusted. FPL's reasonable and prudently incurred 2004 storm season costs in excess of the Reserve currently are being recovered through a monthly storm-recovery surcharge equal to $1.65 for a monthly residential bill for usage of 1,000 kWh.

3. In its application for a base rate increase in Docket No. 050045-El, FPL had proposed to increase the annual Reserve accrual in base rates to $120 million. The base rate proceeding was resolved pursuant to the Settlement Agreement negotiated and signed by all parties to the proceeding and approved by this Commission which, among other matters, addressed the issues of storm cost recovery and the replenishment of the Reserve. The Settlement Agreement was approved through the 2005 Rate Case Order.

4. With respect to storm-recovery costs, the Settlement Agreement (a) suspended the then-current base rate accrual of $20.3 million effective as of January 1, 2006; (b) provided that FPL would be entitled to recover prudently incurred storm-recovery costs and replenish the

Reserve balance to a level to be approved by the Commission; and (c) allowed recovery of prudently incurred storm-recovery costs and replenishment of the Reserve through charges incremental to base rates, either through a charge established through Section 366.8260, Florida Statutes, and/or another form of surcharge.

5. At the date of the Petition, FPL had an unrecovered balance associated with the 2004 storm-recovery costs approved by this Commission in the 2004 Storm Order. This is because the 2004 storm surcharge approved by this Commission to recover the costs associated with the 2004 storms has not been in place long enough to recover all of the costs approved in the 2004 Storm Order.

6. With respect to 2005 storm-recovery costs, FPL incurred substantial costs to restore service to customers arising from four named storms: Dennis, Katrina, Rita, and Wilma. Because FPL's Reserve was depleted as a result of the 2004 storms, FPL advanced its own funds to pay for 2005 storm-recovery costs.

Unrecovered 2004 Storm-Recovery Costs

7. With respect to unrecovered 2004 storm-recovery costs, this Commission, in our 2004 Storm Order, approved collection of a $442.0 million 2004 Reserve deficiency by FPL from its retail customers. FPL has been collecting a surcharge for these costs since February 2005. FPL estimates that $212 million of this amount will remain to be collected as of July 31, 2006. This amount was estimated by adding monthly interest at the commercial paper rate to the unrecovered balance (as required by the 2004 Storm Order) and subtracting estimated billed revenues based on the average retail surcharge factor approved in the 2004 Storm Order multiplied by forecasted kWh sales. In addition to the costs to be recovered as a result of the 2004 Storm Order, this Commission also approved an adjustment to the 2004 storm costs of $21.7 million which was left as a deficit in the Reserve. The net amount remaining after considering FPL's 2005 storm accrual of $20.3 million and fund earnings of $0.1 million is $1.4 million. Accordingly, FPL calculates that the sum of the 2004 storm cost deficiency as of July 31, 2006, of $212 million, plus the net jurisdictional Commission adjustment of $1.3 million, totals $213.3 million of unrecovered jurisdictional 2004 storm-recovery costs.

8. FPL included in its 2004 storm-recovery costs the $21.7 million that was charged back to the Reserve as an incurred storm cost in the 2004 Storm Order. Although this amount was not included for recovery in the 2004 storm surcharge, the charge-back was a deferral of the amount rather than a disallowance. We find that the $21.7 million is now eligible for recovery and shall be included in FPL's 2004 storm-recovery costs.

9. The amount approved for recovery in the 2004 Storm Order included an estimated $21.5 million for uncompleted nuclear storm damage repairs. FPL now estimates this cost to be $15.4 million. The timing of nuclear unit repairs warrants economic and operating considerations. Because of the high replacement power costs that are incurred when a nuclear unit is off-line, damage assessment and repairs to certain equipment can only be performed during refueling outages, which occur approximately every 18 months. Thus, we find it appropriate to include the uncompleted nuclear storm damage repairs in FPL's 2004 storm-

recovery costs, although the amount shall be reduced by $6.1 million to reflect FPL's latest estimate for the cost of those repairs.

10. FPL included $2,664,038 for outstanding claims and litigation costs in its 2004 storm-recovery costs. These litigation costs were reimbursements to assisting utilities for costs incurred when the assisting utilities' employees caused an accident or injury during storm restoration. Although the events associated with these pending actions occurred during storm restoration activities, they were not storm damage restoration activities themselves. There is also considerable uncertainty associated with estimating the final outcome of outstanding claims and pending lawsuits. For these reasons, the 2004 storm-recovery costs shall be reduced by $2,664,038 to remove these costs.

11. FPL's 2004 storm-recovery costs reflect $7,419,810 billed to other parties for replacing joint-use poles owned by others. This amount was not used to reduce FPL's 2004 storm-recovery costs. The amount billed net of the normal capital costs of the poles was $5,432,966. We find that FPL's 2004 storm-recovery costs shall be reduced by this amount to offset the incremental costs associated with the replacement of joint-use poles owned by others.

12. Based on Findings of Fact 8 – 11, we find that FPL's unrecovered jurisdictional 2004 storm-recovery costs shall be reduced by $14,129,568 plus a related interest reduction of $497,000. Thus, FPL's unrecovered jurisdictional 2004 storm-recovery costs eligible for recovery total $198,680,432. The calculation of this amount is shown in Appendix A to this Order.

13. We find that FPL has properly accounted for the after-tax effects of interest on its unrecovered storm costs.

Unrecovered 2005 Storm-Recovery Costs

14. With respect to unrecovered 2005 storm-recovery costs, such amounts consist of known storm-recovery costs and an estimate of the costs of storm-recovery activities that are not completed or for which the costs are not yet known. Unrecovered 2005 storm-recovery costs were incurred to restore service following the damages sustained from four named storms: Dennis, Katrina, Rita and Wilma. FPL submitted with its Petition the supporting testimony of Mr. K. Michael Davis, Ms. Geisha J. Williams, and Mr. Mark Warner with respect to FPL's known and estimated 2005 storm-recovery costs.

15. Monthly interest calculated at the commercial paper rate through July 31, 2006, is also included on FPL's estimate of the balances outstanding through that date. The amount of storm-recovery costs that will be financed will be reduced to recognize the income tax benefit received when the costs were deducted for income tax purposes.

16. In determining the amount of unrecovered 2005 storm-recovery costs with respect to Hurricanes Dennis, Katrina, Rita and Wilma proposed for recovery in this proceeding, FPL has made adjustments to the 2005 storm-recovery costs consistent with the "Actual Restoration Cost Approach" addressed in Docket No. 930405-El, with an adjustment to remove normal

capital costs. FPL calculates that applying this adjustment method to the 2005 unrecovered storm-recovery costs results in total unrecovered pre-tax 2005 storm-recovery costs of $815.4 million, plus carrying costs estimated to be $11.5 million based on a storm-recovery bond issuance date of August 1, 2006.

17. Under FPL's Actual Restoration Cost Approach, all costs - both normal and incremental - that were related to storm damage activities are charged to FPL's Reserve. We find that the inclusion of normal costs results in a double recovery, once through base rates and again through the Reserve. Accordingly, we find that an incremental cost approach, including an adjustment to remove normal capital costs, is the appropriate methodology to be used for booking FPL's 2005 storm-recovery costs to its Reserve.

18. For 2005, FPL charged its Reserve for condenser tube repairs in the amount of $2,785,364. We find that these repairs were normal capital items. Thus, FPL's 2005 storm-recovery costs shall be reduced by this amount.

19. For 2005, FPL charged $221,000 to its Reserve for hydrolasing the condenser tubes at Martin Units 1, 2, 3, and 4. Hydrolasing is conducted to clean the tubes to prepare for testing and is a normal, recurring maintenance procedure that would have been performed even without any storm activity. The costs of this regular maintenance procedure are included in FPL's base rates. Thus, consistent with the incremental cost approach, FPL's 2005 storm-recovery costs shall be reduced by $221,000.

20. During 2005, FPL billed other power companies $9,095,845 for the loan of FPL personnel and equipment for storm restoration activities. We find that FPL's 2005 storm-recovery costs should be offset by these reimbursements to prevent any double recovery. This amount, however, should be reduced by $5,627,252 for items not included in FPL's base rates. Therefore, FPL's 2005 storm-recovery costs shall be reduced by the net amount of $3,468,593 to eliminate any double recovery.

21. FPL estimated that it incurred or would incur $26,092,000 in ordinary payroll costs associated with the 2005 storms and $8,391,100 in related payroll benefits, all of which it charged to its Reserve. Because normal payroll has a capital component, all regular payroll charged to the Reserve is not just operations and maintenance work. The ordinary payroll costs charged to the Reserve for 2005 included $8,000,000 of regular payroll for employees that under normal working conditions would charge their time, or a portion of their time, to capital projects. Those costs are appropriately charged to the Reserve under the incremental cost methodology. Otherwise, the costs would effectively be disallowed for recovery because there is no provision to recover those costs in base rate operation and maintenance costs, and the costs cannot be assigned to non-existent capital projects.

22. The ordinary payroll costs charged to the Reserve for 2005 also included $2,730,000 of regular payroll for employees that under normal working conditions would charge their time, or a portion of their time, to cost-recovery clause activity. Those costs are appropriately charged to the Reserve under the incremental cost methodology. Otherwise, the costs would effectively be disallowed for recovery because there is no provision to recover those

costs in base rate operation and maintenance costs, and the costs cannot be assigned to cost-recovery clause activity and recovered through the cost-recovery clauses. To insure that the $2,730,000 is not double-recovered (i.e., recovered through 2005 storm-recovery costs and through the cost-recovery clauses), FPL must provide substantiation of the reassignment of the $2,730,000 from clause activity to the Reserve in its cost-recovery clause true-up filings.

23. We find that the remaining $15,362,000 of ordinary payroll expense ($26,092,000 - $8,000,000 capital payroll - $2,730,000 clause payroll) is includable in base rates, thus that amount shall be removed from FPL's 2005 storm-recovery costs. Applying FPL's overhead rate of 16.69 percent to this amount, we find that related payroll benefits of $2,563,918 shall also be removed from FPL's 2005 storm-recovery costs. This results in a total adjustment of $17,925,918.

24. For 2005, FPL charged its Reserve $768,000 for exempt employee overtime incentives. Overtime incentive payments were made to exempt employees who, as a result of their normal pay grade classification, were not eligible for overtime pay. We find that salaried employees receive their compensation for the level of work that is required of them. They are not compensated based on a fixed number of hours of work. When overtime is required of salaried employees, they are responsible for providing that additional work for the salary they agreed to accept. For this reason, we find that FPL's 2005 storm-recovery costs shall be adjusted by removing the $768,000 charge related to exempt employee overtime incentives.

25. FPL included tree trimming expenses in its 2005 storm-recovery costs. FPL's actual tree trimming expenditures were $1,100,000 less than the amount budgeted for 2005. Consistent with the incremental cost approach, FPL's 2005 storm-recovery costs shall be adjusted by removing $1,100,000 related to tree trimming expenses.

26. FPL included fleet vehicle costs in its 2005 storm-recovery costs charged to the Reserve. It is undisputed that $5,738,000 of these costs were provided for in FPL's base rates. Accordingly, FPL's 2005 storm-recovery costs shall be reduced by $5,738,000, consistent with the incremental cost approach.

27. FPL requested that $1.2 million in incremental vehicle costs be charged back to the Reserve. We find that some amount of incremental costs may have been incurred by FPL for vehicles, but the amount and inclusion of such costs in FPL's filing in this docket is in dispute. If the incremental amount was included in FPL's original filing, the amount should remain in FPL's 2005 storm-recovery costs; however, if it was not included, given that there is no explanation as to why it was not included, we do not believe it should be added back to the vehicle costs as proposed by FPL. We find no evidence that FPL included only the normal amount of vehicle costs in its filing without including the amount that exceeded its budget. Accordingly, no offsetting adjustment shall be made.

28. FPL also requested that an allocation of $2,767,000 that it claims was made to capital costs should be added back to the amount of vehicle costs removed from its 2005 storm-recovery costs. We note that $1,525,159 of capital associated with vehicles was included in FPL's revised exhibits. We can find no explanation for the difference between these two

amounts. Because we cannot reconcile the two amounts, nor can we determine whether a capital adjustment of $2,767,000 was ever made by FPL in its filing, we find that no adjustment shall be made for capital costs.

29. FPL included $6,187,253 of call center costs in its 2005 storm-recovery costs. We find that the amount is incremental to FPL's normal call center costs, thus, its inclusion is consistent with the incremental cost approach. FPL also included telecommunications expense in its 2005 storm-recovery costs. We find that $520,264 of this telecommunications expense was below the amount budgeted by FPL for 2005. Thus, we find that this amount of telecommunications expense is already included for recovery through FPL's base rates. Consistent with the incremental cost approach, we find that $520,264 of telecommunications expense shall be removed from FPL's 2005 storm costs.

30. FPL included $2,528,196 in advertising costs and $144,068 in promotional costs in its 2005 storm-recovery costs. If advertising is found to be informational, educational, or safety-related in nature and beneficial to ratepayers, we generally allow recovery of the associated costs. If advertising is found to be institutional or image-enhancing, or otherwise provides no benefit to ratepayers, we generally do not allow recovery of the associated costs. See Order No. PSC-05-0748-FOF-EI, issued July 14, 2005, in Docket No. 041272-EI, In re: Petition for approval of storm cost recovery of extraordinary expenditures, related to Hurricanes Charley, Frances, Jeanne, and Ivan, by Progress Entergy Florida, Inc.; and Order No. PSC-02-0787-FOF-EI, issued June 10, 2002, in Docket No. 010949-EI, In re: Request for rate increase by Gulf Power Company. FPL charged its Reserve $577,272 for thank-you ads directed at non-FPL utility workers who assisted in FPL's storm recovery efforts. FPL also charged its Reserve $144,068 for public relations expenses. We find that these thank-you ads and public relations expenses were image-enhancing. Thus, these expenses shall be removed from FPL's 2005 storm-recovery costs.

31. FPL charged its Reserve $404,627 for employee campaign radio and web advertisement expenses that it later reversed. FPL also charged its Reserve $17,949 related to conservation advertising expenses and later reversed this charge from the Reserve. We agree that these amounts should not have been charged to the Reserve.

32. FPL included an estimated $3,582,000 in uncollectible expense in its 2005 storm-recovery costs. While we agree that there is a relationship between uncollectible expense and hurricane activity, the amount of such expense is difficult, if not impossible, to accurately project. We note that FPL estimated uncollectible expense related to the 2004 storm season to be $5.6 million, but only $1.4 million of that amount materialized. Thus, we have strong reservations about FPL's projection of the incremental amount of such expenses for 2005. In addition, we note that uncollectible expenses are not directly related to restoration of service. Further, we see uncollectible expenses as risks and note that FPL is compensated for risk through its rate of return on equity. For these reasons, we find that FPL's 2005 storm-recovery costs shall be reduced by $3,582,000.

33. FPL reduced its 2005 storm-recovery costs by an estimated $63,855,000 to remove the normal cost of capital items that were repaired. FPL subsequently revised this

estimate to $72,600,000. We find that FPL's 2005 storm-recovery costs shall be reduced by $8,745,000 to reflect FPL's most recent estimate of the normal cost of capital items that should be removed.

34. FPL charged its Reserve $3,816,864 for expenses related to landscaping work associated with the 2005 storms. We find that this type of work is a part of routine maintenance of landscaping. Further, although the amount of work may have been increased by the storms, FPL has not presented evidence that these expenses exceeded its normal budget for landscape maintenance. Consistent with the incremental cost approach, we find that FPL's 2005 storm-recovery costs should be adjusted by removing the $3,816,864 charge related to landscaping work.

35. FPL estimated that it would incur $2,849,571 in lawsuit settlement costs associated with the 2005 storms and charged this amount to its Reserve. We find no evidence in the record that there were any incidents in 2005 that would result in FPL incurring litigation or settlement costs. Further, we find that such costs are not directly related to restoration of service. Therefore, FPL's 2005 storm-recovery costs should be adjusted by removing the $2,849,571 estimate for lawsuit settlement charges.

36. FPL included an estimate of $44.5 million in contingencies in its 2005 storm-recovery costs. The record indicates that by February 28, 2006, FPL's estimated contingencies had been reduced to $26,253,351 and that by March 31, 2006, the estimated contingencies had been reduced to $7.5 million. Contingencies formally recognize uncertainty concerning factors such as scope of work, material costs, contractor availability and pricing, or the length of time for completion. We find that not all contingencies will be used and that it is inappropriate for ratepayers to pay through a surcharge for costs that may never be realized. Although a large portion of the contingencies have been realized or eliminated, the record does not indicate that an adjustment was made to the $44.5 million included in FPL's initial filing in this docket. We agree with OPC that the amount to be removed from FPL's 2005 storm-recovery costs is $26,253,351. Recognizing that some portion of the contingencies included in FPL's initial filing was likely used, we find that removal of this amount rather than the full $44.5 million of original contingencies is appropriate.

37. FPL estimated that the cost of replacing poles belonging to other entities for the 2005 storm season was $10,564,384, including $4,156,615 in capital costs. Pursuant to joint use agreements with these other entities, FPL will be provided reimbursement of the reasonable costs and expenses that it would not have otherwise incurred if the owners of the poles had made the replacements. We find that costs to be reimbursed by other entities should not be paid by ratepayers. Accordingly, we find that FPL's 2005 storm-recovery costs shall be reduced by the $6,407,769 of expense related to replacing other entities' poles. Further, we find that the related amount FPL booked to capital - $4,156,615 - shall be removed from rate base when reimbursement is received from third parties.

38. FPL included $245,025 of employee assistance costs in its 2005 storm-recovery costs. These costs cover items such as roof tarps, ice, and water provided by FPL to employees after a storm passes. These costs are clearly in the nature of employee benefits and are not

directly related to storm restoration activities. Thus, we find that the $245,025 charge for employee assistance costs shall be removed from FPL's 2005 storm-recovery costs.

39. FPL charged its Reserve $316,250 for repair costs for a cooling tower fan at Martin Unit 8. FPL has made a warranty claim for these costs. The warranty claim is being contested by the manufacturer. Because these costs are subject to reimbursement under warranty, we find that the $316,250 charge shall be removed from FPL's 2005 storm-recovery costs. However, we authorize FPL to charge the Reserve for any portion of the $316,250 that is not ultimately recovered through the warranty.

40. Because we have chosen to apply an incremental cost approach in this docket, FPL has requested that we take into account certain other items that FPL believes to be incremental costs or losses incurred as a result of the 2005 storm season.

a. First, FPL requests that we take into account amounts not recovered through base rates due to disruption of service as a result of the 2005 storm season or the absence of customers after storms. FPL asserts that such unachieved base rate revenues amounted to $51,354,000. We decline to allow for recovery of this amount. While we believe that the methodology used by FPL to calculate the amount of energy sales not realized following the named storms in 2005 is reasonable, we acknowledge the concern presented by OPC that FPL has already recovered sufficient revenue from customers during the remainder of the 2005 storm season to cover its budgeted O&M expenses. Further, we believe that any unachieved base rate revenues are part of the weather-related business risk for any utility. Business risk is captured in the determination of a fair and reasonable rate of return for a utility. We find that ratepayers should not bear the adverse effects of this business risk while FPL earns a rate of return that takes this risk into account.

b. Second, FPL requests that we take into account unbudgeted costs associated with compensated overtime, temporary labor, and/or contractors which were incurred to satisfy job responsibilities of other employees while they were assigned to storm duties. FPL estimates that the costs of this "backfill work" amount to $800,000. We decline to allow for recovery of this amount. While these costs may result as FPL employees are reassigned during storm restoration, we find that these costs are not directly related to restoration of service and therefore not properly chargeable to the Reserve. Thus, disallowing recovery of these costs is not inconsistent with the 2005 Settlement Agreement.

c. Third, FPL requests that we take into account costs representing additional overtime work or contractor work performed until catch-up work is completed. Similarly, FPL requests that we take into account estimated costs of incremental outside contractor services and temporary labor resulting from work postponed due to storm restoration activities and accomplished after restoration was completed. FPL estimates that these costs amount to $7.8 million. We decline to allow for recovery of this amount for the same reasons we decline to allow for recovery of backfill work costs.

d. Fourth, FPL requests that we take into account FPL's purchase of $1.2 million of vacation from employees who were unable to use earned vacation due to their work supporting

storm restoration. We find that these "vacation buy-back" costs were incurred as a result of a management decision concerning vacation policy and do not represent a cost directly related to restoration of service. Thus, we decline to allow for recovery of this amount.

41. FPL did not propose a cut-off date for charging 2005 storm-recovery costs to its Reserve. We do not believe it is appropriate to allow FPL unlimited time to identify storm damage repair projects and to commence those repairs. Therefore, we find that FPL may charge its Reserve only for the projects already identified in this proceeding related to damage from the 2005 storm season on which construction has physically begun by December 31, 2006. By February 15, 2007, FPL shall submit a schedule identifying all allowable projects in progress as of December 31, 2006. This schedule must include the following information for each project: the amount actually spent to date; the estimated total cost; the start date; and the estimated completion date. Because of the high replacement power costs incurred when a nuclear unit is taken off-line for certain damage assessments and repairs, we find that FPL has justified delay in starting some of its storm-related repairs to nuclear units and shall be allowed to charge costs to its Reserve for such repair projects on which construction has physically begun by December 31, 2008.

42. FPL proposed that its 2005 storm-recovery costs be trued-up when all restoration and repair work has been completed and all costs are known. We believe that the true-up process should be an ongoing process, and we find that FPL shall be required to provide an annual true-up report by March 1st of each year for the preceding year ended December 31st until all 2005 storm-related repairs are complete.

Reasonableness and Prudence of 2005 Storm-Recovery Costs

43. Pursuant to Section 366.8260(2)(b)1.b., this Commission may issue a financing order authorizing financing of reasonable and prudent storm-recovery costs, and any determination of whether storm-recovery costs are reasonable and prudent must be made with reference to the general public interest in, and the scope of effort required to provide, the safe and expeditious restoration of electric service.

44. We find that an adjustment to the amount charged to FPL's Reserve for 2005 storm costs is warranted because: (i) all pole repairs necessitated by the 2004 storm season had not been completed prior to June 1, 2005; (ii) FPL does not know whether some of its facilities were attached to poles that met the requirements of the NESC prior to June 1, 2005; (iii) FPL has not shown that an increased level of pole inspection and maintenance would not have been prudent and funded by base rates; and (iv) FPL has not shown that its level of pole inspection and maintenance did not contribute to higher storm-recovery costs in 2005.

45. We find no manner in which to precisely calculate the exact impact of FPL's pole inspection and maintenance practices on 2005 storm-recovery costs. This is particularly true given the uncertainty or lack of FPL's distribution pole specific data and the indiscriminate damage caused by storms. As a result of recent Commission actions, we expect to have more detailed and precise data available in the future. Absent such information, for purposes of this proceeding, we find that the methodology presented by OPC witness Byerley provides a

reasonable framework for calculating an adjustment. Using this framework, the record supports a finding that the total cost for replacement of poles and conductors related to the FPL-owned poles that failed due to deterioration is $2.2 million.

46. To calculate this amount, we start by noting the record supports a finding that 6,925 FPL-owned poles failed as a result of the 2005 storm season. Of those, the record indicates that 28 percent were creosote poles, and that 46 percent failed due to deterioration. Assuming a replacement cost of $2,000 per pole (based on the average amount billed by FPL to other entities for pole replacement), the total replacement cost for FPL-owned creosote poles that failed due to deterioration is $1.8 million. To determine the estimated conductor replacement cost per replaced pole, the record supports use of a factor of .26 to apply and add to the total pole replacement cost. This calculation yields a total replacement cost for poles and conductors related to the FPL-owned poles that failed due to deterioration of $2.2 million. Of this amount, 25 percent, or $550,000, is attributed to capital costs. FPL shall reduce its rate base by this amount. FPL shall reduce the charges to its Reserve by the remaining $1.65 million.

47. We find that a separate adjustment to the amount charged to FPL's Reserve for 2005 storm costs is warranted because: (i) in 2004, FPL was aware of avoidable tree-related customer outages; (ii) in 2004 and 2005, FPL limited the implementation of a program that contributes to decreased tree-related customer outages; (iii) FPL has failed to show that its reduction to the level of vegetation management, which was included in its last rate case, was prudent; and (iv) FPL has failed to demonstrate that its reduced level of vegetation management did not contribute to higher storm-recovery costs in 2005.

48 We find no manner in which to precisely calculate the exact impact of FPL's vegetation management practices on 2005 storm-recovery costs. This is particularly true given the uncertainty or lack of FPL's distribution pole specific data and the indiscriminate damage caused by storms. However, we find that the methodology presented by OPC witness Byerley provides a reasonable framework for calculating an adjustment. Using this framework, the record supports a finding that the total cost for replacement of poles and conductors related to the poles that failed due to avoidable vegetation-related outages is $3.4 million.

49. To calculate this amount, we start by noting the record supports a finding that 11,400 poles supporting FPL facilities failed as a result of the 2005 storm season. Although FPL does not own all of those poles, we believe that FPL's responsibility to provide reliable service extends to the consequences associated with managing vegetation around third-party poles supporting FPL facilities as much as it applies to its own poles. Of those 11,400 pole failures, the record indicates that 24 percent were vegetation-related, and that 50 percent of those failures were avoidable. Assuming a replacement cost of $2,000 per pole (based on the average amount billed by FPL to other entities for pole replacement), the total replacement cost for the poles that failed due to vegetation management practices is $2.7 million. To determine the estimated conductor replacement cost per replaced pole, the record supports use of a factor of .26 to apply and add to the total pole replacement cost. This calculation yields a total replacement cost for poles and conductors related to the failed poles of $3.4 million. Of this amount, 25 percent, or $850,000, is attributed to capital costs. FPL shall reduce its rate base by this amount. FPL shall reduce the charges to its Reserve by the remaining $2.55 million.

50. We find that an adjustment to FPL's rate base is warranted because: (i) in 1998, FPL became aware that a problem existed with respect to loose or missing bolts critical to the structural integrity of the towers on its Conservation-Corbett 500 KV transmission line; (ii) FPL's 1998 analysis of this problem called for a revised construction standard for bolts on these towers; (iii) FPL failed to implement this revised construction standard prior to the 2005 storm season; and (iv) the Conservation-Corbett line failed during Hurricane Wilma as a result of loose and/or missing bolts, also damaging a portion of the adjacent Alva-Corbett 230 KV transmission line.

51. The costs of replacing the failed structures amounted to an estimated $11,900,000 for the Conservation-Corbett line and $100,000 for the Alva-Corbett line. FPL booked these costs as capital items. Accordingly, we find that FPL's rate base should be reduced by the total of $12,000,000.

52. We find that FPL has not refused to comply with, and has not willfully violated, any rule, order, or statute administered by the Commission specific to its inspection and maintenance of distribution and transmission poles. Accordingly, we find no basis to impose fines or comparable penalties upon FPL related to its inspection and maintenance of distribution and transmission poles.

53. FPL included $11,481,000 of interest in its 2005 storm-recovery costs. We find that it is appropriate to accrue and collect interest on the unrecovered amount of FPL's 2005 storm-recovery costs. However, the amount of interest should be reduced by $1,267,493 to reflect the adjustments in our prior findings.

54. Based on Findings of Fact 14-53, we determine based upon the record in this proceeding that storm-recovery costs incurred in connection with the 2005 storm season in the amount of $735,569,138 million (jurisdictional) have been proven to be reasonable and prudent. We also authorize the recovery of the costs to finance the deficit in the Reserve until storm-recovery bonds are issued, pursuant to Section 366.8260(1)(n), Florida Statutes. The calculation of this amount is shown in Appendix A to this Order.

55. Witness Joseph Jenkins testified that this Commission should consider requiring FPL's shareholders to share up to 20% of the cost of reasonable and prudent storm restoration activities. We decline to require such sharing. We find that disallowance of otherwise prudently incurred direct storm restoration costs could send the wrong signal to Florida utilities who have an obligation to provide efficient electrical service and who we expect to act expeditiously to restore service following a storm. Further, this type of sharing is not consistent with the 2005 rate case Settlement Agreement that was approved by this Commission.

56. We note that FPL's ratepayers have faced substantial hardship as a result of the 2005 storm season. Hurricane Wilma alone caused over $700 million of storm costs in FPL's service territory and was a major contributor to the drastic increase in fuel costs that resulted in a significant increase in FPL's fuel charges in January 2006. By virtue of our findings in Findings of Fact 32, 40a, 40b, 40c, 40d, and 44-51, FPL's shareholders are not completely insulated from the adverse effects of the 2005 storm season. They are required to bear the costs that we have

determined are too indirect to qualify for recovery as storm restoration costs and the costs that we have disallowed as imprudently incurred. We find that even with these exclusions and disallowances, FPL's financial status will remain viable and the use of storm-recovery bonds to recover and finance FPL's storm-recovery costs and replenish its Reserve will serve to strengthen FPL's financial position.

III. RESERVE

57. FPL proposed that its Reserve be replenished to a level of $650 million to be financed through storm-recovery bonds authorized in this proceeding. Intervenors support funding the Reserve to a level of between $0 and $200 million. The record clearly establishes that the level of FPL's Reserve has no impact on FPL's exposure to storms. Further, under the current approach to the recovery of storm restoration costs, the risk associated with a lower reserve level (i.e., the possibility of storm restoration costs exceeding the Reserve, leading to subsequent customer charges) and the risk associated with a higher reserve level (i.e., paying charges now for storm restoration costs that do not materialize) is completely borne by FPL's customers. The customers represented in this proceeding have made clear that they would rather pay to fund the Reserve to a lower level now and risk future rate volatility than pay to fund the Reserve to a higher level before future storm restoration costs have been incurred.

58. Given that FPL has the opportunity to seek recovery of future storm restoration costs through either a surcharge or securitization pursuant to the 2005 Settlement Agreement and applicable law, and given the preference of FPL's customers to face that risk when such costs actually materialize, we decline to approve funding of FPL's Reserve to a level of $650 million through the storm-recovery bonds authorized to be issued under the terms of this Order. We find that funding FPL's Reserve to a level of $200 million is appropriate and will (i) reduce the incidental costs associated with issuance of the storm-recovery bonds authorized to be issued under the terms of this Order, (ii) provide more critical review of FPL's charges to its Reserve, and (iii) result in lower overall storm-recovery charges at this time.

59. The amount approved in Finding of Fact 58, after any applicable taxes, shall be credited to and held in a funded Reserve the use of which shall be restricted to purposes consistent with Rule 25-6.0143, Florida Administrative Code, for Account No. 228.1, Accumulated Provision for Property Insurance.

IV. UPFRONT BOND ISSUANCE COSTS

60. Upfront bond issuance costs, which will be financed from the proceeds of the storm-recovery bonds, include the fees and expenses, including legal expenses, associated with the efforts to obtain this Financing Order, as well as the fees and expenses associated with the structuring, marketing, and issuance of each series of bonds, including counsel fees, structural advisory fees, underwriting fees and original issue discount, rating agency and trustee fees (including trustee's counsel), accounting and auditing fees, printing and marketing expenses, stock exchange listing fees and compliance fees, filing fees, any applicable taxes (including any documentary transfer tax, if applicable), and the costs of any financial advisor and outside counsel retained by the Commission to assist the Commission in performing its responsibilities

under Section 366.8260(2)(b)2. and 5., Florida Statutes, specifically including services provided in assisting this Commission in its active role on the Bond Team responsible for the structuring, marketing, and pricing of the storm-recovery bonds as discussed in this Financing Order. Upfront bond issuance costs include reimbursement to FPL for amounts advanced for payment of such costs. Upfront bond issuance costs may also include other types of credit enhancement, not specifically described herein, including letters of credit, reserve accounts, surety bonds, interest rate swaps, and other mechanisms designed to promote the credit quality and marketability of the storm-recovery bonds. The upfront costs of any credit enhancements shall be included in the amount of costs to be securitized. Upfront bond issuance costs do not include debt service on the storm-recovery bonds or other ongoing costs, which are addressed later in this Order.

61. FPL has provided estimates of upfront bond issuance costs totaling $11.4 million in Document No. MPD-3 [Hearing Exhibit 8], which is attached to Mr. Dewhurst's testimony. We expect that actual upfront bond issuance costs may be lower due to the principal amount of storm-recovery bonds authorized by this Order being lower than the principal amount requested by FPL. FPL shall update the upfront bond issuance costs prior to the pricing of any series of storm-recovery bonds.

62. Certain upfront bond issuance costs, such as fees for underwriters' services, underwriters' counsel, trustee services, and printing services shall be procured through a competitive solicitation process to achieve lower costs. The development of the competitive solicitation and selection of underwriters, underwriters' counsel, and other transaction participants other than issuer's counsel shall be overseen by the Bond Team subject to the procedure set forth in Finding of Fact 136 to ensure that the process is truly competitive, will provide the greatest value to ratepayers, and will result in the selection of transaction participants that have experience and ability to achieve an efficient and lowest cost transaction.

63. Within 120 days after the issuance of storm-recovery bonds, FPL is required to file with this Commission information on the actual costs of the storm-recovery bond issuance, including upfront bond issuance costs. This Commission shall review such information to determine if such costs incurred in the issuance of the bonds resulted in the lowest overall costs that were reasonably consistent with market conditions at the time of issuance and the terms of this Order. Any incremental issuance costs in excess of the lowest overall costs will be disallowed by requiring FPL to make a contribution to its Reserve in an amount equal to the excess of actual issuance costs incurred and paid for out of storm-recovery bond proceeds and the lowest overall costs as determined by this Commission. Section 366.8260(2)(b)5., Florida Statutes. No adjustment to the storm-recovery charges will be made for any such excess upfront bond issuance costs.

64. We acknowledge the actual upfront bond issuance costs to some degree are dependent on the timing of issuance, market conditions at the time of issuance, and other events outside the control of FPL, such as possible litigation, possible review by the SEC, and rating agency requirements. We also acknowledge that the costs of any financial advisor to this Commission and any outside legal counsel to this Commission to assist us in performing our responsibilities under Section 366.8260(2)(b)2. and 5., Florida Statutes, including services

provided in assisting us in our active role on the Bond Team responsible for the structuring, marketing, and pricing of the storm-recovery bonds, are costs which are at least in part within the control of this Commission and such costs are fully recoverable from storm-recovery bond proceeds to the extent such costs are eligible for compensation and approved for payment under the terms of such party's contractual arrangements with the Commission, as such arrangements may be modified by any amendment entered into at the Commission's sole discretion.

V. STORM-RECOVERY CHARGE

65. To repay the storm-recovery bonds and associated financing costs and tax liabilities, FPL is authorized to impose a storm-recovery charge to be applied on a per-kWh basis to all applicable customer classes over a period of approximately twelve years. The storm-recovery charge is non-bypassable, and must be paid by all customers receiving transmission or distribution services from FPL or its successors or assignees under Commission-approved rate schedules or under special contracts, even if the customer elects to purchase electricity from an alternative electricity supplier following a fundamental change in regulation of public utilities in this state. Section 366.8260(1)(m) and (2)(b)2.c., Florida Statutes. In the event that there is a fundamental change in the regulation of public utilities, the storm-recovery charge (including without limitation the Storm Bond Repayment Charge) shall be collected in a manner that will not adversely affect the rating on the storm-recovery bonds.

66. The storm-recovery charge consists of two separate and distinct charges, a Storm Bond Repayment Charge which is authorized to provide for repayment of principal and interest on storm-recovery bonds and ongoing costs (as further described below) and a Storm Bond Tax Charge, which is authorized to recover Taxes associated with the collection of the storm-recovery charge to the extent such Taxes are not otherwise recovered from customers through other rates or charges.

67. The Storm Bond Repayment Charge covers the cost associated with repayment of principal and interest on storm-recovery bonds and other ongoing costs. In addition to debt service on the storm-recovery bonds, ongoing costs include without limitation servicing fees, legal and accounting costs, trustee fees, rating agency fees, administrative costs, the costs of funding any reserves (such as the replenishment of the Capital Subaccount) and miscellaneous other fees associated with the servicing of the storm-recovery bonds. Ongoing costs may also include the ongoing costs of other types of credit enhancement, not specifically described herein, including letters of credit, reserve accounts, surety bonds, interest rate swaps and other mechanisms designed to promote the credit quality and or lower the interest costs of the storm-recovery bonds. For the purpose of determining the Storm Bond Repayment Charge, ongoing costs do not include the Taxes associated with the collection of the storm-recovery charge, which will be recovered by FPL through the Storm Bond Tax Charge to the extent such Taxes are not otherwise recovered from customers through other rates or charges.

68. Document No. MPD-3 [Hearing Exhibit 8], attached to the testimony of FPL witness Moray P. Dewhurst, the Company's Vice President of Finance and Chief Financial Officer, provides an estimate of the ongoing costs associated with the storm-recovery bonds, which, in addition to debt service, will be recovered through the Storm Bond Repayment Charge.

Certain of these ongoing costs, such as the administration fees and the amount of the servicing fee for FPL (as the initial servicer) are determinable, either by reference to an established dollar amount or a percentage, on or before the issuance of the storm-recovery bonds. Other ongoing costs will vary over the term of the bonds.

69. The Storm Bond Tax Charge covers the Taxes associated with the collection of the storm-recovery charges to the extent such Taxes are not otherwise recovered from customers through other rates or charges. Ongoing Taxes recoverable through the Storm Bond Tax Charge and the storm-recovery property retained by FPL are:

a. Any taxes and license fees imposed on the revenues generated from the collection of storm-recovery charges;

b. Any income taxes resulting from the collection of storm-recovery charges in any such case whether paid, payable, or accrued;

c. Any state and local taxes, franchise, gross receipts, and other taxes or similar charges, including but not limited to, regulatory assessment fees, in any such case whether paid, payable, or accrued.

Computation of the Storm-Recovery Charges

70. A formula-based mechanism as described in Section 366.8260(2)(b)4., Florida Statutes, to calculate, and adjust from time to time, the storm-recovery charges for each customer class was submitted by FPL. FPL submitted with its Petition the supporting testimony of Mr. Davis, which provided the true-up mechanism to determine the Periodic Bond Payment Requirement to be recovered from the Storm Bond Repayment Charge and the associated Taxes to be recovered from the Storm Bond Tax Charge (the "True-Up Mechanism"). This formula is attached as Appendix B.

71. FPL submitted with its Petition the supporting testimony of Dr. Morley with respect to allocation of these periodic costs and the computation of the Storm Bond Repayment Charge and Storm Bond Tax Charge for each customer class. As discussed in the testimony of Dr. Morley, FPL computed the estimated Storm Bond Repayment Charge and Storm Bond Tax Charge, as described in Section 366.8260(1)(m), Florida Statutes. In summary, Section 366.8260, Florida Statutes, provides for the recovery of the retail jurisdictional portion of storm-recovery costs through storm-recovery bonds. Accordingly, in order to compute the charges, FPL first separated storm restoration costs between the retail and wholesale jurisdictions, and excluded the wholesale portion from further storm-recovery charge computations. FPL then added to the retail jurisdictional portion of the unrecovered 2004 and 2005 storm restoration costs (unadjusted), its proposed estimated $650 million storm-recovery reserve, and its estimate of upfront bond issuance costs discussed above.

72. FPL then allocated the total costs described above among the FPL customer rate classes in the manner in which these costs or their equivalent were allocated in the cost-of-service study filed by FPL in connection with FPL's last rate case, as required by

Section 366.8260(2)(b)2.h., Florida Statutes. Based upon the jurisdictional allocation, the customer rate class allocation, and the estimated twelve-year recovery period for the storm-recovery charge, FPL used a kWh sales forecast sponsored in the testimony of FPL witness Dr. Leo Green to calculate the proposed storm-recovery charge per kWh by rate class. The resulting Storm Bond Repayment Charge and Storm Bond Tax Charge were then set forth in proposed tariff revisions needed to implement the Storm Bond Repayment Charge and Storm Bond Tax Charge.

73. We hereby authorize the use of the True-Up Mechanism proposed by FPL to calculate and adjust from time to time the Storm Bond Repayment Charge and the Storm Bond Tax Charge.

74. To improve the credit quality of the storm-recovery bonds in light of the estimated twelve-year maturities of the storm-recovery bonds, each customer class of FPL will, by operation of Section 366.8260, Florida Statutes, be required to accept joint and several liability for payment of FPL's storm-recovery bonds. Although holders of storm-recovery bonds may not arbitrarily seek to impose the entire burden of repaying storm-recovery bonds on a single customer or a select group of customers outside the True-Up Mechanism, this means that any delinquencies or under-collections in one customer class will be taken into account in the application of the True-Up Mechanism to adjust the storm-recovery charge for all customers of FPL, not just the class of customers from which the delinquency or under-collection arose.

Treatment of Storm-Recovery Charge in Tariff and on Customer Bills

75. The tariff applicable to customers shall indicate the storm-recovery charge and the ownership of the right to receive that charge. The proposed tariff sheet, submitted as Document No. RM-11 [Hearing Exhibit 64], attached to Dr. Morley's testimony, reflects the needed language. By stipulation of the parties to this proceeding, the storm-recovery charge will be recognized as a separate line item on customer bills.

Allocation of Collections

76. FPL proposed that storm-recovery charge collections be allocated based on FPL's existing methodology. Under that methodology, FPL would assign cash collections on a customer-by-customer basis. The first dollars collected would be applied pro rata to past due balances, if any. Once those balances are paid in full, if cash collections are not sufficient to pay a customer's current bill then the cash would be prorated between the different components of the bill.

77. To protect the interests of customers, we find that partial payments should be allocated first to the Storm Bond Repayment Charge, including any past-due Storm Bond Repayment Charge.

Guaranteed True-Up of Storm-Recovery Charges

78. After issuance of storm-recovery bonds, FPL will submit not less often than every six months a petition or a letter for our staff's review, as described in Section 366.8260(2)(b)4., Florida Statutes, and in the form attached as an exhibit to the Servicing Agreement (a "True-Up Adjustment Letter"). The True-Up Adjustment Letter will apply the formula-based True-Up Mechanism described above and in Appendix B to this Financing Order for making expeditious periodic adjustments in the Storm Bond Repayment Charge and Storm Bond Tax Charge to correct for any overcollection or undercollection of the charges or to otherwise ensure the timely payment of Periodic Bond Payment Requirement[3], other financing costs (including Taxes), and other required amounts and charges payable in connection with the storm-recovery bonds, as described in Section 366.8260(2)(b)2.e. and required by Section 366.8260(2)(b)4., Florida Statutes. Along with each True-Up Adjustment Letter, FPL shall provide workpapers showing all inputs and calculations, including its calculation of the Storm Bond Repayment Charge and Storm Bond Tax Charge by rate class. Consistent with Section 366.8260(2)(b)4., Florida Statutes, our staff, upon the filing of a True-Up Adjustment Letter made pursuant to this Order, will either administratively approve the requested true-up calculation in writing or inform FPL of any mathematical errors in its calculation as expeditiously as possible but no later than 60 days following FPL's true-up filing. Notification and correction of any mathematical errors shall be made so that the true-up is implemented within 60 days of FPL's true-up filing. If no action is taken within 60 days of the true-up filing, the true-up calculation shall be deemed correct. Upon administrative approval or the passage of 60 days without notification of a mathematical error, no further action of this Commission will be required prior to implementation of the true-up.

79. To guarantee adequate storm-recovery charge collections and to avoid large over-collections and under-collections over time, we direct that the servicer shall reconcile storm-recovery charges using FPL's most recent forecast of electricity deliveries (i.e., forecasted billing units) used for all corporate purposes and FPL's estimates of related expenses. Each periodic true-up adjustment should ensure that Storm Bond Repayment Charge collections are sufficient to meet the Periodic Bond Payment Requirement.

80. Consistent with Section 366.8260(2)(b)2.e. and (2)(b)4., Florida Statutes, and this Financing Order, the servicer will file True-Up Adjustment Letters not less often than every six months. The servicer may also make a true-up adjustment (i) to be effective simultaneously with a base rate change that includes any change in the rate allocation among customers used to determine the storm-recovery charges, such true-up to go into effect simultaneously with any changes to FPL's other base rates, and (ii) if required to obtain the requisite triple-A ratings,

---

[3] The Periodic Bond Payment Requirement will be composed of the following components for each collection period: (i) the payments of the principal of and interest on the storm-recovery bonds issued by the SPE, in accordance with the expected amortization schedule, including deficiencies on past-due principal and interest for any reason; (ii) ongoing financing costs payable during the collection period, including without limitation, the operating costs of the SPE, the cost of servicing the storm-recovery bonds, trustee fees, rating agency fees, legal and accounting fees, and other related fees and expenses; and (iii) the cost of funding and/or replenishing the Capital Subaccount and any other credit enhancements established in connection with the storm-recovery bonds issued by the SPE.

every three months, which adjustment will also constitute a routine true-up and will be implemented based upon the same time frames as the semi-annual true-ups.

81. We find that this True-Up Mechanism together with the broad based nature of the State Pledge set forth in Section 366.8260(11), Florida Statutes, constitute a guarantee of regulatory action for the benefit of investors in storm-recovery bonds, and we anticipate that stress case analyses will show that these features will serve to effectively eliminate for all practical purposes and circumstances any credit risk associated with the storm-recovery bonds (i.e., that sufficient funds will be available and paid to discharge all principal and interest obligations when due). We direct that this transaction be structured to achieve this result.

82. This Commission finds that this guaranteed True-Up Mechanism combined with the non-bypassability of the Storm Bond Repayment Charge should be viewed favorably under international risk weight rules of foreign banking regulators. This should further expand the competition for storm-recovery bonds and could lead to lower costs for customers.

83. This Commission finds that True-Up Adjustment Letters will be based upon the cumulative differences, regardless of the reason, between the Periodic Bond Payment Requirement (including scheduled principal and interest payments on the storm-recovery bonds) and the amount of Storm Bond Repayment Charge remittances to the Indenture trustee. True-up procedures are necessary to ensure full recovery of amounts sufficient to meet the Periodic Bond Payment Requirements over the expected life of the storm-recovery bonds. To ensure adequate Storm Bond Repayment Charge revenues to fund the Periodic Bond Payment Requirement and to avoid large overcollections and undercollections over time, the servicer will reconcile the Storm Bond Repayment Charges using FPL's most recent forecast of electricity deliveries (i.e., forecasted billing units) used for all corporate purposes and FPL's estimates of related expenses. The calculation of the Storm Bond Repayment Charges will also reflect both a projection of uncollectible Storm Bond Repayment Charges and a projection of payment lags between the billing and collection of Storm Bond Repayment Charges based upon FPL's most recent experience regarding collection of Storm Bond Repayment Charges.

84. The servicer may also request an amendment to the True-Up Mechanism if it deems this necessary or appropriate to address any material deviations between Storm Bond Repayment Charge collections and Periodic Bond Payment Requirements. Any such amendment would be subject to approval within the 60-day approval period contemplated by 366.8260(2)(b)4., and could be undertaken only if such change would not adversely affect the credit ratings on outstanding storm-recovery bonds.

85. The Storm Bond Tax Charge will be adjusted at the same time and in the same manner as the Storm Bond Repayment Charge.

VI. MITIGATION OF RATE IMPACTS

86. Section 366.8260(2)(a)7., Florida Statutes, requires an electric utility petitioning the Commission for a financing order to "estimate any cost savings or demonstrate how it would avoid or significantly mitigate rate impacts to customers resulting from financing storm-recovery

costs with storm-recovery bonds as opposed to the traditional method of recovering such costs from customers and through alternative financing methods available to the electric utility." Traditional methods for recovering storm-recovery costs and for establishing a Reserve include an accrual in base rates that is contributed to the Reserve and implementation of surcharges or special assessments to recover storm-recovery costs in excess of amounts in the Reserve.

87. If storm-recovery bonds are not issued, FPL has proposed recovery of 2005 storm-recovery costs and replenishment of its Reserve through the alternative, more traditional method of recovering such amounts through the implementation of surcharges. This alternative involves the implementation of a new surcharge designed to recover 2005 storm-recovery costs and a second new surcharge designed to replenish FPL's Reserve, in addition to the presently effective 2004 storm surcharge. As proposed, the 2004 storm surcharge would be left in place until FPL's Commission-approved 2004 storm-recovery costs have been recovered, and the two new surcharges would be applied over approximately three years. Based on the unadjusted amount of 2005 storm-recovery costs requested by FPL and the unadjusted level to which FPL requested its Reserve be funded through this proceeding, FPL forecasted that the application of this alternative, more traditional method of recovering these costs through surcharges would result in approximately $6.84 of total storm-related surcharges being imposed on a typical (1,000 kWh) residential bill so long as both surcharges remain in effect, and approximately $5.19 of storm-related surcharges being imposed on a typical (1,000 kWh) residential bill when the 2004 storm surcharge ends. Upon those surcharges recovering all approved costs, FPL forecasts that customers' bills would reflect no 2004 or 2005 storm restoration costs.

88. In contrast, based on FPL's unadjusted request to recover its 2004 and 2005 storm-recovery costs and to fund its Reserve to a level of $650 million through the issuance of $1,050 million of 12-year maturity storm-recovery bonds, FPL estimates that a storm-recovery charge of approximately $1.58 would be imposed on a typical (1,000 kWh) residential bill through 2018 when the storm-recovery bonds are to be retired.

89. Thus, we find that the issuance of the storm-recovery bonds and the imposition of the storm-recovery charges authorized by this Order are reasonably expected to significantly mitigate rate impacts to customers as compared with alternative, more traditional methods of financing or recovering storm-recovery costs and replenishing the Reserve. Likewise, through implementation of the required standards and procedures established in this Order, we find that the structuring, marketing, pricing, and financing costs of the storm-recovery bonds are reasonably expected to significantly mitigate rate impacts to customers as compared with alternative methods of financing or recovering storm-recovery costs and replenishing the Reserve.

90. In the event that the issuance of storm-recovery bonds authorized by this Order is unduly delayed, FPL is not precluded from filing a petition for implementation of an interim surcharge for the purpose of initiating recovery of the 2005 storm-recovery costs approved in this Order. If such a surcharge is implemented, it shall be discontinued when storm-recovery bonds are issued. The amount of storm-recovery bonds issued would be adjusted for the impact of collections of this surcharge.

VII. FLEXIBILITY

91. Section 366.8260(2)(b)2.g, Florida Statutes, requires this Commission to specify the degree of flexibility to be afforded to FPL in establishing the terms and conditions of the storm-recovery bonds, including, but not limited to, repayment schedules, interest rates, and other financing costs. Furthermore, Section 366.8260(2)(b)2.j., Florida Statutes, directs this Commission to "[i]nclude any other conditions that the Commission considers appropriate and that are not otherwise inconsistent with this section." While we recognize the need for some degree of flexibility with regard to the final details of the storm-recovery bond securitization transaction approved in this Financing Order, our primary focus is on ensuring that the structuring, marketing, and pricing of storm-recovery bonds achieves the lowest cost objective and the greatest possible customer protections. Therefore, we find and direct that the standard for this Order should be that the structuring, marketing, and pricing of storm-recovery bonds will result in the lowest storm-recovery charges that will achieve the lowest cost objective and the greatest possible customer protections.

92. Subject to review and approval by the Bond Team (pursuant to the procedures set forth in Finding of Fact 136), and subject to a possible stop order of the Commission issued no later than 5:00 p.m. Eastern time on the third business day following pricing as provided in this Order, FPL shall be afforded flexibility in determining the final terms of each series of the storm-recovery bonds, including payment and maturity dates, interest rates (or the method of determining interest rates), the terms of any interest rate swap agreement or similar agreement, the creation and funding of any supplemental capital, reserve or other subaccount, and the issuance of storm-recovery bonds through either one SPE or multiple SPEs, except as otherwise provided in this Financing Order.

93. FPL proposed that the SPE issue storm-recovery bonds with an expected term of approximately 12 years. We find that storm-recovery bonds should be issued in one or more series, each series of storm-recovery bonds should be issued in one or more tranches, and the storm-recovery bonds should be structured through the collaborative efforts of the Bond Team pursuant to the procedures set forth in Finding of Fact 136, to achieve the lowest cost objective. Further, the storm-recovery bonds shall be structured to provide a combined Storm Bond Repayment Charge and Storm Bond Tax Charge per kWh to each residential customer that is expected to be level over the period of recovery if the actual seasonal and year-to-year changes in load match the changes forecast at the time the series of storm-recovery bonds is structured.

94. As is the case with most debt issuances, the cost of the debt, i.e., the effective interest rate, will not be known until the storm-recovery bonds are priced. If market rates rise to such an extent that the initial average per kWh storm-recovery charge associated with the storm-recovery bond issuance would exceed the average retail per kWh charge associated with the 2004 storm surcharge now in effect, the aggregate amount of the storm-recovery bond issuance shall be reduced to an amount whereby the initial average per kWh storm-recovery charge would not exceed the average retail per kWh charge associated with the 2004 storm surcharge now in effect.

95. As noted above, certain costs, such as debt service on the storm-recovery bonds, as well as the ongoing fees of the trustee, rating agency surveillance fees, and the ongoing costs of any other credit enhancement or interest rate swaps, will not be known until the pricing of a series of storm-recovery bonds. This Order provides flexibility to recover such costs through the Storm-Recovery Bond Charge and the true up of such charge. At the same time, we have established standards and procedures throughout this Financing Order which are intended to ensure that the structuring, marketing, and pricing of storm-recovery bonds result in the lowest overall cost and the greatest possible customer protections. These standards and procedures are designed to allow for meaningful and substantive cooperation between FPL and the Commission and its representatives through the Bond Team described herein to ensure that the structuring, marketing and pricing of the series of storm-recovery bonds will result in the lowest storm-recovery charges consistent with market conditions and the terms of this Financing Order. Each of the standards and procedures set forth in this Financing Order must be met. This Financing Order grants authority to issue storm-recovery bonds and to impose and collect storm-recovery charges only if the final structure of the transaction and the procedures followed comply in all respects with the standards and procedures set forth herein. If this Commission determines, upon receipt and review of an Issuance Advice Letter submitted pursuant to this Order and all certifications required by this Order, that the final structure of the transaction and the procedures followed do not comply with the standards and procedures set forth in this Order, this Commission may issue a stop order no later than 5:00 p.m. Eastern Time on the third business day following pricing.

VIII. TRANSACTION STRUCTURE

96. FPL's proposed transaction structure, as set forth and modified in the body of this Order, is hereby approved in concept.

The SPE

97. FPL will create one or more SPEs as Delaware limited liability companies, in each case with FPL as its sole member. Each SPE will be formed for the limited purpose of acquiring Bondable Storm-Recovery Property (not including the right to receive Storm Bond Tax Charges, which will be retained by FPL), issuing storm-recovery bonds in one or more series (each of which may be issued in one or more tranches), and performing other activities relating thereto or otherwise authorized by this Order.

98. The SPE(s) may issue storm-recovery bonds approved in this Order, or in future financing orders, so long as such future issuance does not adversely affect the ratings on outstanding storm-recovery bonds issued for the benefit of FPL. The SPEs may issue storm-recovery bonds in an aggregate amount not to exceed the principal amount approved by this Order or any future financing order and will pledge to an Indenture trustee or trustees, as collateral for payment of the storm-recovery bonds, the Bondable Storm-Recovery Property, including the SPE's right to receive the Storm Bond Repayment Charges as and when collected, and other collateral described in the Indenture. The SPE will not be permitted to engage in any other activities and will have no assets other than Bondable Storm-Recovery Property and related assets to support its obligations under the storm-recovery bonds. Obligations relating to the

storm-recovery bonds will be the SPE's only significant liabilities. These restrictions on the activities of the SPE and restrictions on the ability of FPL to take action on the SPE's behalf are imposed to ensure that the SPE will be bankruptcy-remote and not be affected by a bankruptcy of FPL or any of its affiliates.

99. Each SPE will be managed by a board of managers with power similar to those of boards of directors of corporations. As long as storm-recovery bonds remain outstanding, the SPE will have at least one independent manager, that is, with no organizational affiliation with FPL or its affiliates. The SPE will not be permitted to amend the provisions of the LLC Agreement or other organizational documents that ensure bankruptcy-remoteness of the SPE without the consent of the independent manager. Similarly, the SPE will not be permitted to institute bankruptcy or insolvency proceedings or to consent to the institution of bankruptcy or insolvency proceedings against it, or to dissolve, liquidate, consolidate, convert, or merge without the consent of the independent manager. To the extent provided in its organizational documents, the transaction documents, and this Financing Order, the SPE will be responsible to this Commission on an ongoing basis. Other restrictions to ensure bankruptcy-remoteness may also be included in the organizational documents of the SPE as indicated by the rating agencies.

100. The SPEs will have no staff to provide administrative services (such as routine corporate maintenance, reporting and accounting functions). These services will be provided by FPL pursuant to the terms of the Administration Agreement.

101. Per rating agency and IRS requirements, FPL will transfer to the SPE an amount required to capitalize the SPE adequately (the "SPE Capitalization Level") for deposit into the Capital Subaccount. The SPE Capitalization Level will be 0.50% of the initial principal amount of the storm-recovery bonds to be issued by the SPE from time to time or such greater amount as might be needed to meet IRS or rating agency requirements. The actual SPE Capitalization Level will depend on tax and rating agency requirements, and will be subject to review and approval by the Bond Team pursuant to the procedures set forth in Finding of Fact 136. We find that the lowest cost objective (as defined herein) generally will be met by ensuring that the SPE Capitalization Level does not exceed the minimum amount needed to meet IRS and rating agency requirements.

Principal Amortization

102. The expected term of the final scheduled maturity should be not less than 11 years and 9 months and not greater than 12 years and 3 months from the issuance of the series of storm-recovery bonds. The legal final maturity of each tranche should be no less than one year and no greater than two years longer than the scheduled final maturity for that tranche.

103. Amortization of principal on the storm-recovery bonds shall be set such that expected storm-recovery charges to residential customers of FPL per kWh will be level over the term of the storm-recovery bonds.

104. The first payment of principal and interest for each series of storm-recovery bonds shall occur within 11 months of issuance. Payments of principal and interest thereafter shall be

no less frequent than semi-annually.

Interest Rates

105. We find that FPL, the bookrunning underwriter(s), and this Commission's financial advisor each are required to certify that the structuring, marketing, and pricing of each tranche of storm-recovery bonds of each series in fact achieved the lowest cost objective. Floating rate bonds and interest rate swap agreements may be utilized to the extent agreed and approved by the Bond Team pursuant to the procedures set forth in Finding of Fact 136. If such a structure is utilized, the certificates delivered by FPL, the bookrunning underwriter(s), and this Commission's financial advisor should confirm that the net interest costs taking into account the interest rate swap agreement(s) and the risks associated with those agreements achieved the lowest cost objective.

Ongoing Financing Costs

106. FPL will be the initial servicer of the storm-recovery bonds. To preserve the integrity of the bankruptcy-remote structure of the SPE and ensure the high credit quality of the storm-recovery bonds, the servicer must be adequately compensated for the services it provides, including the calculation, billing, and collection of Storm Bond Repayment Charges, remittance of those charges to the Trustee, and the preparation, filing, and processing of True-Up Adjustment Letters. FPL's proposed form of Servicing Agreement provides for up-front and ongoing servicing fees for the initial servicer in the amounts of $350,000 and .05 percent of the initial principal amount of the storm-recovery bonds ($354,000 annually if the full $708,000,000 maximum amount authorized in this Financing Order is issued). We find that this level of servicing fee is appropriate for the purpose of preserving the integrity of the bankruptcy-remote structure of the SPE and ensuring the high credit quality of the storm-recovery bonds.

107. FPL will establish the SPE and perform the administrative duties necessary to maintain the SPE. To preserve the integrity of the bankruptcy-remote structure of the SPE and ensure the high credit quality of the storm-recovery bonds, the administrator must be adequately compensated for these services. FPL's proposed form of Administration Agreement provides for an ongoing fee of $125,000 per year plus expenses. We find that this level of administration fee is appropriate for the purpose of preserving the integrity of the bankruptcy-remote structure of the SPE and ensuring the high credit quality of the storm-recovery bonds.

Call Provisions

108. To the extent agreed and approved through the collaborative efforts of the Bond Team pursuant to the procedures set forth in Finding of Fact 136, FPL is afforded flexibility to include call provisions if their use is reasonably expected to provide customer savings.

Credit Ratings

109. Each series of storm-recovery bonds should have a triple-A rating from at least two nationally recognized rating agencies.

Negotiated or Competitive Sale

110. At the time each series of storm-recovery bonds is launched, whether the lowest cost objective will be achieved by means of a negotiated sale or competitive sale or combination for that series of storm-recovery bonds shall be determined by the Bond Team pursuant to the procedures set forth in Finding of Fact 136.

Security for the Storm-Recovery Bonds

111. As proposed by FPL, the Indenture shall include provisions for a Collection Account for each series and subaccounts for the collection and administration for the Storm Bond Repayment Charges and payment or funding of the principal and interest on the storm-recovery bonds and other costs, including fees and expenses, in connection with the storm-recovery bonds, as described in this Financing Order. Pursuant to the Indenture, the SPE shall establish a Collection Account as a trust account to be held by the Indenture trustee as collateral to ensure the timely payment of the principal, interest, and other costs related to the series of storm-recovery bonds. The Collection Account shall include a General Subaccount, a Capital Subaccount and an Excess Funds Subaccount, and may include other subaccounts if required to obtain triple-A ratings on the series of storm-recovery bonds. The final terms of the Indenture shall be approved by the Bond Team pursuant to the procedures set forth in Finding of Fact 136.

112. The Excess Funds Subaccount will hold any Storm Bond Repayment Charge remittances and investment earnings on amounts in the Collection Account in excess of the amounts needed to pay current principal and interest on the storm-recovery bonds and to pay other Periodic Bond Payment Requirements (including, but not limited to, funding or replenishing the Capital Subaccount). Any balance in or allocated to the Excess Funds Subaccount on a true-up adjustment date will be subtracted from the Periodic Bond Payment Requirement for purposes of the true-up adjustment. The money in this Excess Funds Subaccount will be invested by the Indenture trustee in short-term high-quality investments with minimum management and other fees, and such money (including investment earnings thereon) will be used by the Indenture trustee to pay principal and interest on the storm-recovery bonds and other components of the Periodic Bond Payment Requirement.

113. The Collection Account and the subaccounts described above are intended to provide for full and timely payment of scheduled principal and interest on the storm-recovery bonds and all other components of the Periodic Bond Payment Requirement. If for any reason the amount of Storm Bond Repayment Charges remitted to the General Subaccount is insufficient to make all scheduled payments of principal and interest on the storm-recovery bonds and to make payment of all of the other components of the Periodic Bond Payment Requirement, the Excess Funds Subaccount and the Capital Subaccount will be drawn down, in that order, to make those payments. Any deficiency in the Capital Subaccount due to such withdrawals must be replenished on a periodic basis through the true-up process. In addition to the foregoing, there may be such additional accounts and subaccounts as are necessary to segregate amounts received from various sources, or to be used for specified purposes. Such accounts and subaccounts will be administered and utilized as set forth in the Servicing Agreement and the Indenture. Upon the maturity of the storm-recovery bonds and upon

discharge of all obligations in respect thereof, remaining amounts in the Collection Account will be released to the SPE and will be available for distribution by the SPE to FPL. Equivalent amounts, less the amount of the Capital Subaccount and earnings thereon, will be credited by FPL to current customers' bills in the same manner that the charges were collected, or through a credit to the Reserve or the capacity cost recovery clause if the Commission determines at the time of retirement that a direct credit to customers' bills is not cost-effective. FPL shall similarly credit customers an aggregate amount equal to any Storm Bond Repayment Charges subsequently received by the SPE or its successor in interest to the Bondable Storm Recovery Property. Storm Bond Tax Charges in excess of amounts required to pay or reimburse FPL for all Taxes or other items of financing costs described in Section 366.8260(1)(e)4., 5., and 6., Florida Statutes, shall be credited to the Reserve.

FPL as Initial Servicer of the Storm-Recovery Bonds

114. FPL will execute a Servicing Agreement, the final terms of which shall be determined by the Bond Team pursuant to the procedures set forth in Finding of Fact 136. The Servicing Agreement may be amended, renewed, or replaced by another servicing agreement in accordance with its terms.

a. Under the Servicing Agreement, the servicer shall be required, among other things, to impose and collect the Storm Bond Repayment Charges for the benefit and account of the SPE, to make the periodic true-up adjustments of storm-recovery charges required or allowed by this Order, and to account for and remit the Storm Bond Repayment Charges to or for the account of the SPE in accordance with the remittance procedures contained in the Servicing Agreement without any charge, deduction, or surcharge of any kind, other than the servicing fee specified in the Servicing Agreement. The appropriate servicing fee shall be as set forth in this Order.

b. FPL's proposed form of Servicing Agreement provides for a $350,000 servicer set-up fee to adapt FPL's existing systems to bill, collect, and process storm-recovery charges and set up the reporting function. The evidence shows that this amount represents an incremental cost to FPL. FPL's proposed form of Servicing Agreement also provides for an annual fee of up to .05 percent of the initial principal amount of the storm-recovery bonds for ongoing services. We find that the activities associated with the annual fee for ongoing services – billing and collecting storm-recovery charges, remitting funds to the SPE, and developing storm-recovery charges – are tightly bound with operations already performed by FPL in the normal course of business. FPL has not justified that the annual fee is necessary to cover any incremental costs to be incurred by FPL in performing ongoing services as servicer. Thus, we find that FPL shall apply to the Reserve all amounts it will receive under the Servicing Agreement for ongoing services.

c. FPL shall indemnify customers to the extent customers incur losses associated with higher servicing fees payable to a substitute servicer as a result of FPL's negligence, misconduct, or termination for cause. This indemnification provision shall be reflected in the transaction documents for these storm-recovery bonds.

d. FPL has proposed that it not be permitted voluntarily to resign from its duties as servicer if the resignation will harm the credit rating on storm-recovery bonds issued by the SPE. Even if FPL's resignation as servicer would not harm the credit rating on the storm-recovery bonds issued by the SPE, we find and direct that FPL shall not be permitted to voluntarily resign from its duties as servicer without consent of the Commission. If FPL defaults on its duties as servicer or is required for any reason to discontinue those functions, then FPL proposes that a successor servicer acceptable to the Indenture trustee and the rating agencies be named to replace FPL as servicer. We find that any successor servicer to FPL also should be acceptable to the Commission.

e. We find and direct that the servicing fee payable to a substitute servicer should not exceed 0.60% per annum on the initial principal balance of the storm-recovery bonds except as provided in this Financing Order.

f. In its role as servicer, FPL shall remit funds deemed collected from customers to the SPE on a daily basis, pursuant to the terms of an agreement between FPL and the SPE. Any earnings on funds transferred shall be used to reduce future storm-recovery charges.

g. We find and direct that the SPE and the Indenture trustee shall not be permitted to waive any obligations of FPL as transferor or as servicer of storm-recovery property without express written consent of this Commission.

FPL as Administrator of the SPE

115. Under the Administration Agreement, FPL will establish the SPE and perform the administrative duties necessary to maintain the SPE. The appropriate administration fee shall be as set forth in this Order.

116. FPL's proposed form of Administration Agreement provides for a $125,000 annual fee for performing the services required by the Administration Agreement. We find that FPL has not demonstrated that this annual fee is necessary to cover any incremental costs to be incurred by FPL in performing services as administrator. Thus, we find that FPL shall apply to the Reserve all amounts it will receive under the Administration Agreement for its services.

Storm-Recovery Bonds To Be Treated As "Debt" for Federal Income Tax Purposes

117. In light of the IRS safe harbor rules, we find that FPL shall be responsible to structure the storm-recovery bond transactions in a way that clearly meets all requirements for the IRS' safe harbor treatment.

IX. UNDERWRITER CERTIFICATIONS AND OTHER REQUIREMENTS

118. We find that requiring some or all underwriters of a series of storm-recovery bonds to deliver periodic reports with independently derived indicative pricing levels for the storm-recovery bonds before any public offering of that series of storm-recovery bonds is launched is likely to facilitate achievement of the lowest cost objective. These reports may be

delivered on a confidential basis to the members of the Bond Team to the extent confidential classification of the information included therein is permitted by law.

119. We find that requiring the bookrunning underwriter(s) of storm-recovery bonds to provide the Bond Team independent verification that any term sheet, prospectus, or other marketing materials used by the underwriting syndicate in marketing the storm-recovery bonds receives a broad distribution to potential investors most likely to accept the lowest yield on the storm-recovery bonds will facilitate achievement of the lowest cost objective. This independent verification may be provided on a confidential basis to members of the Bond Team to the extent confidential classification of the information included therein is permitted by law.

120. To facilitate achievement of the lowest cost objective, the bookrunning underwriter(s) of the storm-recovery bonds shall deliver to this Commission, this Commission's financial advisor, and FPL a certificate concerning the lowest cost objective and other matters.

X. COMMISSION PARTICIPATION IN THE TRANSACTION

121. FPL initially proposed a procedure and role for this Commission and its financial advisor leading up to the issuance of storm-recovery bonds, leaving open the possibility that after issuance of this Financing Order this Commission and its financial advisor might have little or no involvement in the structuring, marketing, and pricing of the storm-recovery bonds until as late as thirty (30) days before the launch of the sale of a series of storm-recovery bonds.

122. FPL subsequently acknowledged that this Commission might choose to be more actively and directly involved with FPL at all times and in all aspects of the structuring, marketing, and pricing of the storm-recovery bonds.

123. We recognize that the storm-recovery bonds approved through this Financing Order are very different from the typical bonds issued by FPL. Pursuant to Section 366.8260, Florida Statutes, we must forego future regulatory oversight in order to create a financing instrument of superior quality and a completely separate credit from the sponsoring utility. Section 366.8260, Florida Statutes, requires us to issue an irrevocable financing order in which the sponsoring utility, FPL, is insulated from most costs associated with the financing. We are also required to approve a true-up mechanism, as we have done in this Order, that commits this Commission to periodically adjust the Storm Bond Repayment Charge that supports the storm recovery bonds to whatever level is necessary make timely payments of principal and interest on the bonds. In addition, the State and this Commission are required to pledge to bondholders, among other things, never to take or permit any action to be taken that would interfere with their right to payment. The irrevocable nature of this Financing Order, the direct broad-based Storm Bond Repayment Charge applied to all FPL ratepayers, the unconditional Commission guarantee to adjust the Storm Bond Repayment Charge as necessary, and the explicit pledge of the State not to interfere with the bondholders' rights to repayment result in an incredibly strong senior, secured credit independent of FPL.

124. We also recognize that the storm-recovery bonds approved through this Financing Order are different from the typical bonds issued by FPL in terms of the degree of Commission

oversight after the issuance. In typical utility debt financings, this Commission retains the right to disallow any unreasonable or imprudent costs for ratemaking purposes, including adjustments for the interest rate. For the proposed issuance of storm-recovery bonds, while the issuance costs are subject to review under Section 366.8260(2)(b)5., Florida Statutes, we find that an after-the-fact review of the interest rate achieved will not allow us to determine whether the lowest cost objective has been achieved.

125. We recognize that another difference between typical utility bonds and the storm-recovery bonds approved through this Financing Order is how these bonds impact FPL's financial position. In more typical debt offerings, FPL has a strong incentive to negotiate hard with underwriters for the lowest possible interest rates as well as the lowest possible underwriting fees. FPL also has a strong incentive to minimize other issuance costs. Between rate cases, the benefit from a low net cost of funds is enjoyed at least in part by FPL's shareholders, and the detriment from a high net cost of funds is borne at least in part by these same shareholders. These same checks and balances do not exist for the issuance of storm-recovery bonds. While typical utility bonds directly impact FPL's financial ratios, storm-recovery bonds are not direct obligations of FPL and are non-recourse to FPL. For these reasons, the same incentives and consequences for pursuing a lowest cost of funds with regard to FPL's typical utility bonds are not present with respect to the proposed storm-recovery bonds.

126. Further, we find that unless the superior credit quality of these bonds is accurately and completely reflected in the marketing materials, there is no assurance that the storm-recovery bonds approved through this Financing Order will achieve the lowest cost objective.

127. To ensure that customers are represented in the transaction process and that customers' interests in achieving the lowest cost objective will be served, we do not approve the review procedure originally proposed by FPL. Instead, we find that this Commission, as represented by a designated Commissioner, designated Commission staff, the Commission's financial advisor, and the Commission's outside legal counsel, shall be actively involved in the bond issuance on a day-to-day basis as part of a Bond Team that also includes FPL, its financial advisor, and its outside counsel, in all aspects of structuring, marketing, and pricing each series of storm-recovery bonds. This will allow for meaningful and substantive cooperation among FPL and the Commission and its representatives to achieve the lowest cost objective and to protect the interests of customers. Cooperation among FPL and the Commission will promote transparency in the storm-recovery bond pricing process, thereby promoting the integrity of the process and ensuring that the interests of customers are protected in all negotiations with underwriters and investors. In this regard, this Commission's financial advisor needs to be an active and visible participant in the actual pricing process in real time if we are to obtain maximum benefits for ratepayers.

128. This Commission will have the sole authority to select and retain its financial advisor and its outside legal counsel and, if needed, terminate and replace the financial advisor or outside legal counsel.

129. Subject to the procedures set forth in Finding of Fact 136, the Bond Team shall oversee the development of the competitive solicitation and selection of underwriters,

underwriters' counsel, and other transaction participants other than issuer's counsel to ensure that the process is truly competitive, will provide the greatest value for ratepayers, and will result in the selection of transaction participants that have experience and ability to achieve the lowest cost objective.

130. Subject to the procedures set forth in Finding of Fact 136, the Bond Team shall review and approve storm-recovery bond transaction documents to ensure that the lowest cost objective is achieved, to ensure that the transaction documents reflect the terms of this Financing Order, and to otherwise ensure that adequate protections for ratepayers are included. All legal opinions related to the storm-recovery bond transaction shall be provided to the Bond Team for review and comment pursuant to the procedures set forth in Finding of Fact 136.

131. All rating agency presentations shall be submitted to the Bond Team for review and comment pursuant to the procedures set forth in Finding of Fact 136 prior to presentation to rating agencies. The Commission's financial advisor may participate actively in rating agency presentations pursuant to its contract with this Commission, as may be modified by any amendment entered into at this Commission's sole discretion.

132. The Bond Team shall work on a cooperative basis (a) to educate and expand the market among underwriters and investors for the storm-recovery bonds and (b) to create the greatest possible competition among underwriters and investors in order to ensure that the lowest cost objective is achieved.

133. FPL shall file an Issuance Advice Letter ("IAL") and Initial True-Up Adjustment Letter ("ITUAL") (combined into one document) in draft form at least two weeks prior to pricing based upon the best information available at that time. Within one week of receiving the proposed form of combined IAL/ITUAL, the members of the Bond Team representing this Commission shall provide comments and recommendations to FPL regarding the adequacy of information proposed to be provided.

134. FPL shall file a combined IAL/ITUAL in final form with the Commission within one business day after actual pricing at which time a meeting will be noticed for three business days after pricing to afford this Commission an opportunity to review the proposed transaction. The combined IAL/ITUAL must contain detailed analyses and representations regarding the actual structuring, marketing, and pricing of the bonds, as well as the initial storm-recovery charges. The combined IAL/ITUAL shall include the following information: the actual structure of the storm-recovery bond issuance; the expected and final maturities of the storm-recovery bonds; over-collateralization levels (if any); any other credit enhancements; revised estimates of the upfront bond issuance costs proposed to be financed from proceeds of the storm-recovery bonds and estimates of debt service and other on-going costs for the first collection period; a statement of the actions taken by the Bond Team and/or FPL in the marketing of the bonds; a comparison of the pricing relative to an independent benchmark versus other similar securities historically and at the time of pricing; the amount of orders received and from whom; and other information deemed necessary by the members of the Bond Team representing this Commission after review of the draft combined IAL/ITUAL. Finally, the combined IAL/ITUAL shall include

certifications from FPL and the underwriter(s) that the structuring, marketing, and pricing of the storm-recovery bonds achieved the lowest cost objective.

135. The actual details of the transaction, including lowest cost certifications from FPL, the underwriter(s), and the Commission's financial advisor shall be provided on the first business day after pricing. The members of the Bond Team representing this Commission will review this information on the second business day after pricing. At the meeting previously noticed for the third day after pricing, the members of the Bond Team representing this Commission will present to this Commission the results of their review. If this Commission determines that all required certifications have been delivered and the transaction complies with applicable law and the financing order, the transaction proceeds without any further action of this Commission. However, if this Commission determines that the transaction fails to comply with applicable law or this Financing Order, or if FPL, the bookrunning underwriter(s), or this Commission's financial advisor is unable or unwilling to deliver the required certifications in a form acceptable to this Commission, we retain discretion to issue an order to stop the transaction. We will not issue an order to stop the transaction for any other reason, for example, a change in market conditions after the moment of pricing.

136. The members of the Bond Team shall work cooperatively to achieve the lowest cost objective. Any issue that all Bond Team participants are unable to resolve to their mutual satisfaction should initially be presented in writing by the Bond Team participants for resolution by a designated Commissioner, subject to de novo review by the full Commission. All parties to this docket shall be provided prior notice of any matter taken in writing to the designated Commissioner and provided the opportunity for comment before the designated Commissioner. All parties shall also be provided notice of any decision reached by the designated Commissioner. Any party may seek a de novo review by the full Commission of any decision of the designated Commissioner.

XI. OTHER REGULATORY MATTERS

137. Deferred tax debits related to FPL's funded Reserve shall be removed for AFUDC and earnings surveillance purposes. The Reserve and the Reserve fund shall also be removed for AFUDC and earnings surveillance purposes.

138. FPL shall be permitted to establish a regulatory asset for the amount approved herein to replenish its Reserve.

139. FPL shall be permitted to establish a separate regulatory asset for the Bondable Storm Recovery Property transferred to the SPE and a separate regulatory asset for Taxes as defined herein.

140. All revenues collected by FPL through issuance of the storm-recovery bonds authorized to be issued pursuant to this Financing Order shall be excluded for purposes of performing any potential retail base rate revenue refund calculation under the 2005 rate case Settlement Agreement.

CONCLUSIONS OF LAW

I. JURISDICTION

1. We have jurisdiction over this matter pursuant to Section 366.8260, Florida Statutes.

II. STATUTORY REQUIREMENTS

2. Based on the statutory criteria and procedures, the record in this proceeding, and other provisions of this Order, the statutory requirements for issuance of a financing order have been met.

III. LEGAL EFFECT OF 2004 STORM ORDER

3. The 2004 Storm Order does not operate as binding precedent with respect to the decisions to be made in this proceeding, including the determination of the appropriate accounting for 2005 storm-recovery costs. The decisions made in this docket must be, and are, based on the record evidence in this proceeding.

IV. STORM-RECOVERY BONDS

4. Each SPE will be an "assignee" as defined in Section 366.8260(1)(b), Florida Statutes, when an interest in Bondable Storm-Recovery Property is transferred, other than as security, to that SPE.

5. The holders of storm-recovery bonds, the Indenture trustee, any collateral agent, and the counterparty to any hedging contract or interest rate swap contract in respect of some or all of the storm-recovery bonds will each be a "financing party" as defined in Section 366.8260(1)(g), Florida Statutes.

6. Each SPE may issue storm-recovery bonds in accordance with this Order.

7. As provided in Section 366.8260, Florida Statutes, the rights and interests of FPL or its successor under this Order, including the right to impose, collect, and receive the Storm Bond Repayment Charges authorized in this Order, are assignable and become storm-recovery property when the Bondable Storm-Recovery Property is transferred to an SPE.

8. The rights, interests, and property conveyed to an SPE in the Storm-Recovery Property Sale Agreement and the related Bill of Sale, including without limitation the irrevocable right to impose, collect, and receive the Storm Bond Repayment Charges and the revenues and collections from the Storm Bond Repayment Charges are "storm-recovery property" within the meaning of Section 366.8260, Florida Statutes.

9. All revenues and collections resulting from the Storm Bond Repayment Charges will constitute proceeds only of the Bondable Storm-Recovery Property arising from this Order.

10. Upon the transfer by FPL of the Bondable Storm-Recovery Property to an SPE, that SPE will have all of the rights, title and interest of FPL with respect to such Bondable Storm-Recovery Property, including the right to impose, collect, and receive the Storm Bond Repayment Charge authorized by this Order.

11. The storm-recovery bonds issued pursuant to this Order will be "storm-recovery bonds" within the meaning of Section 366.8260(1)(l), Florida Statutes, and the storm-recovery bonds and holders thereof will be entitled to all of the protections provided under Section 366.8260, Florida Statutes.

12. The methodology approved in this Order to true-up the storm-recovery charges satisfies the requirements of Section 366.8260, Florida Statutes.

13. For so long as storm-recovery bonds are outstanding and the related storm-recovery costs and financing costs have not been paid in full, the storm-recovery charges authorized in this Order to be imposed and collected are "nonbypassable" pursuant to Sections 366.8260(11)(b)1. and 366.8260(2)(b)2.c., Florida Statutes – that is, the storm-recovery charges shall be paid by all customers receiving electric transmission or distribution service from FPL or its successors or assignees under Commission-approved rate schedules or under special contracts, even if the customer elects to purchase electricity from an alternative electric supplier following a fundamental change in regulation of public utilities in the State of Florida.

14. If and when FPL transfers to an SPE the right to impose, collect, and receive the Storm Bond Repayment Charge and to issue storm-recovery bonds, the servicer will be entitled to recover the Storm Bond Repayment Charge associated with such Bondable Storm-Recovery Property only for the benefit of that SPE and the holders of the storm-recovery bonds in accordance with the Servicing Agreement.

15. The issuance of storm-recovery bonds does not directly, indirectly, or contingently obligate the state or any agency, political subdivision, or instrumentality of the state to levy any tax or make any appropriation for payment of the storm-recovery bonds, other than in their capacity as consumers of electricity.

V. STORM-RECOVERY RESERVE

16. FPL's Account No. 228.1, Accumulated Provision for Property Insurance, established pursuant to Rule 25-6.0143, Florida Administrative Code, is a "storm-recovery reserve" as defined in Section 366.8260(1)(p), Florida Statutes.

VI. STORM-RECOVERY PROPERTY

17. Storm-recovery property is not a receivable. Rather, storm-recovery property consists of: (1) all rights and interests of FPL or any successor or assignee of FPL under this Order, including the right to impose, bill, collect, and receive storm-recovery charges authorized in this Order and to obtain periodic adjustments to such storm-recovery charges as provided in this Order; and (2) all revenues, collections, claims, rights to payments, payments, money, or proceeds arising from the rights and interests specified in clause (1), regardless of whether such revenues, collections, claims, rights to payment, payments, money, or proceeds are imposed, billed, received, collected, or maintained together with or commingled with other revenues, collections, rights to payment, payments, money, or proceeds.

18. The creation of storm-recovery property pursuant to this Order is conditioned upon, and shall be simultaneous with, the sale or other transfer of the Bondable Storm-Recovery Property to the SPE and the pledge of the Bondable Storm-Recovery Property to secure storm-recovery bonds.

19. The storm-recovery property shall constitute an existing, present property right or interest therein, notwithstanding that the imposition and collection of storm-recovery charges depends on FPL performing its servicing functions relating to the collection of storm-recovery charges and on future electricity consumption. Such property shall exist whether or not the revenues or proceeds arising from the property have been billed, have accrued, or have been collected and notwithstanding the fact that the value or amount of the property is dependent on the future provision of service to customers by FPL or its successors or assignees.

20. The storm-recovery property shall continue to exist until the storm-recovery bonds are paid in full and all financing costs and other costs of the storm-recovery bonds have been recovered in full.

21. The storm-recovery property constitutes a present property right for purposes of contracts concerning the sale or pledge of property. The interest of a transferee, purchaser, acquirer, assignee, or pledgee in the storm-recovery property, and in the revenue and collections arising from that property, is not subject to setoff, counterclaim, surcharge, or defense by FPL or any other person or in connection with the reorganization, bankruptcy, or other insolvency of FPL or any other entity. Section 366.8260(5)(a)(5), Florida Statutes.

22. The creation, attachment, granting, perfection, priority and enforcement of liens and security interests in storm-recovery property are governed by Section 366.8260(5)(b), Florida Statutes.

23. Pursuant to Section 366.8260(5)(b)5., Florida Statutes, the priority of any lien and security interest in the Bondable Storm-Recovery Property arising from this Order shall not be considered impaired by any later modification of this Order or by the commingling of the funds arising from Storm Bond Repayment Charges with any other funds.

24. When FPL transfers Bondable Storm-Recovery Property to an SPE pursuant to this Order under an agreement that expressly states that the transfer is a sale or other absolute transfer in accordance with the "absolute transfer" provisions of Section 366.8260(5)(c), Florida Statutes, that transfer shall constitute an absolute transfer and not a secured transaction or other financing arrangement, and title (both legal and equitable) to the Bondable Storm-Recovery Property shall immediately pass to the SPE. After such a transfer, the Bondable Storm-Recovery Property shall not be subject to any claims of FPL or its creditors, other than creditors holding a properly perfected prior security interest in the Bondable Storm-Recovery Property perfected under Section 366.8260, Florida Statutes. As provided by Section 366.8260(5)(c)2., Florida Statutes, the characterization of the sale, assignment, or transfer of storm-recovery property as an absolute transfer and the corresponding characterization of the transferee's property interest shall not be affected by: (1) commingling of amounts arising with respect to the Bondable Storm-Recovery Property with other amounts; (2) the retention by FPL of a partial or residual interest, including an equity interest, in the storm-recovery property, whether direct or indirect, or whether subordinate or otherwise; (3) any recourse that the transferee may have against FPL other than any such recourse created, contingent upon, or otherwise occurring or resulting from one or more of FPL's customers' inability to timely pay all or a portion of the Storm Bond Repayment Charge; (4) any indemnification, obligations, or repurchase rights made or provided by FPL, other than indemnity or repurchase rights based solely upon FPL's customers' inability to timely pay all or a portion of the Storm Bond Repayment Charge; (5) the responsibility of FPL to collect Storm Bond Repayment Charges; (6) the treatment of the sale, conveyance, assignment, or other transfer for tax, financial reporting, or other purposes; or (7) granting or providing to holders of the storm-recovery bonds a preferred right to the Bondable Storm-Recovery Property or credit enhancement by FPL or its affiliates with respect to the storm-recovery bonds.

25. If FPL defaults on any required remittance of amounts collected in respect of Bondable Storm-Recovery Property specified in this Order, a court, upon application by an interested party, and without limiting any other remedies available to the applying party, shall order the sequestration and payment of the revenues arising from the Bondable Storm-Recovery Property to the other financing parties. Any such order shall remain in full force and effect notwithstanding any reorganization, bankruptcy, or other insolvency proceedings with respect to FPL or its successors or assignees.

VII. STATE PLEDGE

26. Pursuant to Section 366.8260(11), Florida Statutes, the State of Florida has pledged to and agrees with bondholders, the owners of the storm-recovery property, and other financing parties that the State will not:

a. Alter the provisions of Section 366.8260, Florida Statutes, which make the storm-recovery charges imposed by this Order irrevocable, binding, and nonbypassable charges;

b. Take or permit any action that impairs or would impair the value of storm-recovery property; or

c. Except as allowed under Section 366.8260, Florida Statutes, reduce, alter, or impair storm-recovery charges that are to be imposed, collected, and remitted for the benefit of the bondholders and other financing parties until any and all principal, interest, premium, financing costs and other fees, expenses, or charges incurred, and any contracts to be performed, in connection with the related storm-recovery bonds have been paid and performed in full.

27. Nothing in the State Pledge described in the preceding paragraph precludes limitation or alterations if full compensation is made by law for the full protection of the storm-recovery charges collected pursuant to this Order and of the holders of storm-recovery bonds and any assignee or financing party entering into a contract with FPL. Section 366.8260(11), Florida Statutes.

28. The broad nature of the State Pledge and the irrevocable character of this Financing Order, in conjunction with the true-up adjustment provisions required by Section 366.8260(2)(b)2.e. and 4., Florida Statutes, and included in this Order, constitute a guarantee of regulatory action for the benefit of investors in storm-recovery bonds.

VIII. EFFECT OF THIS ORDER

29. Having issued this Order, this Commission may not, in exercising its powers and carrying out its duties, consider the storm-recovery bonds to be the debt of FPL other than for federal income tax purposes, consider the Storm Bond Repayment Charges paid under this Order to be the revenue of FPL for any purpose, or consider the storm-recovery costs or financing costs specified in this Order to be the costs of FPL, nor may this Commission determine any action taken by FPL which is consistent with this Order to be unjust or unreasonable.

30. Upon the issuance of storm-recovery bonds authorized hereby, this Commission's obligations under this Order relating to the storm-recovery bonds, including the specific actions this Commission guarantees to take, are direct, explicit, irrevocable, and unconditional, and are legally enforceable against the Commission, a United States public sector entity.

31. Except as provided in Section 366.8260(2)(b)4. and (2)(c), Florida Statutes, this Commission may not amend, modify, or terminate this Order by any subsequent action or reduce, impair, postpone, terminate, or otherwise adjust storm-recovery charges approved herein.

32. As provided in Section 366.8260(2)(b)6., Florida Statutes, FPL retains sole discretion regarding whether to assign, sell, or otherwise transfer storm-recovery property or to cause the storm-recovery bonds to be issued, including the right to defer or postpone such assignment, sale, transfer or issuance.

33. The electric bills of FPL must explicitly reflect that a portion of the charges on such bill represents Storm Bond Repayment Charges approved in this Order and must include a statement to the effect that the SPE is the owner of the rights to Storm Bond Repayment Charges and that FPL is acting as a servicer for the SPE. The tariff applicable to customers must indicate

the Storm Bond Repayment Charge and the ownership of that charge. Any failure of FPL to comply with this paragraph shall not invalidate, impair, or affect this Order, or any Bondable Storm-Recovery Property, Storm Bond Repayment Charge, or storm-recovery bonds, but shall subject FPL to penalties under Section 366.095, Florida Statutes.

34. This Order and the charges authorized hereby shall remain in effect until the storm-recovery bonds have been paid in full and the Commission-approved financing costs have been recovered in full. This Order shall remain in effect and unabated notwithstanding the reorganization, bankruptcy, or other insolvency proceedings of FPL or its successors or assignees. Any successor to FPL, whether pursuant to any reorganization, bankruptcy, or other insolvency proceeding or whether pursuant to any merger or acquisition, sale, or other business combination, or transfer by operation of law, as a result of electric utility restructuring or otherwise, shall perform and satisfy all obligations of, and have the same rights under this Order as, FPL in the same manner and to the same extent as FPL, including collecting and paying to the person entitled to receive the revenues, collections, payments, or proceeds of the Bondable Storm-Recovery Property.

35. All tasks performed by any consultant or counsel at the request of this Commission or Commission staff pursuant to this Order shall be treated as performed for the purpose of assisting or enabling the Commission to perform the responsibilities of Sections 366.8260(2)(b)2. and 366.8260(2)(b)5., Florida Statutes, and any expenses incurred in connection with those services, to the extent such expenses are eligible for compensation and approved for payment under the terms of such party's contractual arrangements with this Commission (which may be modified by any amendment entered into at this Commission's sole discretion), shall be treated as "financing costs" for purposes of determining storm-recovery charges.

36. The Commission, acting on its own behalf, has authority to enforce all provisions of this Order and all provisions of the storm-recovery bond transaction documents for the benefit of customers, including without limitation the enforcement of any customer indemnification provisions in connection with specified items in the Servicing Agreement, the Indenture, and the Storm-Recovery Property Sale Agreement.

37. The authority granted by this Order to issue storm-recovery bonds is severable from, and not impacted by, the actions or inactions of the Commission or other bodies with respect to the Commission's determination of the extent to which the storm-recovery charges shall be recoverable from any person or entity or from any particular group, class, or type of customer.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Florida Power & Light Company's petition for a Financing Order authorizing the issuance of storm-recovery bonds is granted, subject to the terms set forth in the body of this Order. Florida Power & Light Company is hereby authorized to issue storm-recovery bonds in the amount of up to $708,000,000 which will be used to finance the after-tax equivalent of: (i) recovery of the estimated unrecovered balance of FPL's 2004 storm-recovery costs as of July 31, 2006, currently being recovered through the 2004 storm surcharge; (ii) recovery of FPL's unrecovered prudently incurred storm-recovery costs related to the four named storms that affected its service territory in 2005; and (iii) replenishment of FPL's Reserve to a level of approximately $200 million. It also includes the amount needed to recover the estimated upfront bond issuance costs. Any differences between the estimated and actual balance of unrecovered 2004 and 2005 storm-recovery costs and any differences between the estimated and actual financing costs shall be reflected in the amount of replenishment of the Reserve.

ORDERED that if market rates rise to such an extent that the initial average retail cents per kWh storm-recovery charge associated with the storm-recovery bond issuance, together with the aggregate average retail cents per kWh storm-recovery charges associated with other outstanding series of storm-recovery bonds issued pursuant to this Order, would exceed the average retail cents per kWh charge associated with the 2004 storm surcharge now in effect, the aggregate amount of the storm-recovery bond issuance shall be reduced to an amount whereby the initial average retail per kWh storm-recovery charge would not exceed the average retail per kWh 2004 storm surcharge currently in effect, recognizing that any such adjustment may affect the resulting balance of the Reserve.

ORDERED that the recovery of the costs to finance the deficit in the Reserve until storm-recovery bonds are issued is authorized pursuant to Section 366.8260(1)(n), Florida Statutes.

ORDERED that FPL is authorized to impose, collect, and adjust from time to time (as described in this Order) a storm-recovery charge, which consists of a Storm Bond Repayment Charge and a Storm Bond Tax Charge, to be applied on a per kWh basis to all applicable customer classes over a period of approximately twelve years until the storm-recovery bonds are paid in full and all financing costs and other costs of the bonds have been recovered in full. Such storm-recovery charges shall be in amounts sufficient to guarantee the timely recovery of FPL's storm-recovery costs and financing costs detailed in this Financing Order (including payment of principal and interest on the storm-recovery bonds).

ORDERED that the creation of storm-recovery property as described in this Order is approved and, upon transfer of the Bondable Storm-Recovery Property to an SPE, shall be created, and shall consist of: (1) all rights and interests of FPL or successor or assignee of FPL under this Order, including the right to impose, bill, collect, and receive storm-recovery charges authorized in this Order and to obtain periodic adjustments to such charges as provided in this Order, and (2) all revenues, collections, claims, rights to payments, payments, money, or proceeds arising from the rights and interests specified in clause (1), regardless of whether such

revenues, collections, claims, rights to payment, payments, money, or proceeds are imposed, billed, received, collected, or maintained together with or commingled with other revenues, collections, rights to payment, payments, money, or proceeds. The creation of storm-recovery property is conditioned upon, and shall be simultaneous with, the sale or other transfer of the Bondable Storm-Recovery Property to an SPE and the pledge of the Bondable Storm-Recovery Property to secure storm-recovery bonds. The storm-recovery property shall continue to exist until the storm-recovery bonds are paid in full and all financing costs and other costs of the bonds have been recovered in full. For the period specified in the preceding sentence, the imposition and collection of storm-recovery charges authorized in this Order shall be paid by all customers receiving transmission or distribution service from FPL or its successors or assignees under Commission-approved rate schedules or under special contracts, even if the customer elects to purchase electricity from an alternative electric supplier following a fundamental change in regulation of public utilities in Florida. In the event that there is a fundamental change in the regulation of public utilities, the storm-recovery charge shall be collected in a manner that will not cause any of the then current credit ratings of the storm-recovery bonds to be suspended, withdrawn or downgraded.

ORDERED that prior to implementing the initial storm-recovery charges, FPL shall file tariff sheets for administrative approval, which tariff sheets will be administratively approved by Commission Staff within three (3) business days, subject to correction for any mathematical error. At Staff's request, FPL shall furnish draft tariff sheets at least five (5) business days in advance of the public offering of storm-recovery bonds.

ORDERED that the storm-recovery charge shall be allocated to the customer classes in accordance with the Petition and FPL's testimony, using the criteria set out in Section 366.06(1), Florida Statutes, in the manner in which these costs or their equivalent were allocated in the cost-of-service study filed in Docket No. 050045-EI, until altered by a subsequent rate case.

ORDERED that the existing 2004 storm surcharge shall be terminated simultaneously with the effective date of FPL's tariff sheets imposing the storm-recovery charge, which shall be effective as of the day following issuance of the associated series of storm-recovery bonds without further Commission action.

ORDERED that, if the issuance of storm-recovery bonds is unduly delayed, FPL is not precluded from requesting that an interim surcharge be initiated. Any such surcharge shall be discontinued when storm-recovery bonds are issued, and the amount of storm-recovery bonds issued shall be adjusted for the impact of collections of this surcharge.

ORDERED that the electric bills of FPL must explicitly reflect that a portion of the charges on such bill represents Storm Bond Repayment Charges approved in this Order and must include a statement to the effect that an SPE is the owner of the rights to Storm Bond Repayment Charges and that FPL is acting as a servicer for that SPE. The tariff applicable to customers must indicate the Storm Bond Repayment Charge and the ownership of that charge. FPL shall identify amounts owed with respect to the storm-recovery property as a separate line item on individual electric bills. The failure of FPL to comply with this paragraph shall not invalidate,

impair, or affect any financing order, storm-recovery property, storm-recovery charge, or storm-recovery bonds but shall subject FPL to penalties under Section 366.095, Florida Statutes.

ORDERED that this Order and the charges authorized hereby shall remain in effect until the storm-recovery bonds and all financing costs (including Taxes) related thereto have been paid or recovered in full. This Order shall remain in effect and unabated notwithstanding the reorganization, bankruptcy, or other insolvency proceedings of FPL or its successors or assignees. Any successor to FPL, whether pursuant to any reorganization, bankruptcy, or other insolvency proceeding or whether pursuant to any merger or acquisition, sale, or other business combination, or transfer by operation of law, as a result of electric utility restructuring or otherwise, shall perform and satisfy all obligations of, and have the same rights under this Order as, FPL in the same manner and to the same extent as FPL, including collecting and paying to the person entitled to receive the revenues, collections, payments, or proceeds of the storm-recovery property.

ORDERED that the SPE issuing storm-recovery bonds is authorized, pursuant to Section 366.8260(11)(c), Florida Statutes, and this Order to include the State of Florida pledge with respect to Bondable Storm-Recovery Property and Storm Bond Repayment Charges in the bonds and related documentation as provided for in Section 366.8260(11)(b), Florida Statutes.

ORDERED that we approve the proposed Transaction Structure for the storm-recovery bonds, as set forth in the body of this Order.

ORDERED that FPL is authorized to sell to one or more SPEs Bondable Storm-Recovery Property, not including storm-recovery property related to the Taxes and other items of financing costs described in Section 366.8260(1)(e)4.,5. and 6., Florida Statutes, which tax-related storm-recovery property shall be retained by FPL.

ORDERED that, in accordance with the terms of this Order and subject to the criteria and procedures described herein, the SPE(s) are authorized to issue storm-recovery bonds in an aggregate principal amount not to exceed $708,000,000 and may pledge to an Indenture trustee, as collateral for payment of the storm-recovery bonds, the Bondable Storm-Recovery Property, including the SPE's right to receive the related Storm Bond Repayment Charge as and when collected, the SPE's rights under the Servicing Agreement and other collateral described in the Indenture. As provided in Section 366.8260(2)(b)6., Florida Statutes, FPL retains sole discretion regarding whether to assign, sell, or otherwise transfer Bondable Storm-Recovery Property or to cause the storm-recovery bonds to be issued, including the right to defer or postpone such assignment, sale, transfer or issuance.

ORDERED that FPL shall be responsible to structure the storm-recovery bond transactions in a way that complies with the "safe harbor" provisions of IRS Revenue Procedure 2005-62.

ORDERED that FPL is authorized to form one or more SPEs to be structured as discussed in this Order. FPL is authorized to execute one or more LLC Agreements, consistent

with the terms and conditions of this Order. Each SPE shall be funded with an amount of capital that is sufficient for the SPE to carry out its intended functions as contemplated in the Petition and this Order. The capital contribution by FPL to the SPE shall be funded by FPL and not from the proceeds of the sale of storm-recovery bonds.

ORDERED that FPL is authorized to enter into one or more Storm-Recovery Property Sale Agreements, Administration Agreements, and Storm-Recovery Property Servicing Agreements.

ORDERED that storm-recovery bonds may be issued in one or more series, each series with one or more tranches. Each SPE is authorized to enter into one or more Indentures, consistent with the terms and conditions of this Order. Subject to compliance with the requirements of this Order, FPL and the SPE shall be afforded flexibility in establishing the terms and conditions of the storm-recovery bonds, repayment schedules, term, payment dates, collateral, redemption provisions, credit enhancement, required debt service, reserves, interest rates, indices and other financing costs. FPL may utilize floating rate securities and interest rate swaps if, pursuant to the process set forth in Finding of Fact 136, it is determined that their use will achieve the lowest cost objective.

ORDERED that we approve the true-up adjustment process described in the body of this Order and in the testimony of FPL's witnesses. If FPL deems it necessary, it could file an amendment to the true-up process, which would be subject to Commission approval.

ORDERED that FPL or its assignee is authorized to recover the Periodic Payment Requirement, including without limitation the Periodic Bond Payment Requirement, and shall file with the Commission at least every six months a True-Up Adjustment Letter as described in this Order.

ORDERED that the method of assignment and allocation of Storm Bond Repayment Charge collections set forth in the body of this Order is approved.

ORDERED that within 120 days after the issuance of storm-recovery bonds, FPL shall file with this Commission information on the actual costs of the storm-recovery bond issuance. This Commission shall review such information to determine if such costs resulted in the lowest overall costs that were reasonably consistent with market conditions at the time of the issuance and the terms of this Financing Order. If the costs do not satisfy this standard, this Commission may disallow any incremental issuance costs in excess of the lowest overall costs by requiring FPL to make a contribution to the Reserve in an amount equal to the excess of the actual issuance costs incurred, and paid for out of storm-recovery bond proceeds, over the lowest overall issuance costs as determined by this Commission. This Commission may not make adjustments to the storm-recovery charges for any such excess bond issuance costs.

ORDERED that the Commission authorizes FPL to enter into a Servicing Agreement with each SPE and to perform the servicing duties approved in this Order. Without limiting the foregoing, in its capacity as initial servicer of the Bondable Storm-Recovery Property, FPL is

authorized to calculate, bill, and collect for the account of each SPE, the Storm Bond Repayment Charges initially authorized in this Order, as adjusted from time to time to meet the Periodic Bond Payment Requirement as provided in this Order; and to make such filings and take such other actions as are required or permitted by this Order in connection with the periodic true-ups described in this Order. The servicer shall be entitled to collect servicing fees in accordance with the provisions of the Servicing Agreement, provided that (i) the annual servicing fee payable to FPL while it is serving as servicer (or to any other servicer affiliated with FPL) shall be 0.05% of the original principal amount of the series of storm-recovery bonds. The annual servicing fee payable to any other servicer not affiliated with FPL shall not at any time exceed 0.60% of the original principal amount of the series of storm-recovery bonds unless such higher rate is approved by this Commission pursuant to the following Ordering Paragraph.

ORDERED that upon the occurrence of an event of default under the Servicing Agreement relating to servicer's performance of its servicing functions with respect to the Storm Bond Repayment Charges, the Indenture trustee may, and upon the instruction of the requisite holders of the outstanding storm-recovery bonds, shall replace FPL as the servicer in accordance with the terms of the Servicing Agreement. If the servicing fee of the replacement servicer will exceed the applicable maximum servicing fee specified in the preceding Ordering Paragraphs, the replacement servicer shall not begin providing service until (i) the date this Commission approves the appointment of such replacement servicer or (ii) if this Commission does not act to either approve or disapprove the appointment, the date which is 45 days after notice of appointment of the replacement servicer is provided to the Commission.

ORDERED that no entity may replace FPL as the servicer in any of its servicing functions with respect to the Storm Bond Repayment Charges and the Bondable Storm-Recovery Property authorized by this Order, if the replacement would cause any of the then current credit ratings of the storm-recovery bonds to be suspended, withdrawn, or downgraded.

ORDERED that the parties to the Servicing Agreement, Indenture, and Storm-Recovery Property Sale Agreement may amend the terms of such agreements solely in accordance with the terms of such agreements.

ORDERED that the servicer shall remit collections of the Storm Bond Repayment Charges to the SPEs or the Indenture trustees for SPEs' accounts on a daily basis and in accordance with the Servicing Agreement.

ORDERED that the Commission authorizes FPL to enter into an Administration Agreement with each SPE and to perform the administration duties approved in this Order. FPL shall be entitled to collect administration fees in accordance with the provisions of the Administration Agreement, provided that (i) the aggregate annual administration fee payable to FPL while it is serving as administrator (or to any other administrator affiliated with FPL) for all SPEs shall be $125,000 per year, payable annually in arrears.

ORDERED that FPL shall apply to the Reserve all amounts it will receive under the Servicing Agreement for ongoing services and that FPL shall apply to the Reserve all amounts it will receive under the Administration Agreement for its services.

ORDERED that, to protect the interests of customers, partial payments shall be allocated first to the Storm Bond Repayment Charge, including any past-due Storm Bond Repayment Charge, unless, pursuant to the process set forth in Finding of Fact 136, it is determined by the Bond Team that such allocation would result in undue delay and cost.

ORDERED that FPL will remit funds deemed collected from customers to the SPE on a daily basis, pursuant to the terms of an agreement between FPL and the SPE. Any earnings on funds transferred will be used to reduce future charges.

ORDERED that to the extent that any interest in the Bondable Storm-Recovery Property created by this Order is assigned, sold, or transferred to an assignee, FPL shall enter into a contract with that assignee that requires FPL to continue to operate its transmission and distribution system in order to provide electric services to FPL's customers; but this provision shall not prohibit FPL from selling, assigning, or otherwise divesting its transmission and distribution systems or any part thereof so long as the entities acquiring such system agree to continue operating the facilities to provide electric service to FPL's customers.

ORDERED that following repayment of the storm-recovery bonds authorized in this Order and release of the funds by the Indenture trustee, the servicer shall distribute to the SPE(s) the final balance of the Collection Account, and FPL shall credit other electric rates and charges by a like amount, less the amount of the Capital Subaccount and earnings thereon, as set forth in the body of this Order. FPL shall similarly credit customers an aggregate amount equal to any Storm Bond Repayment Charges subsequently received by the SPE or its successor in interest to the Bondable Storm Recovery Property. Storm Bond Tax Charges in excess of amounts required to pay or reimburse FPL for all Taxes or other items of financing costs described in Section 366.8260(1)(e)4., 5., and 6., Florida Statutes, shall be credited to the Reserve.

ORDERED that FPL or any assignee may apply for one or more new financing orders pursuant to Section 366.8260, Florida Statutes. Each SPE may issue storm-recovery bonds approved in this Order, or in future financing orders, so long as such future issuance does not cause any of the then current credit ratings of any outstanding storm-recovery bonds of the SPE to be suspended, withdrawn, or downgraded.

ORDERED that the Reserve shall be held as a funded reserve that may be held, accessed, or used for all lawful purposes for FPL's Reserve (Account No. 228.1) in accordance with Rule 25-6.0143, Florida Administrative Code, and prior Commission orders, with an approved initial provision level of approximately $200 million.

ORDERED that we hereby authorize the use of the formula-based mechanism approved in the body of this Order to compute and adjust from time to time the Storm Bond Repayment Charge and the Storm Bond Tax Charge.

ORDERED that the True-Up Mechanism identified in Appendix B to this Financing Order is reasonable and shall be applied at least semi-annually.

ORDERED that FPL as servicer, and any successor servicer, shall file True-Up Adjustment Letters (as described in the body of this Order) at least semi-annually consistent with Section 366.8260(2)(b)4., Florida Statutes, as frequently as quarterly and, during the last year in which the applicable series of storm-recovery bonds is outstanding, as frequently as monthly if needed or as required in the Servicing Agreement.

ORDERED that True-Up Adjustment Letters shall be based upon the cumulative differences, regardless of the reason, between the Periodic Bond Payment Requirement and the actual amount of Storm Bond Repayment Charge remittances to the trustee for the series of storm-recovery bonds.

ORDERED that upon any change to customer rates and charges stemming from these procedures, FPL shall file appropriately-revised tariff sheets with this Commission.

ORDERED that this Commission, as represented at each stage either jointly or separately by a designated Commissioner, designated Commission personnel, the Commission's financial advisor, and the Commission's outside legal counsel, as these representatives deem appropriate, shall be actively involved as part of a Bond Team with FPL, its financial advisor, and its outside counsel, in all aspects of the structuring, marketing, and pricing of each series of storm-recovery bonds to ensure that customers are represented in the transaction process and that the lowest cost objective is achieved. As a member of the Bond Team, the Commission's financial advisor will advise and represent the Commission on all matters relating to the structuring, marketing, and pricing of the storm-recovery bonds. Through its participation on the Bond Team, this Commission and its representatives will have an active and integral role in, and will participate fully and in advance in all plans and decisions relating to, the structuring, marketing, and pricing of the storm-recovery bonds as discussed in the body of this Order.

ORDERED that this Commission will have the sole authority to select and retain its financial advisor and its outside legal counsel and, if needed, terminate and replace the financial advisor or outside legal counsel.

ORDERED that costs associated with this Commission's financial advisor and outside legal counsel, to the extent such costs are eligible for compensation and approved for payment under the terms of such party's contractual arrangements with the Commission, as such arrangements may be modified by any amendment entered into at the Commission's sole discretion, will be paid from proceeds of storm-recovery bonds. Such costs shall be payable upon closing in immediately available funds.

ORDERED that this Commission's financial advisor and its outside legal counsel will assist the Commission at the Commission's sole discretion.

ORDERED that the members of the Bond Team shall work cooperatively to achieve the lowest cost objective.

ORDERED that FPL and the underwriters shall cooperate with all members of the Bond Team and shall do all things reasonably necessary to enable all members of the Bond Team to meet the obligations stated in this Financing Order, including without limitation providing timely information to the Commission's financial advisor as needed to enable the Commission's financial advisor to fulfill its obligation to advise the Commission and to deliver its certificate that the lowest-cost objective has been achieved.

ORDERED that FPL on a timely basis shall provide to all other members of the Bond Team all information each member needs to fulfill that member's obligations under the Financing Order.

ORDERED that the role of this Commission's financial advisor will include, among other things, ensuring that FPL's proposed structuring, marketing, and pricing of storm-recovery bonds meet all statutory requirements and the lowest-cost objective. Our financial advisor will represent this Commission in all aspects of the marketing process and shall be an active and visible participant in the actual pricing process in real time. The financial advisor shall inform this Commission of any items that, in the financial advisor's opinion, are not reasonable or are not consistent with the statutory requirements or the lowest-cost objective, and the financial advisor shall provide a certification to this Commission no later than 5:00 p.m. Eastern Time on the first business day after actual pricing of each series of storm-recovery bonds as to whether the structuring, marketing, and pricing of that series of storm-recovery bonds has achieved the lowest-cost objective and all other criteria established in this Financing Order.

ORDERED that this Commission's financial advisor shall not have any financial interest in the storm-recovery bonds, participate in the underwriting, or participate in secondary market trading of the storm-recovery bonds. Any ongoing costs (i.e., costs associated with this Commission's review of the actual costs of the storm-recovery bond issuance under Section 366.8260(2)(b)5., Florida Statutes) associated with this Commission's financial advisor and with this Commission's outside legal counsel that are eligible for compensation and approved for payment under the terms of such party's contract with this Commission, as such contract may be modified by any amendment entered into at this Commission's sole discretion, are deemed reasonable for purposes of recovery through the proceeds of storm-recovery bonds issued pursuant to this Order.

ORDERED that it shall be determined by the Bond Team pursuant to the process set forth in Finding of Fact 136 whether issuing a series of storm-recovery bonds through a negotiated sale or a competitive sale or combination thereof will achieve the lowest cost objective.

ORDERED that subject to the process set forth in Finding of Fact 136, the Bond Team shall oversee the development of the competitive solicitation and selection of underwriters and other transaction participants except for issuer's counsel to ensure that the process is truly

competitive, will provide the greatest value for ratepayers, and will result in the selection of transaction participants that have experience and ability to achieve the lowest cost objective.

ORDERED that the Bond Team shall review the storm-recovery bond transaction documents, and the storm-recovery bond transaction documents shall be approved pursuant to the process set forth in Finding of Fact 136, to ensure that the lowest cost objective is satisfied, to ensure that the transaction documents reflect the terms of this Financing Order, and otherwise to ensure that adequate protections for ratepayers are included. All legal opinions related to the storm-recovery bond transaction shall be provided to the Bond Team for review and comment.

ORDERED that all rating agency presentations shall be submitted to the Bond Team for review and comment prior to presentation to rating agencies. This Commission's financial advisor may participate actively in rating agency presentations pursuant to its contract with this Commission, as may be modified by any amendment entered into at this Commission's sole discretion.

ORDERED that the Bond Team shall work on a cooperative basis (a) to educate and expand the market among underwriters and investors for the storm-recovery bonds and (b) to create the greatest possible competition among underwriters and investors in order to ensure that the lowest cost objective is achieved.

ORDERED that, subject to review and approval by the Bond Team (pursuant to the process set forth in Finding of Fact 136), and subject to a possible stop order of the Commission issued no later than 5:00 p.m. Eastern time on the third business day following pricing, FPL shall be afforded flexibility in determining the final terms of each series of the storm-recovery bonds, including payment and maturity dates, interest rates (or the method of determining interest rates), the terms of any interest rate swap agreement or similar agreement, the creation and funding of any supplemental capital, reserve or other subaccount, and the issuance of storm-recovery bonds through either one SPE or multiple SPEs, except as otherwise provided in this Financing Order.

ORDERED that FPL shall file, for review and comment by the Bond Team, a combined Issuance Advice Letter and Initial True-Up Adjustment Letter in draft form at least two weeks prior to pricing based upon the best information available at that time. Within one week of receiving the proposed form of issuance advice letter, the members of the Bond Team representing this Commission shall provide comments and recommendations to FPL regarding the adequacy of information proposed to be provided.

ORDERED that FPL shall file a combined Issuance Advice Letter and Initial True-Up Adjustment Letter in final form with this Commission, with a copy provided to this Commission's financial advisor, on the first business day following actual pricing at which time a meeting will be noticed for three business days after pricing to afford this Commission an opportunity to review the proposed transaction. The combined Issuance Advice Letter and Initial True-Up Adjustment Letter must contain detailed analyses and representations regarding the actual structuring, marketing, and pricing of the bonds, as set forth in the body of this Order, as well as the initial storm-recovery charges and any other information deemed necessary by the

members of the Bond Team representing the Commission. The combined Issuance Advice Letter and Initial True-Up Adjustment Letter shall also include certifications from FPL and the underwriter(s) that the structuring, marketing, and pricing of the storm-recovery bonds achieved the lowest cost objective.

ORDERED that at the meeting previously noticed for the third day after pricing, the members of the Bond Team representing this Commission will present to this Commission the results of their review. If this Commission determines that all required certifications have been delivered and the transaction complies with applicable law and this Financing Order, the transaction shall proceed without any further action of this Commission. However, if this Commission determines that the transaction fails to comply with applicable law or this Financing Order, or if FPL, the bookrunning underwriter(s), or this Commission's financial advisor is unable or unwilling to deliver the required certifications in a form acceptable to this Commission, we retain discretion to issue an order to stop the transaction. We will not issue an order to stop the transaction for any other reason, for example, a change in market conditions after the moment of pricing.

ORDERED that any issue that the Bond Team participants are unable to resolve shall initially be presented in writing for resolution by a designated Commissioner, subject to de novo review by the full Commission. All parties to this docket shall be provided prior notice of any dispute taken in writing to the designated Commissioner and provided the opportunity for comment before the designated Commissioner. All parties shall also be provided notice of any decision reached by the designated Commissioner. Any party may seek de novo review by the full Commission of the decision of the designated Commissioner.

ORDERED that the degree of flexibility set forth in the "Flexibility" section of this Order is hereby approved.

ORDERED that the Bond Team may require some or all underwriters of the storm-recovery bonds to deliver periodic reports on a confidential basis to members of the Bond Team presenting independently derived indicative pricing levels for the storm-recovery bonds before any public offering of the storm-recovery bonds is launched.

ORDERED that, upon the request of any member of the Bond Team, the bookrunning underwriter(s) of the storm-recovery bonds shall provide to all members of the Bond Team a copy of any term sheet, prospectus, or other marketing materials used by the underwriting syndicate in marketing the storm-recovery bonds, together with independently verifiable evidence that these marketing materials received a broad distribution to potential investors most likely to accept the lowest yields on the storm-recovery bonds.

ORDERED that, if the Commission does not, prior to 5:00 p.m. Eastern Time on the third business day after pricing, issue an order finding that the proposed issuance does not comply with the terms of this Financing Order and applicable law, this Commission, without the need for further action and pursuant to our authority under this Financing Order, will affirmatively and conclusively be deemed to have (i) authorized FPL and an SPE to execute the issuance of the

proposed series of storm-recovery bonds on the terms set forth in the Issuance Advice Letter, and (ii) approved FPL's recovery of the upfront bond issuance costs proposed to be financed from the proceeds of the storm-recovery bonds subject to review pursuant to Section 366.8260(2)(b)5., Florida Statutes.

ORDERED that this Commission guarantees that it will act pursuant to this Financing Order as expressly authorized by Section 366.8260(2)(b)2.e. and 4., Florida Statutes, to ensure that Storm Bond Repayment Charge revenues are sufficient to pay principal and interest on the storm-recovery bonds issued pursuant to this Financing Order and other costs, including fees and expenses, in connection with the storm-recovery bonds.

ORDERED that, except as set forth in this Financing Order, all regulatory approvals within the jurisdiction of this Commission that are necessary for the securitization of the Storm Bond Repayment Charges associated with the Bondable Storm-Recovery Property and other qualified costs that are the subject of the Petition are granted. This Order constitutes a legal financing order for FPL under Section 366.8260, Florida Statutes. This Financing Order complies with Section 366.8260(2)(b)1., Florida Statutes. A financing order gives rise to rights, interests, obligations, and duties as expressed in Section 366.8260, Florida Statutes. It is this Commission's express intent to give rise to those rights, interests, obligations, and duties by issuing this Order.

ORDERED that, if FPL proceeds pursuant to this Order, FPL and any other servicer of storm-recovery bonds authorized hereby are directed to take all actions as are required to effectuate the transactions approved in this Order, subject to the compliance with Section 366.8260, Florida Statutes, and with this Order.

ORDERED that this Order is a final order, any appeal of which is to be conducted pursuant to Section 366.8260(2)(d), Florida Statutes. The finality of this Financing Order is not impacted by the actions or inactions taken by the Commission with respect to any other matters considered in this proceeding. Should any other order entered in this proceeding, if appealed to the courts, not be upheld in full on appeal, such judicial ruling will in no event impact or modify the finality or effectiveness of this Financing Order.

ORDERED that this docket shall remain open through completion of this Commission's review of the actual costs of the storm-recovery bond issuance conducted pursuant to Section 366.8260(2)(b)5., Florida Statutes.

By ORDER of the Florida Public Service Commission this 30th day of May, 2006.

BLANCA S. BAYÓ, Director
Division of the Commission Clerk
and Administrative Services

(S E A L)

WCK

DISSENTS

COMMISSIONERS DEASON AND ARRIAGA dissent as to Findings of Fact 40b, 40c, 48, and 49.

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by the Commission's final action in this matter may request: (1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, no later than Tuesday, June 6, 2006, in the form prescribed by Rule 25-22.060, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court by filing a notice of appeal with the Director, Division of the Commission Clerk and Administrative Services and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure, and Section 366.8260(2)(d), Florida Statutes. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

SUMMARY OF ADJUSTMENTS TO FPL'S PROPOSED STORM-RECOVERY COSTS AND RESERVE FUNDING LEVEL

Unrecovered 2004 Storm-Recovery Costs (as of July 31, 2006)		**$213,307,000**
Less: Commission-Approved Adjustments		
Nuclear Storm Damages	(6,100,000)	
Legal Claims And Lawsuits	(2,664,038)	
Other Parties' Poles Reimbursements	(5,432,966)	
Subtotal	(14,197,004)	
2004 Jurisdictional Factor	99.525%	
Jurisdictional Adjustments	(14,129,568)	
Interest Adjustment	(497,000)	
Total 2004 Adjustments		**(14,626,568)**
Adjusted Unrecovered 2004 Storm-Recovery Costs		**$198,680,432**
FPL Estimated Unrecovered 2005 Storm-Recovery Costs (Net of Capital Costs and Insurance Proceeds)		**$815,371,346**
Less: Commission-Approved Adjustments		
Condenser Tubes	(2,785,364)	
Hydrolasing	(221,000)	
Proceeds from Others	(3,468,593)	
Payroll Expense	(17,925,918)	
Exempt Employee Overtime	(768,000)	
Tree Trimming	(1,100,000)	
Fleet Vehicles	(5,738,000)	
Telecommunications Expense	(520,264)	
Advertising	(1,143,916)	
Uncollectibles	(3,582,000)	
Normal Replacements	(8,745,000)	
Landscaping	(3,816,864)	
Lawsuit Settlement Charges	(2,849,571)	
Contingencies	(26,253,351)	
Other Entities' Poles	(6,407,769)	

Employee Assistance	(245,025)	
Warranty Repairs	(316,250)	
Inspect & Maintain Poles (also $550,000 Rate Base Adj.)	(1,650,000)	
Vegetation Management (also $850,000 Rate Base Adj.)	(2,550,000)	
Transmission Failures ($12,000,000 Rate Base Adj.)	0	
Subtotal	(90,086,885)	
2005 Jurisdictional Factor	99.921%	
Total Jurisdictional Adjustments	(90,015,715)	
FPL Estimated Carrying Costs		**11,481,000**
Less: 2005 Jurisdictional Interest Adjustment	(1,267,493)	
Total 2005 Adjustments		**(91,283,208)**
Adjusted 2005 Storm Damage Costs To Be Charged Against Storm Reserve		**$735,569,138**
FPL Requested Level of Reserve		**$650,000,000**
Less: Commission-Approved Adjustment		(450,000,000)
Commission-Approved Reserve Level		**$200,000,000**
TOTAL AMOUNT TO RECOVER – PRE-TAX BASIS		**$1,134,249,570**
TOTAL AMOUNT TO RECOVER – AFTER-TAX BASIS		**$696,712,799**
Estimated Issuance Costs		11,425,000
TOTAL AMOUNT SUBJECT TO SECURITIZATION		**$708,137,799**
TOTAL AMOUNT SUBJECT TO SECURITIZATION (rounded)		**$708,000,000**

FLORIDA POWER & LIGHT COMPANY AND SUBSIDIARIES
Storm Charge True-Up Mechanism Form

Line No.	Description	Calculation of the True-Up (1)	Current Factors to be Billed through the End of the Current Remittance Period (2)	Factors to be Billed in the Upcoming Remittance Period (1) - (2) = (3)
1	**Storm Bond Repayment Charge (remitted to SPE)**			
2				
3				
4	True-up for the Current Remittance Period Beginning _____ and Ending _____:			
5	Current Remittance Period Bond Revenue Requirements			
6	Current Remittance Period Actual Daily Cash Receipt Transfers and Interest Income:			
7	Daily Cash Receipts Transferred to the SPE (1)			
8	Interest Income on Subaccounts at the SPE			
9	Total Current Period Actual Daily Cash Receipts Transfers and Interest Income (Line 7 + 8)			
10	(Over)/Under Collections of Current Remittance Period Requirements (Line 5 - 9)			
11				
12	Upcoming Remittance Period Beginning _____ and Ending _____			
13	Principal			
14	Interest			
15	Servicing Costs			
16	Other On-Going Costs			
17	(Over)/Under Collections of Current Remittance Period Requirements (Line 10)			
18	Total Periodic Bond Revenue Requirements to be Billed During Upcoming Remittance Period (Line 13+14+15+16-/+17)			
19				
20	Forecasted kWh Sales for the Upcoming Remittance Period (adjusted for uncollectibles)			
21	Average Retail Storm Bond Repayment Charge (Current and Forecasted) per kWh (Line 18 / 20)			
22				
23				
24	**Storm Bond Tax Charge (retained at FPL)**			
25				
26				
27	True-up for the Current Remittance Period Beginning _____ and Ending _____:			
28	Current Remittance Period Revenue Requirements			
29	Current Remittance Period Revenue			
30	(Over)/Under Collections of Current Remittance Period Requirements (Line 28 - 29)			
31				
32	Upcoming Remittance Period Beginning _____ and Ending _____:			
33	Principal Payment (Line 13) less Amortization of Debt Issuance Costs * (1-Tax Rate) * Tax Rate			
34				
35	Total Periodic Tax Requirement to be Billed During Upcoming Remittance Period (Line 30 + 33)			
36	Forecasted kWh Sales for the Upcoming Remittance Period (adjusted for uncollectibles)			
37	Average Retail Storm Bond Tax Charge (Current and Forecasted) per kWh (line 35 / 36)			
38				
39				
40	**Total Average Retail Storm Charge (Current and Forecasted) per kWh (Line 21 + 37) (2)**			
41				
42				
43				
44				
45				
46	Notes:			
47	(1) Includes estimated daily cash transfers between measurement date and the end of the current remittance period.			
48	(2) Allocation of this amount to each rate class is addressed by Dr. Morley in her testimony.			
49				
50				

PUC DOCKET NO. 30485

APPLICATION OF CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC FOR FINANCING ORDER	§ § § § §	**PUBLIC UTILITY COMMISSION OF TEXAS**

TABLE OF CONTENTS

342

FINANCING ORDER

This Financing Order addresses the application of CenterPoint Energy Houston Electric, LLC ("CenterPoint") under Subchapter G of Chapter 39 of the Public Utility Regulatory Act[1] ("PURA") to securitize the true-up balance determined by the Commission in Docket No. 29526 and other qualified costs, for approval of the proposed securitization financing structure, for approval of transition charges sufficient to recover qualified costs, and for approval of a tariff to implement the transition charges.

As discussed in this Financing Order, the Commission finds that CenterPoint's application as modified by this Financing Order should be approved. The Commission also finds that the securitization approved in this Financing Order meets all applicable requirements of PURA. Accordingly, the Commission (1) approves the securitization of CenterPoint's stranded costs, interest on stranded costs, and other qualified costs as specified in this Financing Order, and authorizes, subject to the terms of this Financing Order, the issuance of transition bonds in one or more series in an aggregate amount not to exceed $1,493,747,264 plus (a) the amount of excess mitigation credits provided by CenterPoint after August 31, 2004 through the date of issuance of the transition bonds or the termination of such excess mitigation credits, whichever is earlier, (b) interest on stranded costs accrued after August 31, 2004 through the date of issuance of the transition bonds, and (c) up-front qualified costs as set forth in this Financing Order; (2) approves the structure of the proposed securitization financing; (3) approves transition charges in an amount to be calculated as provided in this Financing Order; and (4) approves the form of tariff, as provided in this Financing Order, to implement those transition charges.

The Commission received evidence from the parties indicating that the proposed securitization met the several financial tests set forth by Subchapter G of PURA Chapter 39 by varying degrees. All of the calculations performed by parties who evaluated the proposed qualified costs by these tests concurred that the transaction would pass these tests by a wide margin. Considering the magnitude of the margin by which the proposed

securitization passes the various tests, the Commission declines to determine a particular number for each benefit conferred by the securitization. Accordingly, in quantifying the benefit to ratepayers as a result of this securitization, the Commission refers to the ranges of benefits calculated under CenterPoint's expected case scenario for the levelized bond structure, in which the transition bonds bear 4.36% weighted-average interest, and a worst-case scenario, in which the bonds are subject to a 9% weighted-average interest rate.

As a result of the securitization approved by this Financing Order, consumers in CenterPoint's service area will realize benefits currently estimated to be between approximately $113 million and $166 million on a present value basis in the worst case scenario.[2] At the expected weighted-average interest rate, securitization confers benefits of between $537 million and $580 million on a present-value basis.[3] In addition, under the worst-case scenario, the securitization approved by this Financing Order will result in a reduction in the amount of revenues collected by CenterPoint of between approximately $304 million and $444 million, on a nominal basis, when compared to the amount that would have been collected under conventional financing methods.[4] In the expected case, the securitization will result in a reduction in the amount of revenues collected by CenterPoint of between approximately $692 million and $794 million.[5]

On December 17, 2004, the Commission issued an Order on Rehearing in Docket No. 29526 determining that CenterPoint is entitled pursuant to PURA § 39.262 to recover $2,300,888,665 of costs associated with the transition to competitive retail markets plus excess mitigation credits provided by CenterPoint after August 31, 2004. Pursuant to the terms of the order in Docket No. 29526, that balance accrues interest until it is collected. In its application, CenterPoint requested to securitize the entire true-up balance (including

---

[1] TEX. UTIL. CODE ANN. §§ 11.001-64.158 (Vernon 1998 & Supp. 2004).

[2] *See* Staff Ex. Staff Ex. 1, Direct Testimony of Darryl Tietjen (Tietjen Direct) at Exhibit DT-2 p.4; CNP Ex. 2, Direct Testimony of James Brian (Brian Direct), Figure JSB-1, page 15.

[3] *See* Tietjen Direct at Exhibit DT-2 p.3; Brian Direct, Figure JSB-1, page 14.

[4] See Tietjen Direct at Exhibit DT-2 p.4; Brian Direct, Figure JSB-1, page 15.

[5] *See* Tietjen Direct at Exhibit DT-2 p.3; Brian Direct, Figure JSB-1, page 14.

excess mitigation credits and interest) under that order. The scope of CenterPoint's securitization proposal was addressed in the Commission's preliminary order on December 20, 2004. The effect of that order on the size of CenterPoint's proposed securitization is discussed further, below.

CenterPoint provided a general description of the proposed transaction structure in its application and in the testimony and exhibits submitted in support of its application. The proposed transaction structure does not contain every relevant detail and, in certain places, uses only approximations of certain costs and requirements. The final transaction structure will depend, in part, upon the requirements of the nationally-recognized credit rating agencies which will rate the transition bonds and, in part, upon the market conditions that exist at the time the transition bonds are taken to the market.

While the Commission recognizes the need for some degree of flexibility with regard to the final details of the securitization transaction approved in this Financing Order, its primary focus is upon the statutory requirements—not the least of which is to ensure that securitization results in tangible and quantifiable benefits to ratepayers—that must be met prior to issuing a financing order. The Commission must be mindful of its responsibility to shepherd the restructuring of the electric industry in Texas in a manner that ensures that a robust competitive retail market continues to exist in this state.

In view of these obligations, the Commission has established certain criteria in this Financing Order that must be met in order for the approvals and authorizations granted in this Financing Order to become effective. This Financing Order grants authority to issue transition bonds and to impose and collect transition charges only if the final structure of the securitization transaction complies in all material respects with these criteria. In addition, the Commission, acting through its designated representative or financial advisor, will participate in the structuring, marketing, and pricing of the transition bonds and will make the decision, in conjunction with CenterPoint, as to whether to issue the bonds. Finally, the authority and approval granted in this Financing Order is effective only upon CenterPoint filing with the Commission an issuance advice letter demonstrating compliance with the provisions of this Financing Order.

I. DISCUSSION AND STATUTORY OVERVIEW

The Texas Legislature amended PURA in 1999 to provide for competition in the provision of retail electric service.[6] To facilitate the transition to a competitive environment, electric utilities are authorized to undertake securitization financing of qualified costs.[7] The Legislature provided this option for recovering qualified costs based on the conclusion that securitized financing will result in lower carrying costs for utility assets relative to the costs that would be incurred using conventional utility financing methods. As a precondition to the use of securitization, the Legislature required that the utility demonstrate that ratepayers would receive tangible and quantifiable benefits as a result of securitization and that this Commission make a specific finding that such benefits exist before issuing a financing order. Consequently, a basic purpose of securitized financing—the recovery of an electric utility's qualified costs—is conditioned upon the other basic purpose—providing economic benefits to consumers of electricity in this state.

To securitize an electric utility's qualified costs, the Commission may authorize the issuance of a security known as transition bonds. Transition bonds are generally defined as evidences of indebtedness or ownership that are issued under a financing order, are limited to a term of not longer than 15 years, and are secured by or payable from transition property.[8] The net proceeds from the sale of the transition bonds must be used to reduce the amount of a utility's recoverable regulatory assets or stranded costs through the refinancing or retirement of the utility's debt or equity. If transition bonds are approved and issued, retail electric consumers must pay the principal, interest, and related charges of the transition bonds through transition charges. Transition charges are nonbypassable charges that will be paid as a component of the monthly charge for electric service. Transition charges must be approved by the Commission pursuant to a financing order.[9]

---

[6] *See* Act of May 27, 1999, 76th Leg., R.S., ch. 440, 1999 TEX. GEN. LAWS 1111 (codified primarily at TEX. UTIL. CODE Chapters 39, 40, and 41).

[7] *See* PURA §§ 39.201, .301-.303.

[8] *See Id.* § 39.302(6).

[9] *See Id.* § 39.302(7).

The Commission may adopt a financing order only if it finds that the total amount of revenues to be collected under the financing order is less than the revenue requirement that would be recovered using conventional financing methods and that the financing order is consistent with the standards of PURA § 39.301. The Commission must ensure that the net proceeds of transition bonds may be used only for the purpose of reducing the amount of recoverable costs through the refinancing or retirement of utility debt or equity. In addition, the Commission must ensure that (1) securitization provides tangible and quantifiable benefits to ratepayers greater than would have been achieved absent the issuance of the transition bonds, and (2) the structuring and pricing of the transition bonds result in the lowest transition bond charges consistent with market conditions and the terms of a financing order. Finally, the amount securitized may not exceed the present value of the revenue requirement over the life of the proposed transition bonds associated with the amounts sought to be securitized, and the present value calculation must use a discount rate equal to the proposed interest rate on the transition bonds. All of these statutory requirements go to ensure that securitization will provide real benefits to retail consumers.

The essential finding by the Commission that is needed to issue a financing order is that ratepayers will receive tangible and quantifiable benefits as a result of securitization. This finding can only be made upon a showing of economic benefits to ratepayers through an economic analysis. An economic analysis is necessary to recognize the time value of money in evaluating whether and the extent to which benefits accrue from securitization. Moreover, an economic analysis recognizes the concept that the timing of a payment can be as important as the magnitude of a payment in determining the value of the payment. Thus, an analysis showing an economic benefit is necessary to quantify a tangible benefit to ratepayers.

Economic benefits also depend upon a favorable financial market—one in which transition bonds may be sold at an interest rate lower than the carrying costs of the assets being securitized. The precise interest rate at which transition bonds can be sold in a future market, however, is not known today. Nevertheless, benefits can be calculated based upon certain known facts (*e.g.* the amount of assets to be securitized and the cost of the alternative to securitization) and assumptions (*e.g.* the interest rate of the transition

bonds, the term of the transition bonds and the amount of other qualified costs). By analyzing the proposed securitization based upon those facts and assumptions, a determination can be made as to whether tangible and quantifiable benefits result. To ensure that benefits are realized, the securitization transaction must be structured in a manner consistent with the assumptions of the cost-benefit economic analysis and conform to the structure ordered by the Commission and an issuance advice letter must be presented to the Commission immediately prior to issuance of the bonds demonstrating that the actual structure and costs of the bonds will provide tangible and quantifiable benefits. The cost-benefit analysis contained in the issuance advice letter shall reflect the actual structure of the bonds.

In this proceeding, financial analysis shows that securitizing the items permitted by the Commission's preliminary order and determined in Docket 29526 along with CenterPoint's other qualified costs in the manner provided by this Financing Order will produce an economic benefit to ratepayers in an amount between $113 million and $166 on a present value basis.[10] This benefit will result if the bond market is unfavorable and transition bonds have to be issued at the maximum weighted-average interest rate allowed by this Financing Order. Assuming that the transition bonds are, as CenterPoint expects, subject to a 4.36% weighted-average interest rate, the benefit is between approximately $537 million and $580 million on a present-value basis.[11] The economic benefit to ratepayers will be larger if a more favorable market allows the transition bonds to be issued at a lower interest rate.

To issue a financing order, PURA also requires that the Commission find that the total amount of revenues collected under the financing order will be less than would otherwise have been collected under conventional financing methods. In this proceeding, the analysis using worst-case market conditions under a level rate transition charge structure demonstrates that revenues will be reduced by between $304 million and $444 million on a nominal basis under this Financing Order compared to the amount that would be recovered under conventional financing methods, assuming the bonds are

---

[10] *See* Staff Ex. Staff Ex. 1, Direct Testimony of Darryl Tietjen (Tietjen Direct) at 9-11; CNP Ex. 2, Direct Testimony of James Brian (Brian Direct), Figures JSB-1, page 15.

issued at a 9% weighted-average interest rate.[12] Under the expected scenario, securitization saves ratepayers between $692 million and $794 million in nominal revenue.[13] If transition bonds are issued in a more favorable market, this reduction in revenues will be larger.

To obtain the most favorable issuance of transition bonds—and the greatest benefits to ratepayers—consistent with market conditions and the terms of this Financing Order, the Commission, acting through its designated representative or financial advisor, will participate in the structuring, marketing, and pricing of the bonds. This participation will provide assurances that the minimum cost of securitization and the maximum benefits for retail consumers are obtained consistent with market conditions at the time of pricing and the terms of this Financing Order. In addition, before the transition bonds may be issued, CenterPoint must submit to the Commission an issuance advice letter in which it demonstrates, based upon the actual market conditions at the time of pricing, that the proposed structure and pricing of the transition bonds will provide real economic benefits to retail consumers and comply with this Financing Order. As part of this submission, CenterPoint must also certify to the Commission that the structure and pricing of the transition bonds results in the lowest transition bond charges consistent with market conditions at the time of pricing and the terms of this Financing Order. The form of certification that must be submitted by CenterPoint is set out in Appendix A to this Financing Order. The Commission, by order, may stop the issuance of the transition bonds authorized by this Financing Order if CenterPoint fails to make this demonstration or certification.

PURA requires that transition charges be charged for the use or availability of electric services to recover all qualified costs.[14] Transition charges can be recovered over a period that does not exceed 15 years.[15] The Commission concludes that this prevents the collection of transition charges from retail consumers for services

---

[11] See Tietjen Direct at Exhibit DT-2, page 3; Brian Direct Figure JSB-1, page 14.

[12] *See* Tietjen Direct at Exhibit DT-2, page 4; Brian Direct Figure JSB-1, page 15.

[13] See Tietjen Direct at Exhibit DT-2, page 3; Brian Direct Figure JSB-1, page 14.

[14] *See* PURA § 39.302(7).

rendered after the 15-year period but does not prohibit recovery of transition charges for service rendered during the 15-year period but not actually collected until after the 15-year period.

Transition charges will be collected by an electric utility, its successors, an assignee, or other collection agents as provided for in this Financing Order.[16] The right to impose, collect, and receive transition charges (including all other rights of an electric utility under the financing order) are only contract rights until they are first transferred to an assignee or pledged in connection with the issuance of transition bonds. Upon the transfer or pledge of those rights, they become transition property and, as such, are afforded certain statutory protections to ensure that the charges are available for bond retirement.[17]

This Financing Order contains terms, as it must, ensuring that the imposition and collection of transition charges authorized herein shall be nonbypassable.[18] It also includes a mechanism requiring that transition charges be reviewed and adjusted at least annually, within 45 days of the anniversary date of the issuance of the transition bonds, to correct any overcollections or undercollections during the preceding 12 months and to ensure the expected recovery of amounts sufficient to timely provide all payments of debt service and other required amounts and charges in connection with the transition bonds.[19] In addition to the required annual reviews, more frequent reviews are allowed to ensure that the amount of the transition charges matches the funding requirements approved in this Financing Order. These provisions will help to ensure that the amount of transition charges paid by retail consumers does not exceed the amounts necessary to cover the costs of this securitization, and will also help to foster the development of a robust and competitive retail electric market in Texas. To encourage utilities to undertake securitization financing, other benefits and assurances are provided.

---

[15] *See Id.* § 39.303(b).

[16] *See Id.* § 39.302(7).

[17] *See Id.* § 39.304(b).

[18] *See Id.* § 39.306.

[19] *See Id.* § 39.307.

The State of Texas has pledged, for the benefit and protection of financing parties and electric utilities, that it will not take or permit any action that would impair the value of transition property, or, except for the true-up expressly allowed by law, reduce, alter, or impair the transition charges to be imposed, collected and remitted to financing parties, until the principal, interest and premium, and any other charges incurred and contracts to be performed in connection with the related transition bonds have been paid and performed in full.[20]

Transition property constitutes a present property right for purposes of contracts concerning the sale or pledge of property, and the property will continue to exist for the duration of the pledge of the State of Texas as described in the preceding paragraph.[21] In addition, the interest of an assignee or pledgee in transition property (as well as the revenues and collections arising from the property) are not subject to setoff, counterclaim, surcharge, or defense by the electric utility or any other person or in connection with the bankruptcy of the electric utility or any other entity.[22] Further, transactions involving the transfer and ownership of transition property and the receipt of transition charges are exempt from state and local income, sales, franchise, gross receipts, and other taxes or similar charges.[23] The creation, granting, perfection, and enforcement of liens and security interests in transition property are governed by PURA § 39.309 and not by the Texas Business and Commerce Code.[24]

The Commission may adopt a financing order providing for the retiring and refunding of transition bonds only upon making a finding that the future transition charges required to service the new transition bonds, including transaction costs, will be less than the future transition charges required to service the bonds being retired or refunded.[25] CenterPoint has not requested and this Financing Order does not grant any authority to refinance transition bonds authorized by this Financing Order. This

---

[20] *See Id.* § 39.310.

[21] *See Id.* § 39.304(b).

[22] *See Id.* § 39.305.

[23] *See Id.* § 39.311.

[24] *See Id.* § 39.309(a).

Financing Order does not preclude CenterPoint from filing a request for a financing order to retire or refund the transition bonds approved in this Financing Order upon a showing that the statutory criteria in PURA § 39.303(g) are met.[26]

To facilitate compliance and consistency with applicable statutory provisions, this Financing Order adopts the definitions in PURA § 39.302.

II. DESCRIPTION OF PROPOSED TRANSACTION

A description of the transaction proposed by CenterPoint is contained in its application and the filing package submitted as part of the application. A brief summary of the proposed transaction is provided in this section. A more detailed description is included in Section III.C, titled "Structure of the Proposed Securitization" and in the application and filing package submitted as part of the application.

To facilitate the proposed securitization, CenterPoint proposed that a special purpose entity transition bond company ("BondCo") be created to which will be transferred the rights to impose, collect, and receive transition charges along with the other rights arising pursuant to this Financing Order. Upon transfer, these rights will become transition property as provided by PURA § 39.304. BondCo will issue transition bonds and will transfer the net proceeds from the sale of the transition bonds to CenterPoint in consideration for the transfer of the transition property. BondCo will be organized and managed in a manner designed to achieve the objective of maintaining BondCo as a bankruptcy-remote entity that would not be affected by the bankruptcy of CenterPoint or any other affiliates of CenterPoint or any of their respective successors. In addition, BondCo will have at least two independent managers whose approval will be required for certain major actions or organizational changes by BondCo.

The transition bonds will be issued pursuant to an indenture and administered by an indenture trustee. The transition bonds will be secured by and payable solely out of the transition property created pursuant to this Financing Order and other collateral described in CenterPoint's application. That collateral will be pledged to the indenture

---

[25] *See Id.* § 39.303(g).

trustee for the benefit of the holders of the transition bonds and to secure payment of certain qualified costs.

The servicer of the transition bonds will collect the transition charges and remit those amounts to the indenture trustee on behalf of BondCo. The servicer will be responsible for making any required or allowed true-ups of the transition charges. If the servicer defaults on its obligations under the servicing agreement, the indenture trustee may appoint a successor servicer. CenterPoint will act as the initial servicer for the transition bonds.

Retail electric providers ("REPs") will be required to meet certain financial standards to collect transition charges under this Financing Order. If the REP qualifies to collect transition charges, the servicer will bill to and collect from the REP the transition charges attributable to the REP's customers. The REP in turn will bill to and collect from its retail customers the transition charges attributable to them. If any REP fails to qualify to collect transition charges or defaults in the remittance of those charges to the servicer of the transition bonds, another entity can assume responsibility for collection of the transition charges from the REP's retail customers.

Transition charges will be calculated to ensure the collection of an amount sufficient to service the principal, interest, and related charges for the transition bonds and in a manner that allocates this amount to the various classes of retail consumers as provided in PURA and Commission orders. The transition charges will be calculated pursuant to the method described in Schedule TC2, a pro forma copy of which is contained in Appendix B. In addition to the annual true-up required by PURA § 39.307, periodic true-ups may be performed as necessary to ensure that the amount collected from transition charges is sufficient to service the transition bonds. In addition, an adjustment to the transition charge class allocations will be allowed under certain circumstances. The methodology for making true-ups and allocation adjustments and the circumstances under which each shall be made are described in amended Schedule TC2, attached to this Financing Order as Appendix B.

---

[26] *See Id.*

The Commission determines that CenterPoint's proposed level transition charge structure, rather than its "phase-in" approach, should be utilized. Because the phase-in approach extends payments on the transition debt further into the future, ratepayers must bear greater interest charges under that structure. The level transition charge structure results in a lower nominal cost to ratepayers over a 14 year recovery period than does the phase-in structure.[27] Accordingly, the Commission concludes that the level structure is preferable from the perspective of ratepayers.

In its application, CenterPoint requested authority to issue transition bonds in the original principal amount not to exceed (1) the total true-up balance ($2,300,888,665) determined in Docket No. 29526 plus (a) the amount of excess mitigation credits provided by CenterPoint after August 31, 2004 through the date of issuance of the transition bonds, (b) interest accrued after August 31, 2004 through the date of issuance of the transition bonds, and (c) up-front qualified costs, minus (2) the present value of the benefit arising from the accumulated deferred federal income taxes ("ADFIT") associated with the true-up balance as of August 31, 2004.

The Commission addressed the scope of CenterPoint's application in a preliminary order issued December 20, 2004.[28] After consideration of briefs submitted by the parties on this issue, the Commission determined that PURA Chapter 39, Subchapter G does not permit CenterPoint to securitize its entire true-up balance as determined in Docket No. 29526. Rather, the Commission determined that the company may only securitize its stranded costs, interest on stranded costs, regulatory assets not already securitized, and certain qualified costs.[29] Under the Commission's preliminary order, the balance eligible for securitization is $1,493,747,264, plus interest accrued since August 31, 2004, updated excess mitigation credit payments made since that date, and up-front costs of issuing the transition bonds as discussed further in this Order.

---

[27] *See, e.g*, Brian Direct, Figure JSB-1 page 2 compared with Figure JSB-1 page 15, in which the total nominal revenues required under the phase-in structure exceed the revenue required under the level structure for the worst-case scenario.

[28] Preliminary Order at 5-7(Dec. 20, 2004).

[29] *Id.* at 7.

The Commission is issuing a separate order in this docket, concurrent with this Financing Order, to address the adjustment for the ADFIT benefit that CenterPoint included in its application. As that Order details, a total ADFIT benefit of $313,620,745 shall be applied against CenterPoint's CTC recovery in Docket No. 30706,[30] and not against the amount to be securitized in this proceeding.

CenterPoint requests approval of transition charges sufficient to recover the principal and interest on the transition bonds plus ongoing qualified costs as described in Appendix C. CenterPoint requests that the transition charges be recovered from REPs and through them from retail consumers and that the amount of the transition charges be calculated based upon the allocation methodology and billing determinants specified in Schedule TC2. CenterPoint also requests that certain standards related to the billing and collection of transition charges be applied to REPs, as specified in Schedule TC2. To implement the transition charges and billing and collection requirements, CenterPoint requests approval of Schedule TC2, as modified by the stipulation between CenterPoint, TIEC, Staff , and a number of other intevenors.[31]

CenterPoint requested in its application that its upfront and ongoing costs of issuing and maintaining the transition bonds be recovered through the TC at issue in this proceeding without limitation. CenterPoint estimated that for its proposed level structure, its upfront costs would total approximately $18 million, while its ongoing costs of servicing the bonds would total approximately $1 million per year for each year of the term of the bonds.[32]

The Commission's analysis of CenterPoint's request begins with the finding that the company's costs that are permitted to be securitized, as well as the ongoing costs that the company proposes to recover directly through the TC, should be capped. This finding accords with Reliant Energy's securitization,[33] and other securitization proceedings in

---

[30] *Application of CenterPoint Energy Houston Electric, LLC, for a Competition Transition Charge (CTC)*, Docket No. 30706 (pending).

[31] TIEC Ex. 17, *Stipulation Regarding Industrial Intra-Class Allocations.*

[32] *See* Brian Direct, Figures JSB-1, Schedule 6.

[33] *Application of Reliant Energy, Incorporated for Financing Order to Securitize Regulatory Assets and Other Qualified Costs*, Docket No. 21665, Financing Order (June 1, 200).

this state. CenterPoint's case does not present sufficient distinctions to merit deviating from this practice.

Furthermore, the Commission concludes that certain of the items within CenterPoint's up-front cost estimate should be reduced. In particular, the Commission concludes that CenterPoint should be permitted to securitize only $2 million in legal fees, rather than the $6.7 million originally requested. This securitization is the latest of several such transactions in this state that have occurred since deregulation began, with the previous securitizations being of similar complexity and presenting similar issues. Accordingly, it is reasonable to reduce the total amount of securitizable up-front qualified costs by $4.7 million, as reflected in Appendix C. However, CenterPoint may seek to recover any actual costs in excess of the capped amount, including legal fees, through a surcharge to CenterPoint's rates for transmission and distribution service. In seeking recovery of such costs, CenterPoint must prove that the costs were prudently incurred and reasonable and necessary.

The Commission also believes that the proposed securitization of the $1.6 million estimated for the Commission's financial advisor to be unreasonable, and finds $1.0 million to be an appropriate fee to be included in the securitized balance.

The Commission notes that the cost of retiring CenterPoint's debt or equity using the proceeds of the transition bonds shall remain uncapped; Commission experience with these expenses indicates that they vary widely and are not entirely within the company's control.[34]

In capping CenterPoint's upfront and ongoing costs, the Commisison is mindful of the fact that several of the components of these total cost balances will vary upon the size of the final issuance of the transition bonds. Specifically, the Commission realizes that the SEC Registration Fee and Underwriters Fees are proportional to the amount of qualified costs actually securitized. In view of the Commission's decision not to deduct an ADFIT benefit from CenterPoint's securitized balance, and the updating of the accrual of interest on stranded costs through the date of the bond issuance, as well as the actual

[34] *See* Staff Ex. 2, Direct Testimony of Martha Elvey (Elvey Direct) at 18.

amount of EMCs actually paid through the date of bond issuance, the amount of qualified costs will increase from the amount assumed for the purpose of estimating these costs. Accordingly, caps on ongoing costs stated in Appendix C to this order should be increased to the extent that the SEC Registration Fee and Underwriters Fees increases proportionaely as a result of the increase in qualified costs securitized.

The amounts currently stated in Appendix C for those items are estimates based on the size of the bond issuance resulting from securitizing CenterPoint's stranded costs, interest on stranded costs through August 31, 2004, plus EMCs paid through that date, plus regulatory assets, minus CenterPoint's proposed ADFIT deduction, plus up-front qualified costs appropriate to the size of the resulting securitization. Thus, the cap on upfront costs is currently $12,700,000, as reflected in Appendix C, but will be subject to updating upon review of CenterPoint's issuance advice letter.

Likewise, although recovery of ongoing costs are capped at the level estimated in CenterPoint's application and as reflected in Appendix C, the cap should be updated upon a showing that ongoing costs will increase as a result of the allowable amount of the transition bonds increasing. The Commission will also permit a successor servicer to CenterPoint to recover a higher servicer fee if CenterPoint ceases to service these bonds, but in no event shall such recovery exceed the amount specified for the fee of a third party as servicer stated in Appendix C.

III. FINDINGS OF FACT

A. Identification and Procedure

1. Identification of Applicant and Application

1. CenterPoint Energy Houston Electric, LLC, (CenterPoint) is a transmission and distribution utility which owns and operates for compensation an extensive transmission and distribution network to provide electric service in the portion of this state which is included in ERCOT. CenterPoint is an indirect wholly-owned subsidiary of CenterPoint Energy, Inc., which is a registered public utility holding company under the Public Utility Holding Company Act of 1935.

2. On March 31, 2004 in Docket No. 29526, CenterPoint, Texas Genco, LP and Reliant Energy Retail Services, LLC jointly filed an application to determine the true-up balance CenterPoint is entitled to recover in connection with the transition from a regulated to a competitive electricity market in ERCOT as required under PURA § 39.262. After contested hearings, in an order issued on November 23, 2004, the Commission determined that CenterPoint was entitled to recover an aggregate balance of $2,300,888,665 plus the excess mitigation credits provided and interest accrued after August 31, 2004.

2. Procedural History

3. On December 2, 2004, CenterPoint filed its application for a financing order under Subchapter G of Chapter 39 of PURA to permit securitization of (1) the total true-up balance ($2,300,888,665) determined in Docket No. 29526 plus (a) the amount of excess mitigation credits provided by CenterPoint after August 31, 2004 through the date of issuance of the transition bonds, (b) interest accrued after August 31, 2004 through the date of issuance of the transition bonds, and (c) up-front qualified costs, minus (2) the present value of the benefit arising from the ADFIT associated with its true-up balance as of August 31, 2004. CenterPoint also proposed to include as qualified costs the costs of possible swap or hedge agreements entered into under the circumstances described in the testimony accompanying the application and the costs of credit enhancements relating to marketability of the transition bonds. The application includes the exhibits, schedules, attachments, and testimony.

4. On December 2, the Commission's Policy Development Division issued an order requesting briefing on the following issues:

   i) Whether Centerpoint's application was properly filed at the time, considering that the order in Docket No. 29526 was not final and appealable, the possibility that Docket No. 29526 could be overturned on judicial appeal, and the Commission had not yet established a competitive transition charge (CTC)

ii) Whether the Commission may issue a financing order to recover amounts other than qualified costs as defined in PURA § 39.302(4).

5. On December 3, 2005, the administrative law judge (ALJ) of the Commission's Policy Development Division issued Order No. 1 scheduling a prehearing conference, adopting a protective order, addressing discovery deadlines and requesting parties' comments on CenterPoint's notice.

6. At a prehearing conference on December 10, 2004, the ALJ considered the parties' comments regarding notice and procedural schedule and admitted the following parties as intervenors: CPL Retail Energy, LP, Office of Public Utility Counsel (OPC), the State of Texas (State), Gulf Coast Coalition of Cities (GCCC), Houston Council for Health and Education (HCHE), Texas Industrial Energy Consumers (TIEC), Alliance for Retail Markets (ARM), Coalition of Commercial Ratepayers (CCR), Reliant, and Occidintal Power Marketing.

7. In Order No. 2, on December 15, 2004, the ALJ approved CenterPoint's notice and revised the protective order.

8. In Order No. 3, on December 17, 2004, the ALJ established the procedural schedule.

9. In response to briefs filed by the parties, on December 20, 2004, the Commission issued a preliminary order stating that: (1) CenterPoint's application was not untimely, and (2) PURA did not permit CenterPoint to securitize its entire true-up balance, but only the company's stranded costs, interest on stranded costs, regulatory assets not already securitized, and certain up-front and ongoing costs of issuance maintaining the transition bonds. As a result of the preliminary order, the true-up balance to be securitized was reduced to $1,493,747,264 plus (a) the amount of excess mitigation credits (EMCs) paid by CenterPoint since August 31, 2004 through the date of issuance of the transition bonds or the date of EMC termination, whichever is earlier, and (b) interest on stranded costs accured after August 31, 2004 through the date of issuance of the bonds, and (c) up-front qualified costs of issuing the bonds.

10. On December 22, 2004, OPC filed a motion alleging CenterPoint's application to be materially deficient because CenterPoint did not amend its application to conform to the Preliminary Order. CenterPoint responded on December 28, 2004, noting that it included in its original filing package all of the information necessary to evaluate the proposed securitization of the amount specified in the Preliminary Order. The ALJ denied OPCs motion on January 3, 2005.

11. On January 14, 2005, parties filed a Final Allocation Settlement Agreement addressing the allocation of costs to be recovered through a transition charge or compeitition transition charge among rate classes. Signatories are CenterPoint, TIEC, OPC, City of Houston/Coalition of Cities, the State of Texas, HCHE and CCR. No party opposed the settlement.

12. In Order No. 13 on January 24, 2005, the ALJ granted the motions to intervene of Air Products and Chemicals and TXU Energy Retail.

13. On January 31, February 1, and February 2, 2005 a hearing was held before the Commission.

14. During the hearing, TIEC entered as its Exhibit 17 a Stipulation Regarding Industrial Intra-Class Allocations, which addresses certain portions of CenterPoint's Proposed Schedule TC2. On February 25, 2005, TIEC filed an amended Schedule TC2 in accordance with stipulation. Parties to the stipulation are CenterPoint, OPC, Commission Staff, CCR, HCHE, TXU Energy Retail, TIEC, the State, GCCC, COH/COC, and Air Products and Chemicals. No party opposed the stipulation.

15. On February 10 and 24, 2005, in open meeting, the Commission deliberated on the merits of CenterPoint's application, including the proposed financing order, and rendered its final decision in this docket.

16. On February 23, 2005, Staff and CenterPoint jointly filed amendments to CenterPoint's proposed financing order, included modified findings of fact, new findings of fact, and new ordering paragraph. No party filed comments in opposition to the joint filing.

17. At the February 24, 2005 open meeting, counsel for CenterPoint agreed to waive the requirement in PURA 39.303(e) that the Commission issue this Financing Order within 90 days after the application was filed.

3. Notice of Application

18. Notice of CenterPoint's application was provided through publication once a week for two consecutive weeks in newspapers having general circulation in CenterPoint's service area, beginning shortly after the filing of the application. In addition, CenterPoint provided individual notice to the governing bodies of all Texas incorporated municipalities that have retained original jurisdiction over CenterPoint and to each retail electric provider listed on the Commission website. Notice was also provided to all parties in Docket No. 29526. Proof of publication was submitted in the form of publishers' affidavits and verification of the mailing of individual notices and the provision of notice to the municipalities.

B. Qualified Costs and Amount to be Securitized

1. Identification and Amounts

19. Qualified costs are defined in PURA to include 100% of an electric utility's regulatory assets and 75% of its recoverable costs determined by the Commission under PURA § 39.201 and any remaining stranded costs determined under PURA § 39.262 together with the costs of issuing, supporting, and servicing transition bonds and any costs of retiring and refunding the electric utility's existing debt and equity securities in connection with the issuance of transition bonds. Qualified costs also include the costs to the Commission of acquiring professional services for the purpose of evaluating proposed securitization transactions.[35]

20. Regulatory assets are defined to include only the generation-related portion of the Texas jurisdictional portion of the amount reported by an electric utility in its 1998 annual report to the Securities and Exchange Commission ("SEC") on Form 10-K as regulatory assets and liabilities, offset by the applicable portion of

[35] *See* PURA § 39.302(4).

generation-related investment tax credits permitted under the Internal Revenue Code of 1986.36 Pursuant to the financing order in Docket No. 21665, CenterPoint was authorized to and did securitize certain of its regulatory assets and retained the right to request authority to securitize certain additional regulatory assets. In its Order in Docket No. 29526, the Commission quantified an additional $150,473,181 in regulatory assets.

21. Other qualified costs include the costs of issuing, supporting, and servicing the transition bonds and any transaction costs associated with retiring and refunding existing debt and equity securities with the proceeds from the transition bonds; provided, however, to the extent that the proceeds of transition bonds are used to retire or refund any debt owed by CenterPoint to an affiliate or any equity held by an affiliate, any transaction costs associated with retiring or refunding such affiliate-held debt or equity shall not be included in other qualified costs. The actual costs of issuing and supporting the transition bonds will not be known until the transition bonds are issued, and certain ongoing costs relating to the transition bonds may not be known until such costs are incurred. This order contains an estimate of the maximum amount of these costs as shown in Appendix C and provides for recovery of the actual amounts subject to an aggregate cap applicable to the up-front costs, a specific cap applicable to the financial advisor fee, and a separate cap for ongoing costs. The magnitude of two of the components of the capped up-front costs—the SEC filing fee and the underwriter fee—is directly related to the size of the bond issuance. The Commission estimates the total cost of these two items in its Appendix C; these items shall be updated, to the extent they deviate from this estimate, in the issuance advice letter. The actual amount of debt and equity securities to be retired and refunded will be affected by the timing of issuance of the transition bonds and market conditions at the time such securities are retired or refunded. As a result, the actual cost of retiring and refunding debt and equity securities in connection with the issuance of transition bonds will not be known until such securities are retired and such refunding is

[36] *See* PURA §39.302(5).

complete. Similarly, the need for and the costs of any credit enhancement and of any swaps or hedges that may be entered into in connection with the issuance of transition bonds and underwriting costs will not be known until the time the transition bonds are priced. There also is no way to estimate the original issue discount, if any, which under market conditions existing at the time of issuance may be necessary or appropriate. The underwriting costs, and the cost of credit enhancement, swaps and hedges, and original issue discount will be fully reflected in the issuance advice letter.

2. Securitization of Interest on Stranded Costs

22. CenterPoint's application sought to securitize interest on the company's stranded costs balance accrued since August 31, 2004.

23. The December 17, 2004 Order on Rehearing in Docket No. 29526 recognized that the effect of the Supreme Court of Texas' decision in *CenterPoint Energy v. Pub. Util. Comm'n of Texas*, 143 S.W.3d 81 (Tex. 2004) was that CenterPoint should be allowed to recover interest on its stranded costs starting on January 1, 2002.

24. The Commission determined in Docket No. 29526 that CenterPoint's stranded costs balance is subject to an 11.075% interest rate

25. The balance to be securitized properly includes interest on stranded costs accrued since August 31, 2004 through the date of issuance of the transition bonds.

3. Securitization of EMCs

26. In Docket No. 29526, the Commission determined that CenterPoint should continue to pay EMCs and that all EMCs paid (excluding interest on EMCs) are recoverable.

27. EMCs paid since August of 31, 2004 through either the date of issuance of the transition bonds or the termination of EMCs, whichever is earlier, are properly included in the balance CenterPoint seeks to securitize.

4. Balance to be Securitized

28. CenterPoint should be authorized to issue transition bonds with a principal amount equal to (1) the sum of stranded costs and regulatory assets not previously securitized as determined in Docket No. 29526 ($1,493,747,264) plus (a) the amount of excess mitigation credits provided by CenterPoint after August 31, 2004 through the date of issuance of the transition bonds or the date of termination of such excess mitigation credits, whichever is earlier, (b) interest on stranded costs accrued after August 31, 2004 through the date of issuance of the transition bonds, and (c) up-front qualified costs subject to the caps set forth in Appendix C and as adjusted as provided in this Financing Order. CenterPoint should be authorized to recover the remaining qualified costs, composed of the ongoing support and servicing costs subject to the cap listed in Appendix C as adjusted as provided in this Financing Order, directly through transition charges.

29. The proposed recovery of the sum described in Finding of Fact No. 28 through issuance of transition bonds as provided in this Financing Order should be approved because ratepayers will receive tangible and quantifiable benefits as a result of the securitization.

5. Issuance Advice Letter

30. Because the actual structure and pricing of the transition bonds and the precise amounts of up-front costs and expenses will not be known at the time this Financing Order is issued, CenterPoint and Staff agreed that, following determination of the final terms of the transition bonds and prior to issuance of the transition bonds, CenterPoint will file with the Commission for each series of transition bonds issued, and no later than twenty-four hours after the pricing date for that series of transition bonds, an issuance advice letter. The issuance advice letter will include CenterPoint's best estimate of total up-front qualified costs. The estimated total up-front qualified costs may be included in the principal amount securitized, subject to the caps set forth in Appendix C and as adjusted as provided by this Financing Order. Within 60 days of issuance of the transition bonds, CenterPoint shall submit to the Commission a final accounting of the total

up-front qualified costs. If the actual up-front qualified costs are less than the up-front qualified costs included in the principal amount securitized, the periodic billing requirement for the first annual true-up adjustment shall be reduced by the amount of such unused funds (together with interest earned thereon through investment by the trustee in eligible investments) and such unused funds (together with interest earned thereon through investment by the trustee in eligible investments) shall be available for payment of debt service on the bond payment date next succeeding such true-up adjustment. If the actual up-front qualified costs are more than the up-front qualified costs included in the principal amount securitized, CenterPoint may request recovery of the remaining up-front qualified costs through a surcharge to CenterPoint's rates for transmission and distribution service. In seeking to recover such costs, CenterPoint should be required to prove that the costs were prudently incurred, and reasonable and necessary. The excess or deficiency shall bear interest from the date of issuance of the transition bonds through the date the amounts are refunded or recovered, at the interest rate(s) applicable to refunds under the Commission's rules. The issuance advice letter will be completed to report the actual dollar amount of the initial transition charges and other information specific to the transition bonds to be issued. All amounts that require computation will be computed using the mathematical formulas contained in the form of the issuance advice letter in Appendix A to this Financing Order and Schedule TC2. The initial transition charges and the final terms of the transition bonds set forth in the issuance advice letter shall become effective on the date of issuance of the transition bonds unless prior to noon on the fourth business day after pricing the Commission issues an order finding that the proposed issuance does not comply with the requirements of PURA and this Financing Order.

31. CenterPoint will submit a draft issuance advice letter to the Commission Staff for review not later than two weeks prior to the expected date of pricing the transition bonds. Within one week after receipt of the draft issuance advice letter, Commission Staff will provide CenterPoint comments and recommendations regarding the adequacy of the information provided.

32. The issuance advice letter shall be submitted to the Commission within 24 hours after the pricing of the transition bonds. Commission Staff may request such revisions of the issuance advice letter as may be necessary to assure the accuracy of the calculations and that the requirements of PURA and of this financing order have been met. The initial transition charges and the final terms of the transition bonds set forth in the issuance advice letter shall become effective on the date of issuance of the transition bonds (which shall not occur prior to the fifth business day after pricing) unless prior to noon on the fourth business day after pricing the Commission issues an order finding that the proposed issuance does not comply with the requirements of PURA and the Financing Order.

33. The completion and filing of an issuance advice letter in the form of the issuance advice letter attached as Appendix A, including the certification from CenterPoint discussed in Finding of Fact No. 115 is necessary to ensure that any securitization actually undertaken by CenterPoint complies with the terms of this Financing Order.

34. The certification statement contained in CenterPoint's certification letter shall be worded precisely as the statement in the form of the issuance advice letter approved by the Commission. Other aspects of the certification letter may be modified to describe the particulars of the transition bonds facts and the actions that were taken during the transaction.

6. Tangible and Quantifiable Benefit

35. The statutory requirement in PURA § 39.301 that directs the Commission to ensure that securitization provides tangible and quantifiable benefits to ratepayers greater than would be achieved absent the issuance of transition bonds can only be determined using an economic analysis to account for the time value of money. An analysis that compares in the aggregate over a 14-year period the present value of the revenue requirement associated with recovery of the balance permitted in the Commission's preliminary order through a competition transition charge, which is the method that would be used to recover any portion of the balance not securitized and is reflective of conventional utility financing, with the

present value of the revenue required under securitization is an appropriate economic analysis to demonstrate whether securitization provides economic benefits to ratepayers.

36. Securitization financing of the stranded costs, interest on stranded costs accrued since August 31, 2004 through the date of bond issuance, EMC principal paid since August 31, 2004, regulatory assets not already securitized and other qualified costs as requested by CenterPoint is expected to result in between approximately $113 million and $166 million of tangible and quantifiable economic benefits to ratepayers on a present-value basis if the transition bonds are issued at the maximum weighted-average interest rate of 9% allowed by this Financing Order, Using the projected weighted-average interest rate of approximately 4.36%, the benefits of securitization would be even larger, between approximately $537 million and $580 million. The actual benefit to ratepayers will depend upon market conditions at the time the transition bonds are issued and the amount actually securitized. This range of quantifications uses a maximum expected life of 14 years and reflects the present value of estimated up-front and ongoing qualified costs.

7. Present Value Cap

37. The amount securitized may not exceed the present value of the revenue requirement over the life of the proposed transition bonds associated with conventional (i.e., non-securitized) recovery of the authorized amounts where the present value analysis uses a discount rate equal to the proposed interest rate on the transition bonds.[37] The methodologies used by the parties to calculate economic benefits also demonstrate that the amount CenterPoint seeks to securitize does not exceed the present value of the revenue requirement associated with the securitized amount over the maximum expected 14-year life of the transition bonds. That present value (calculated using the maximum weighted-average rate of 9%) is between $1.473 billion and $1.2 billion. Using the projected weighted-average interest rate of approximately 4.36%, the benefits of

securitization would be even larger. Using a 4.36% weighted-average interest rate, the present value would be between $1.958 billion and $1.619 billion.

38. The amount of qualified costs to be securitized does not exceed the present value of the revenue requirement over the maximum expected 14-year life of the transition bonds associated with the amount approved to be securitized in this Financing Order. The present value analysis uses a discount rate equal to the maximum allowed weighted average interest rate on the transition bonds on an annual basis.

8. Total Amount of Revenue to be Recovered

39. The Commission is required to find that the total amount of revenues to be collected under this Financing Order will be less than the revenue requirement that would be recovered over the remaining life of the amounts that are securitized under this Financing Order, using conventional financing methods.[38] The appropriate conventional financing method with which to make this comparison is the recovery of the amount through competition transition charges determined under PURA § 39.201. Under the worst-case scenario in which the bonds bear a 9% weighted-average interest rate, the total amount of revenues to be collected under this Financing Order is expected to be between approximately $304 million and $444 million less than the revenue requirement that would be recovered using conventional utility financing methods over the period under which they would be recovered through a competition transition charge. This quantification is the reduction in the amount of revenues resulting from securitization of the authorized amounts using the methodology contained in CenterPoint's testimony with a transition bond weighted-average interest rate of 9.0% and a maximum expected life of 14 years. Using the projected weighted-average interest rate of approximately 4.36%, the benefits of securitization would be even larger, between approximately $692 million and $794 million.

---

[37] *See* PURA § 39.301.

[38] *See id.* § 39.303(a).

C. Structure of the Proposed Securitization

1. BondCo

40. For purposes of this securitization, CenterPoint will create BondCo, a special purpose entity which will be a Delaware limited liability company with CenterPoint as its sole member. BondCo will be formed for the limited purpose of acquiring transition property (including any transition property authorized by the Commission in a subsequent financing order), issuing transition bonds in one or more series and in one or more classes for each series (which could include transition bonds authorized by the Commission in a subsequent financing order), and performing other activities relating thereto or otherwise authorized by this Financing Order. BondCo will not be permitted to engage in any other activities and will have no assets other than transition property and related assets to support its obligations under the transition bonds. Obligations relating to the transition bonds will be BondCo's only significant liabilities. These restrictions on the activities of BondCo and restrictions on the ability of CenterPoint to take action on BondCo's behalf are imposed to achieve the objective of ensuring that BondCo will be bankruptcy remote and not affected by a bankruptcy of CenterPoint. BondCo will be managed by a board of managers with rights and duties similar to those of a board of directors of a corporation. As long as the transition bonds remain outstanding, BondCo will have at least two independent managers with no organizational affiliation with CenterPoint. BondCo will not be permitted to amend the provisions of the organizational documents that ensure bankruptcy-remoteness of BondCo without the consent of the independent managers. Similarly, BondCo will not be permitted to institute bankruptcy or insolvency proceedings or to consent to the institution of bankruptcy or insolvency proceedings against it, or to dissolve, liquidate, consolidate, convert, or merge without the consent of the independent managers. Other restrictions to ensure

bankruptcy-remoteness may also be included in the organizational documents of BondCo as required by the rating agencies.

41. The capital of BondCo is expected to be not less than 0.5% of the original principal amount of each series of transition bonds issued by BondCo. The capitalization of BondCo is expected to be sufficient to allow BondCo to meet any reasonably expected expenses that might arise that are related to the transition charges and the transition bonds. Adequate funding of BondCo is intended to avoid the possibility that CenterPoint would have to extend funds to BondCo in a manner that could jeopardize the bankruptcy remoteness of BondCo. A sufficient level of capital is necessary to minimize this risk and, therefore, assist in achieving the lowest transition bond charges possible.

42. BondCo will issue transition bonds in one or more series, and in one or more classes for each series, in an aggregate amount not to exceed the principal amount approved by this Financing Order and will pledge to the indenture trustee, as collateral for payment of the transition bonds, the transition property, including BondCo's right to receive the transition charges as and when collected, and certain other collateral described in CenterPoint's application.

43. Concurrent with the issuance of any of the transition bonds, CenterPoint will transfer to BondCo all of CenterPoint's rights under this Financing Order, including rights to impose, collect, and receive transition charges approved in this Financing Order. This transfer will be structured so that it will qualify as a true sale within the meaning of PURA § 39.308. By virtue of the transfer, BondCo will acquire all of the right, title, and interest of CenterPoint in the transition property arising under this Financing Order.

44. The use and proposed structure of BondCo and the limitations related to its organization and management are necessary to minimize risks related to the proposed securitization transactions and to minimize the transition charges. Therefore, the use and proposed structure of BondCo should be approved.

2. Credit Enhancement and Arrangements to Reduce Interest Rate Risk or Enhance Marketability

45. CenterPoint requested approval to use additional forms of credit enhancement (including letters of credit, reserve accounts, surety bonds, or guarantees), various arrangements to reduce interest rate risks (including swaps and hedges) and other mechanisms designed to promote the credit quality and marketability of the transition bonds if the benefits of such arrangements exceeded their cost. CenterPoint also asked that the costs of any credit enhancements as well as the costs of arrangements to reduce interest rate risk or enhance marketability be included in the amount of qualified costs to be securitized. CenterPoint should be permitted to recover the up-front and ongoing costs of credit enhancements and arrangements to reduce interest rate risk or enhance marketability, provided that the Commission's designated representative or financial advisor and CenterPoint agree in advance that such enhancements and arrangements provide benefits greater than their tangible and intangible costs. If the use of original issue discount, credit enhancements, or other arrangements is proposed by CenterPoint, CenterPoint shall provide the Commission's designated representative or financial advisor copies of all cost/benefit analyses performed by or for CenterPoint Houston that support the request to use such arrangements. This finding does not apply to the collection account or its subaccounts approved in this Financing Order.

46. CenterPoint's proposed use of credit enhancements and arrangements to reduce interest rate risk or enhance marketability is reasonable and should be approved, provided that CenterPoint certifies that the enhancements or arrangements provide benefits greater than their cost and that such certifications are agreed with by the Commission's designated representative or financial advisor.

3. Transition Property

47. Under PURA § 39.304(a), the rights and interest of an electric utility or successor under a financing order, including the right to impose, collect, and receive the transition charges authorized in the order, are only contract rights until they are

first transferred to an assignee or pledged in connection with the issuance of transition bonds, at which time they will become transition property.

48. The rights to impose, collect, and receive the transition charges approved in this Financing Order along with the other rights arising pursuant to this Financing Order will become transition property upon the transfer of such rights by CenterPoint to BondCo pursuant to PURA § 39.304.

49. Transition property and all other collateral will be held and administered by the indenture trustee pursuant to the indenture, as described in CenterPoint's application. This proposal will help ensure the lowest transition bond charges and should be approved.

50. Under PURA § 39.304(b), transition property constitutes a present property right for purposes of contracts concerning the sale or pledge of property, even though the imposition and collection of transition charges depends on further acts of the utility or others that have not yet occurred.

4. Servicer and the Servicing Agreement

51. CenterPoint will execute a servicing agreement with BondCo. The servicing agreement may be amended, renewed or replaced by another servicing agreement. The entity responsible for carrying out the servicing obligations under any servicing agreement is the servicer. CenterPoint will be the initial servicer but may be succeeded as servicer by another entity under certain circumstances detailed in the servicing agreement. Pursuant to the servicing agreement, the servicer is required, among other things, to impose and collect the applicable transition charges for the benefit and account of BondCo, to make the periodic true-up adjustments of transition charges required or allowed by this Financing Order, and to account for and remit the applicable transition charges to or for the account of BondCo in accordance with the remittance procedures contained in the servicing agreement without any charge, deduction or surcharge of any kind (other than the servicing fee specified in the servicing agreement). Under the terms of the servicing agreement, if any servicer fails to perform its servicing

obligations in any material respect, the indenture trustee acting under the indenture to be entered into in connection with the issuance of the transition bonds, or the indenture trustee's designee, may, or, upon the instruction of the requisite percentage of holders of the outstanding amount of transition bonds, shall, appoint an alternate party to replace the defaulting servicer, in which case the replacement servicer will perform the obligations of the servicer under the servicing agreement. The obligations of the servicer under the servicing agreement and the circumstances under which an alternate servicer may be appointed are more fully described in the servicing agreement. The rights of BondCo under the servicing agreement will be included in the collateral pledged to the indenture trustee under the indenture for the benefit of holders of the transition bonds. CenterPoint currently serves as servicer of the transition charges related to the transition bonds issued by CenterPoint Energy Transition Bond Company, LLC in October 2001 pursuant to the financing order issued on May 31, 2000 in Docket No. 21665. Consequently, CenterPoint, as initial servicer of transition charges associated with transition bonds issued under this Financing Order will, and any successor servicer may, simultaneously be serving as servicer of separate transition charges associated with transition bonds for more than one issuer.

52. The Servicing Agreement negotiated as part of this securitization shall contain a recital clause that the Commission, or its attorney, will enforce the Servicing Agreement for the benefit of Texas ratepayers to the extent permitted by law.

53. The Servicing Agreement negotiated as part of this securitization shall include a provision that CenterPoint shall indemnify the Commission (for the benefit of consumers) in connection with any increase in servicing fees that become payable pursuant to Section 5.07 of the Servicing Agreement as a result of a default resulting from CenterPoint's willful misconduct, bad faith or negligence in performance of its duties or observance of its covenants under the Servicing Agreement. The indemnity will be enforced by the Commission but will not be enforceable by any REP or consumer.

54. The obligations to continue to provide service and to collect and account for transition charges will be binding upon CenterPoint and any other entity that provides transmission and distribution services or direct wire services to a person that was a retail consumer located within HL&P's service area as it existed on May 1, 1999, or that became a retail consumer for electric services within such area after May 1, 1999, and is still located within such area. Further, and to the extent REPs are responsible for imposing and billing transition charges on behalf of BondCo, billing and credit standards approved in this Financing Order will be binding on all REPs that bill and collect transition charges from such retail consumers, together with their successors and assigns. The Commission will enforce the obligations imposed by this Financing Order, its applicable substantive rules, and statutory provisions.

55. To the extent that any interest in the transition property created by this Financing Order is assigned, sold or transferred to an assignee,[39] CenterPoint will enter into a contract with that assignee that will require CenterPoint to continue to operate its transmission and distribution system in order to provide electric services to CenterPoint's customers. This provision does not prohibit CenterPoint from selling, assigning or otherwise divesting its transmission and distribution system or any part thereof so long as the entity acquiring such facilities agrees to continue operating the facility to provide electric services to CenterPoint's customers.

56. The proposals described in Findings of Fact Nos. 51 through 55 are reasonable, will reduce risk associated with the proposed securitization and will, therefore, result in lower transition bond charges and greater benefits to ratepayers and should be approved.

---

[39] The term "assignee" means "any individual, corporation, or other legally recognized entity to which an interest in transition property in transferred, other than as security, including any assignee of that party." *See id.* § 39.302(1).

5. Retail Electric Providers

57. The servicer will bill the transition charges to each retail consumer's REP and the REP will collect the transition charges from its retail customers.

58. Schedule TC2 sets forth minimum billing and collection standards to apply to REPs that collect transition charges approved by this Financing Order from retail electric consumers. The Commission finds that the REP standards set forth in Schedule TC2 are appropriate and should be adopted.

59. The REP standards set forth in Schedule TC2 relate only to the billing and collection of transition charges authorized under this Financing Order, and do not apply to collection of any other nonbypassable charges or other charges. The standards apply to all REPs other than REPs that have contracted with CenterPoint to have CenterPoint bill and collect transition charges from the REP's retail consumers. REPs may contract with parties other than CenterPoint to bill and collect transition charges from retail consumers, but such parties shall remain subject to these standards. Upon adoption of any amendment to P.U.C. Substantive Rule 25.108, the Commission staff will open a proceeding to investigate the need to modify the standards in Schedule TC2 to conform to that rule, provided that such modifications may not be implemented absent prior written confirmation from each of the rating agencies that have rated the transition bonds that such modifications will not cause a suspension, withdrawal, or downgrade of the ratings on the transition bonds.

60. The REP standards are as follows:

(a) Rating, Deposit, and Related Requirements.

Each REP must (1) have a long-term, unsecured credit rating of not less than "BBB-" and "Baa3" (or the equivalent) from Standard & Poor's and Moody's Investors Service, respectively, or (2) provide (a) a deposit of two months' maximum expected transition charge collections in the form of cash, (b) an affiliate guarantee, surety bond, or letter of credit providing for payment of such amount of transition charge collections in the event

that the REP defaults in its payment obligations, or (c) a combination of any of the foregoing. A REP that does not have or maintain the requisite long-term, unsecured credit rating may select which alternate form of deposit, credit support, or combination thereof it will utilize, in its sole discretion. The indenture trustee shall be a beneficiary of any affiliate guarantee, surety bond or letter of credit. The provider of any affiliate guarantee, surety bond, or letter of credit must have and maintain a long-term, unsecured credit rating of not less than "BBB-" and "Baa3" (or the equivalent) from Standard & Poor's and Moody's Investors Service, respectively.

(b) Loss of Rating.

If the long-term, unsecured credit rating from either Standard & Poor's or Moody's Investors Service of a REP that did not previously provide the alternate form of deposit, credit support, or combination thereof or of any provider of an affiliate guarantee, surety bond, or letter of credit is suspended, withdrawn, or downgraded below "BBB-" or "Baa3" (or the equivalent), the REP must provide the alternate form of deposit, credit support, or combination thereof, or new forms thereof, in each case from providers with the requisite ratings, within 10 business days following such suspension, withdrawal, or downgrade. A REP failing to make such provision must comply with the provisions set forth in Paragraph (e).

(c) Computation of Deposit, etc.

The computation of the size of a deposit required under Paragraph (a) shall be agreed upon by the servicer and the REP, and reviewed no more frequently than quarterly to ensure that the deposit accurately reflects two months' maximum expected transition charge collections. Within 10 business days following such review, (1) the REP shall remit to the indenture trustee the amount of any shortfall in such required deposit or (2) the servicer shall instruct the indenture trustee to remit to the REP any amount in excess of such required deposit. A REP failing to so remit any such shortfall must comply with the provisions set forth in Paragraph (e). REP cash deposits shall be held by the indenture trustee, maintained in a segregated account, and invested in short-term high quality investments, as permitted by the rating agencies rating the transition bonds. Investment earnings on REP cash deposits shall be considered part of such cash deposits

so long as they remain on deposit with the indenture trustee. At the instruction of the servicer, cash deposits will be remitted with investment earnings to the REP at the end of the term of the transition bonds unless otherwise utilized for the payment of the REP's obligations for transition charges. Once the deposit is no longer required, the servicer shall promptly (but not later than 30 calendar days) instruct the indenture trustee to remit the amounts in the segregated accounts to the REP.

(d) Payment of Transition Charges.

Payments of transition charges are due 35 calendar days following each billing by the servicer to the REP, without regard to whether or when the REP receives payment from its retail customers. The servicer shall accept payment by electronic funds transfer, wire transfer, and/or check. Payment will be considered received the date the electronic funds transfer or wire transfer is received by the servicer, or the date the check clears. A 5% penalty is to be charged on amounts received after 35 calendar days; however, a 10 calendar-day grace period will be allowed before the REP is considered to be in default. A REP in default must comply with the provisions set forth in Paragraph (e). The 5% penalty will be a one-time assessment measured against the current amount overdue from the REP to the servicer. The "current amount" consists of the total unpaid transition charges existing on the 36th calendar day after billing by the servicer. Any and all such penalty payments will be made to the indenture trustee to be applied against transition charge obligations. A REP shall not be obligated to pay the overdue transition charges of another REP. If a REP agrees to assume the responsibility for the payment of overdue transition charges as a condition of receiving the customers of another REP that has decided to terminate service to those customers for any reason, the new REP shall not be assessed the 5% penalty upon such transition charges; however, the prior REP shall not be relieved of the previously-assessed penalties.

(e) Remedies Upon Default.

After the 10 calendar-day grace period (the 45th calendar day after the billing date) referred to in Paragraph (d), the servicer shall have the option to seek recourse against any cash deposit, affiliate guarantee, surety bond, letter of credit, or combination thereof provided by the REP, and avail itself of such legal remedies as may be

appropriate to collect any remaining unpaid transition charges and associated penalties due the servicer after the application of the REP's deposit or alternate form of credit support. In addition, a REP that is in default with respect to the requirements set forth in Paragraphs (b), (c), or (d) shall, subject to the limitations and requirements of applicable bankruptcy laws if the REP is a debtor in bankruptcy, select and implement one of the following options:

(1) Allow the Provider of Last Resort ("POLR") or a qualified REP of the consumer's choosing to immediately assume the responsibility for the billing and collection of transition charges.

(2) Immediately implement other mutually suitable and agreeable arrangements with the servicer. It is expressly understood that the servicer's ability to agree to any other arrangements will be limited by the terms of the servicing agreement and requirements of each of the rating agencies that have rated the transition bonds necessary to avoid a suspension, withdrawal, or downgrade of the ratings on the transition bonds.

(3) Arrange that all amounts owed by retail consumers for services rendered be timely billed and immediately paid directly into a lock-box controlled by the servicer with such amounts to be applied first to pay transition charges before the remaining amounts are released to the REP. All costs associated with this mechanism will be borne solely by the REP.

If a REP that is in default fails to immediately select and implement one of the foregoing options or, after so selecting one of the foregoing options, fails to adequately meet its responsibilities thereunder, then the servicer shall immediately implement option (1), subject to the limitations and requirements of applicable bankruptcy laws if the REP is a debtor in bankruptcy. Upon re-establishment of compliance with the requirements set forth in Paragraphs (b), (c) and (d) and the payment of all past-due amounts and associated penalties, the REP will no longer be required to comply with this paragraph.

(f) Interest of REPs (including the POLR) in Funds Held by Servicer. Any interest that a REP (including the POLR) may have in any funds in the hands of the

servicer shall be junior and subordinate to any and all rights of the indenture trustee or the issuer to such funds.

(g) Billing by Providers of Last Resort, etc. The POLR appointed by the Commission must meet the minimum credit rating or deposit/credit support requirements described in Paragraph (a) in addition to any other standards that may be adopted by the Commission. If the POLR defaults or is not eligible to provide such services, responsibility for billing and collection of transition charges will immediately be transferred to and assumed by the servicer until a new POLR can be named by the Commission or the consumer requests the services of a certified REP. Retail consumers may never be re-billed by the successor REP, the POLR, or the servicer for any amount of transition charges they have paid their REP (although future transition charges shall reflect REP and other system-wide charge-offs). Additionally, if the amount of the penalty detailed in Paragraph (d) is the sole remaining past-due amount after the 45th calendar day, the REP shall not be required to comply with clauses (1), (2), or (3) of Paragraph (e), unless the penalty is not paid within an additional 30 calendar days.

(h) Disputes. In the event that a REP disputes any amount of billed transition charges, the REP shall pay the disputed amount under protest according to the timelines detailed in Paragraph (d). The REP and servicer shall first attempt to informally resolve the dispute, but if they fail to do so within 30 calendar days, either party may file a complaint with the Commission. If the REP is successful in the dispute process (informal or formal), the REP shall be entitled to interest on the disputed amount paid to the servicer at the Commission-approved interest rate. Disputes about the date of receipt of transition charge payments (and penalties arising thereof) or the size of a required REP deposit will be handled in a like manner. It is expressly intended that any interest paid by the servicer on disputed amounts shall not be recovered through transition charges if it is determined that the servicer's claim to the funds is clearly unfounded. No interest shall be paid by the servicer if it is determined that the servicer has received inaccurate metering data from another entity providing competitive metering services pursuant to PURA § 39.107.

(i) Metering Data.

If the servicer is providing the metering, metering data will be provided to the REP at the same time as the billing. If the servicer is not providing the metering, the entity providing the metering services will be responsible for complying with Commission rules and ensuring that the servicer and the REP receive timely and accurate metering data in order for the servicer to meet its obligations under the servicing agreement and this Financing Order with respect to billing and true ups.

(j) Charge-Off Allowance.

The REP will be allowed to hold back an allowance for charge-offs in its payments to the servicer. Such charge-off rate will be recalculated each year in connection with the annual true-up procedure. In the initial year, REPs will be allowed to remit payments based on the same charge-off percentage then being used by the REP to remit payments to the servicer in connection with transition charges related to transition bonds issued by CenterPoint Energy Transition Bond Company, LLC on October 24, 2001. On an annual basis in connection with the true-up process, the REP and the servicer will be responsible for reconciling the amounts held back with amounts actually written off as uncollectible in accordance with the terms agreed to by the REP and the servicer, provided that:

(1) The REP's right to reconciliation for write-offs will be limited to customers whose service has been permanently terminated and whose entire accounts (*i.e.*, all amounts due the REP for its own account as well as the portion representing transition charges) have been written off.

(2) The REP's recourse will be limited to a credit against future transition charge payments unless the REP and the servicer agree to alternative arrangements, but in no event will the REP have recourse to the indenture trustee, BondCo or BondCo's funds for such payments.

(2) The REP shall provide information on a timely basis to the servicer so that the servicer can include the REP's default experience and any subsequent credits into its calculation of the adjusted transition-charge rates for the next transition-charge billing period and the REP's rights to credits will not take effect until after such adjusted transition-charges rates have been implemented.

(k) Service Termination.

In the event that the servicer is billing consumers for transition charges, the servicer shall have the right to terminate transmission and distribution service to the end-use consumer for non-payment by the end-use consumer pursuant to applicable Commission rules. In the event that a REP or the POLR is billing consumers for transition charges, the REP or POLR shall have the right to terminate transmission and distribution service to the end-use consumer for non-payment in accordance with the applicable Commission rules.

61. The proposed billing and collection standards are the same as those adopted in Docket No. 21665 and currently applied by CenterPoint in its capacity as servicer under the transition bonds issued pursuant to the financing order in that docket.

62. The proposed billing and collection standards for REPs and the applicability of those standards are appropriate for the collection of transition charges resulting from this Financing Order, are reasonable and will lower risks associated with the collection of transition charges and will result in lower transition bond charges and greater benefits to ratepayers. In addition, adoption of these standards will provide uniformity of standards for the billing and collection of transition charges for which CenterPoint acts as servicer. Therefore, the proposed billing and collection standards for REPs and the applicability of those standards described in Finding of Fact Nos. 59-60 should be approved.

6. Transition Bonds

63. BondCo will issue and sell transition bonds in one or more series, and each series may be issued in one or more classes. The legal final maturity date of any series of transition bonds will not exceed 15 years from the date of issuance of such series. The legal final maturity date of each series and class within a series and amounts in each series will be finally determined by CenterPoint and the Commission's designated representative or financial advisor, consistent with market conditions and indications of the rating agencies, at the time the transition bonds are issued, but subject to ultimate Commission review through the issuance

advice letter process. CenterPoint will retain sole discretion regarding whether or when to assign, sell, or otherwise transfer any rights concerning transition property arising under this Financing Order, or to cause the issuance of any transition bonds authorized in this Financing Order, subject to the right of the Commission's designated representative or financial advisor to participate in the structuring, marketing, and pricing of the transition bonds. BondCo will issue the transition bonds on or after the fifth business day after pricing of the transition bonds unless, prior to noon on the fourth business day following pricing of the bonds, the Commission issues an order finding that the proposed issuance does not comply with the requirements of PURA and this Financing Order.

64. The application describes two alternative structures of the transition bonds with respect to the maturities and classes. The proposed structure of the transition bonds was designed to achieve the specific amortization pattern described in the application. The Commission finds that the proposed structure providing annual transition charges to residential customer that would be essentially level over the term of the transition bonds if the actual year-to-year changes in residential load match the changes forecast at the time the bonds are structured is in the public interest and should be used. The approved structure will facilitate competition, is reasonable and should be approved, provided that the weighted average interest rate for the bonds does not exceed 9.0% on an annual basis. This restriction is necessary to ensure that the stated economic benefits to ratepayers materialize. To further ensure benefits to ratepayers, the Commission's designated representative or financial advisor should be charged with the obligation to ensure on behalf of the Commission that the structure and pricing of the transition bonds results in the lowest transition bond charges consistent with market conditions and this Financing Order.

7. Security for Transition Bonds

65. The payment of the transition bonds and related charges authorized by this Financing Order is to be secured by the transition property created by this

Financing Order and by certain other collateral as described in the application. The transition bonds will be issued pursuant to the indenture administered by the indenture trustee. The indenture will include provisions for a collection account for each series and subaccounts for the collection and administration of the transition charges and payment or funding of the principal and interest on the transition bonds and other costs, including fees and expenses, in connection with the transition bonds, as described in CenterPoint's application. Pursuant to the indenture, BondCo will establish a collection account as a trust account to be held by the indenture trustee as collateral to ensure the payment of the principal, interest, and other costs approved in this Financing Order related to the transition bonds in full and on a timely basis. The collection account will include the general subaccount, the overcollateralization subaccount, the capital subaccount, and the reserve subaccount, and may include other subaccounts.

a. The General Subaccount

66. The indenture trustee will deposit the transition charge remittances that the servicer remits to the indenture trustee for the account of BondCo into one or more segregated trust accounts and allocate the amount of those remittances to the general subaccount. The indenture trustee will on a periodic basis apply moneys in this subaccount to pay expenses of BondCo, to pay principal and interest on the transition bonds, and to meet the funding requirements of the other subaccounts. The funds in the general subaccount will be invested by the indenture trustee in short-term high-quality investments, and such funds (including, to the extent necessary, investment earnings) will be applied by the indenture trustee to pay principal and interest on the transition bonds and all other components of the Periodic Payment Requirement (as defined in Finding of Fact No 94), and otherwise in accordance with the terms of the indenture.

b. The Overcollateralization Subaccount

67. The overcollateralization subaccount will be periodically funded from transition charge remittances over the life of the transition bonds. The aggregate amount

and timing of the actual funding will depend on tax and rating-agency requirements, and is expected to be not less than 0.5% of the original principal amount of the transition bonds and by the day before each scheduled payment date will be not less than 10% of the scheduled payment of principal and interest on the transition bonds. This subaccount will serve as collateral to ensure timely payment of principal and interest on the transition bonds and all other components of the Periodic Payment Requirement. To the extent that the overcollateralization subaccount must be drawn upon to pay any of these amounts due to a shortfall in the transition charge remittances, it will be replenished through future transition charge remittances to its required level through the true-up process. The funds in this subaccount will be invested by the indenture trustee in short-term high-quality investments, and such funds (including investment earnings) will be used by the indenture trustee to pay principal and interest on the transition bonds and all other components of the Periodic Payment Requirement.

c. The Capital Subaccount

68. When a series of transition bonds is issued, CenterPoint will make a capital contribution to BondCo for that series, which BondCo will deposit into the capital subaccount. The amount of the capital contribution is expected to be not less than 0.5% of the original principal amount of each series of transition bonds, although the actual amount will depend on tax and rating agency requirements. The capital subaccount will serve as collateral to ensure timely payment of principal and interest on the transition bonds and all other components of the Periodic Payment Requirement. Any funds drawn from the capital account to pay these amounts due to a shortfall in the transition charge remittances will be replenished through future transition charge remittances. The funds in this subaccount will be invested by the indenture trustee in short-term high-quality investments, and such funds (including investment earnings) will be used by the indenture trustee to pay principal and interest on the transition bonds and all other components of the Periodic Payment Requirement. Upon payment of the principal amount of all transition bonds and the discharge of all obligations that may be paid by use of

transition charges, all amounts in the capital subaccount, including any investment earnings, will be released to BondCo for payment to CenterPoint. Investment earnings in this subaccount may be released earlier in accordance with the indenture.

69. The capital contribution to BondCo should be funded by CenterPoint. To ensure that ratepayers receive the appropriate benefit from the securitization approved in this Financing Order, the proceeds from the sale of the transition bonds that are used to retire or refund CenterPoint's debt and equity securities should not be offset by the amount of this capital contribution. Because CenterPoint funds the capital subaccount, CenterPoint should receive the investment earnings earned through the indenture trustee's investment of that capital and return of that capital after all transition bonds have been paid.

d. The Reserve Subaccount

70. The reserve subaccount will hold any transition charge remittances and investment earnings on the collection account (other than earnings attributable to the capital subaccount and released under the terms of the indenture) in excess of the amounts needed to pay current principal and interest on the transition bonds and to pay other Periodic Payment Requirements (including, but not limited to, funding or replenishing the overcollateralization subaccount and the capital subaccount). Any balance in or allocated to the reserve subaccount on a true-up adjustment date will be subtracted from the Periodic Payment Requirements for purposes of the true-up adjustment. The money in this subaccount will be invested by the indenture trustee in short-term high-quality investments, and such money (including investment earnings thereon) will be used by the indenture trustee to pay principal and interest on the transition bonds and other Periodic Payment Requirements.

e. The Class Subaccount

71. A class subaccount will be established for each floating-rate class of transition bonds upon issuance. On the business day preceding each payment date, the

trustee will allocate to the class subaccount from the general subaccount an amount equal to the gross fixed amount for the floating rate class on that payment date. On that day, any net swap payment will be paid to the related swap counterparty from the class subaccount, or any net swap receipt from the related swap counterparty will be deposited into the class subaccount. On the related payment date, amounts in the class subaccount will be paid as interest to the holders of the floating-rate transition bonds. In the event of a shortfall of funds in the class subaccount to make a net swap payment due the related swap counterparty and to pay interest on the floating-rate transition bonds, those amounts will be paid on a pro rata basis based on the relative amounts due in respect of the swap and the interest on that class. Any balance remaining in the class subaccount after payments have been made to the holders of the floating-rate transition bonds on a payment date will be transferred to the collection account for allocation on the next payment date.

8. General Provisions

72. The collection account and the subaccounts described above are intended to provide for full and timely payment of scheduled principal and interest on the transition bonds and all other components of the Periodic Payment Requirement. If the amount of transition charges remitted to the general subaccount is insufficient to make all scheduled payments of principal and interest on the transition bonds and to make payment on all of the other components of the Periodic Payment Requirement, the reserve subaccount, the overcollateralization subaccount, and the capital subaccount will be drawn down, in that order, to make those payments. Any deficiency in the overcollateralization subaccount or the capital subaccount due to such withdrawals must be replenished first to the capital subaccount and then to the overcollateralization subaccount on a periodic basis through the true-up process. In addition to the foregoing, there may be such additional accounts and subaccounts as are necessary to segregate amounts received from various sources (i.e., amounts received from REPs), or to be used for specified purposes. Such accounts will be administered and utilized as set

forth in the servicing agreement and the indenture. Upon the maturity of the transition bonds and the discharge of all obligations in respect thereof, remaining amounts in the collection account, other than amounts that were in the capital subaccount, will be released to BondCo and equivalent amounts will be credited by CenterPoint to customers consistent with PURA § 39.262(g).

73. The use of a collection account and its subaccounts in the manner proposed by CenterPoint is reasonable, will lower risks associated with the securitization and thus lower the costs to ratepayers, and should, therefore, be approved.

9. Transition Charges—Imposition and Collection, Nonbypassability, and Self-Generation

74. CenterPoint seeks authorization to impose on and collect from REPs transition charges in an amount sufficient to provide for the timely recovery of its qualified costs approved in this Financing Order (including payment of principal and interest on the transition bonds and ongoing costs related to the transition bonds).

75. Transition charges will be separately identified on bills presented to REPs.

76. If a REP does not pay the full amount it has been billed, the amount paid by the REP will first be proportioned between the transition charges and other fees and charges (including amounts billed and due in respect of transition charges associated with transition bonds issued under other financing orders), other than late fees, and second, any remaining portion of the payment will be attributed to late fees. This allocation will facilitate a proper balance between the competing claims to this source of revenue in an equitable manner.

77. The transition bonds have an expected final maturity of not longer than 14 years. However, amounts may still need to be recovered after the expiration of the 14-year period. CenterPoint proposed that the transition charges related to a series of transition bonds will be recovered over a period of not more than 15 years from the date of issuance of that series of the transition bonds but that amounts due at or before the end of that period for services rendered during the 15-year period may be collected after the conclusion of the 15-year period.

78. PURA § 39.303(b) prohibits the recovery of transition charges for a period of time that exceeds 15 years. Transition charges related to a series of transition bonds may not be collected after 15 years from the date of issuance of that series of bonds. This restriction does not, however, prevent the recovery of amounts due at the end of such 15-year period for services rendered during such 15-year period.

79. CenterPoint will collect transition charges from REPs serving all existing and future retail consumers located within HL&P's service area as it existed on May 1, 1999, except as provided in Finding of Fact No. 80. In accordance with PURA § 39.252(c), a retail consumer within such area may not avoid transition charges by switching to another electric utility, electric cooperative or municipally-owned utility after May 1, 1999. However, a consumer in a multiply-certificated service area that requested to switch providers on or before May 1, 1999, or was not taking service from HL&P on May 1, 1999, and does not do so after that date, will not be responsible for paying transition charges.

80. Except as provided by PURA §§ 39.262(k) and 39.252, as implemented by Substantive Rule 25.345, a retail consumer may not avoid the payment of transition charges by switching to new on-site generation. Pursuant to PURA §39.252(b)(2), if a consumer commences taking energy from new on-site generation that materially reduces the consumer's use of energy delivered through CenterPoint's facilities, the consumer will pay an amount each month computed by multiplying the output of the on-site generation utilized to meet the internal electrical requirements of the consumer by the applicable transition charges in effect for that month. Any reduction equivalent to more than 12.5% of the consumer's annual average use of energy delivered through CenterPoint's facilities will be considered material for this purpose. Payments of the transition charges owed by such consumers under PURA § 39.252(b)(2) will be made to the servicer and will be collected in addition to any other charges applicable to services provided to the consumer through CenterPoint's facilities and any other competition transition charges applicable to self-generation under PURA § 39.252.

81. CenterPoint's proposal related to imposition and collection of transition charges is reasonable and is necessary to ensure collection of transition charges sufficient to support recovery of the qualified costs approved in this Financing Order and should be approved. It is reasonable to approve the form of CenterPoint's Schedule TC2 in this Financing Order and require that a tariff be filed before any transition bonds are issued pursuant to this Financing Order.

10. Allocation of Qualified Costs Among Texas Retail Consumers

82. CenterPoint proposed to allocate the qualified costs to 15 transition charge classes. The transition charge classes contain the same billing classes and sub-classes that are charged under the existing Schedule TC approved by the Commission in Docket No. 21665, except that the two MGS distribution voltage sub-classes have been combined and that combined sub-class is billed on a per kWh basis.

83. CenterPoint proposed that a single allocation percentage be developed for each transition charge class and that such percentage and the procedures for adjusting such percentage be set forth in Schedule TC2. The proposed single allocation percentage, referred to as the periodic billing requirement allocation factor ("PBRAF"), will be developed as a weighted average of separate allocation percentages for several different categories of qualified costs based on a Periodic Billing Requirement as defined in Finding of Fact No. 94.

84. On January 14, 2005, parties filed a final Allocation Settlement Agreement that addressed the allocation of costs to be recovered through securitization and through a CTC. The agreement sets forth different allocation methods depending on whether the Commission approves a settlement fixing the amount to be securitized at greater than $1.75 billion, approves a settlement fixing the amount to be securitized at less than $1.75 billion, or does not approve a settlement establishing an overall amount of securitization.

85. The parties have not reached a settlement establishing an overall amount of securitization. Under these circumstances, the Allocation Settlement Agreement

allocates the amount to be securitized on the environmental allocator (as prescribed in PURA §39.253 and P.U.C. SUBSTANTIVE RULE 25.345(h)(3)(A)) and the stranded costs allocator approved in Docket No. 28252 in the same proportion as environmental and other stranded costs amounts as is found in Schedule I of the Order on Rehearing in Docket No. 29526.

86. The Allocation Settlement Agreement is reasonable, in the public interest and produces an allocation in compliance with PURA The Agreement is attached to this Financing Order as Appendix D.

87. Schedule TC2, as modified by the Stipulation Regarding Industrial Intra-Class Allocations, contains a series of formulas to adjust the class allocation factors if load losses within a given class or group of classes exceed specified thresholds or if there are additional load losses attributable to eligible generation as defined in Substantive Rule 25.345(c)(2). Schedule TC2 also contains procedures for adjusting the allocation percentages if stranded costs exceed $5 billion on a statewide basis.

88. Texas-New Mexico Power ("TNP"), a previous wholesale customer of CenterPoint, exited CenterPoint's system in 2001 before the start of retail competition. CenterPoint proposes to allocate portions of the following qualified costs to TNP: CenterPoint's portion of statewide stranded costs (as defined in PURA §39.253) in excess of $5 billion (if any), regulatory assets, deferred debits, the remainder of net book value of generation assets, market value of generation assets, interest, final fuel balance, and the capacity auction true-up balance. These qualified costs are directly applicable to TNP or allocable to TNP based on the time period in which TNP was CenterPoint's customer and the allocation to TNP proposed by CenterPoint should be approved.

89. The methodology for allocating qualified costs and developing the initial PBRAFs as described above is reasonable and appropriate and should be approved. That methodology will not be changed except in the limited circumstance where total retail stranded costs on a statewide basis exceed $5 billion as described in Part D of Section 6 of Schedule TC2.

90. The initial PBRAF for each transition charge class shall be calculated as set forth in the Allocation Settlement Agreement.

91. New consumers will be assigned to the transition charge classes listed in Schedule TC2, as amended, based on the definitions and procedures described in Schedule TC2, as amended.

92. The initial PBRAFs will remain in effect throughout the life of the transition bonds unless a modification is made pursuant to the allocation factor adjustment provisions in Section 6 of Schedule TC2 as amended. PBRAF adjustments should occur at the same time as adjustments to the allocation factors under Schedule TC.

93. The method of calculating and adjusting PBRAFs as set forth in the Allocation Settlement Agreement and the Stipulation Regarding Intra-Class Allocations and approved in this Financing Order comply with the requirements of PURA § 39.253 and should be approved.

11. True-Up of Transition Charges

94. Pursuant to PURA § 39.307, the servicer of the transition bonds will make annual adjustments to the transition charges to:

(a) correct any undercollections or overcollections, including without limitation any caused by REP defaults, during the preceding 12 months; and

(b) ensure the billing of transition charges necessary to generate the collection of amounts sufficient to timely provide all scheduled payments of principal and interest (or deposits to sinking funds in respect of principal and interest) and any other amounts due in connection with the transition bonds (including ongoing fees and expenses and amounts required to be deposited in or allocated to any collection account or subaccount, trustee indemnities, payments due in connection with swap agreements and any expenses incurred by the indenture trustee or the servicer to enforce bondholder rights and all other payments that may be required pursuant to the waterfall of payments described in the application) during the period for which such adjusted transition charges are to be in effect.

Such amounts are referred to as the "Periodic Payment Requirement" and the amounts necessary to be billed to collect such Periodic Payment Requirement are referred to as the "Periodic Billing Requirement." With respect to any series of transition bonds, the servicer will make true-up adjustment filings with the Commission at least annually, within 45 days of the anniversary of the date of the original issuance of the transition bonds of that series.

95. True-up filings will be based upon the cumulative differences, regardless of the reason, between the Periodic Payment Requirement (including scheduled principal and interest payments on the transition bonds) and the amount of transition charge remittances to the indenture trustee. True-up procedures are necessary to ensure full recovery of amounts sufficient to meet the Periodic Payment Requirements over the expected life of the transition bonds. In order to assure adequate transition charge revenues to fund the Periodic Payment Requirement and to avoid large overcollections and undercollections over time, the servicer will reconcile the transition charges using CenterPoint's most recent forecast of electricity deliveries (i.e., forecasted billing units) and estimates of transaction-related expenses. The calculation of the transition charges will also reflect both a projection of uncollectible transition charges and a projection of payment lags between the billing and collection of transition charges based upon CenterPoint's and the REPs' most recent experience regarding collection of transition charges.

96. The servicer will make reconciliation adjustments in the manner described in Section 8 of Schedule TC2. For the residential consumer class it will:

(a) allocate the upcoming period's Periodic Billing Requirement, including any undercollection or overcollection, including, without limitation, any caused by REP defaults, from the preceding period, based on the PBRAFs determined in accordance with Schedule TC2 approved in this Financing Order; and

(b) divide the amount assigned to the residential consumer class in step (a) above by the appropriate forecasted billing units to determine the transition charge rate by class for the upcoming period.

97. For each of the Commercial and Industrial TC Groups as defined in Schedule TC2, an adjustment factor will be computed by dividing the sum of the existing rates times the forecasted billing determinants for each class in the group by the amount assigned to the group in step (a) above. For each class in a group, the transition charge for the upcoming period will be the product of the existing transition charge times the adjustment factor for the group in which that class resides.

12. Interim True-Up

98. In addition to these annual true-up adjustments, true-up adjustments may be made by the servicer more frequently at any time during the term of the transition bonds to correct any undercollection or overcollection, as provided for in this Financing Order, in order to assure timely payment of transition bonds based on rating agency and bondholder considerations. In addition to the foregoing, either of the following two conditions may result in an interim true-up adjustment in the month prior to an upcoming transition bond principal payment date:

(a) the servicer determines that collection of transition charges for the upcoming payment date would result in a difference that is greater than 5% in absolute value, between (i) the actual outstanding principal balances of the transition bonds plus amounts on deposit in the reserve subaccount and (ii) the outstanding principal balances anticipated in the target amortization schedule; or

(b) to meet a rating agency requirement that any series of transition bonds be paid in full by the expected maturity date for any series of transition bonds that matures after a date determined mutually, at the time of pricing by CenterPoint and the Commission's designated personnel or financial advisor.

99. In the event an interim true-up is necessary, the interim true-up adjustment should be filed on the fifteenth day of the current month for implementation in the first billing cycle of the following month. In no event would such interim true-up adjustments occur more frequently than every three months if quarterly transition bond payments are required or every six months if semi-annual transition bond

payments are required; provided, however, that interim true-up adjustments for any transition bonds remaining outstanding during the fourteenth and fifteenth year after the bonds are issued may occur quarterly.

13. Adjustment to PBRAFs

100. Schedule TC2, as modified by the Stipulation Regarding Industrial Intra-Class Allocations, contains detailed procedures for adjustment of PBRAFs to reflect load losses a transition charge class or group of transition charge classes may suffer and certain changes that may be ordered by the Commission.

101. A proceeding for the purpose of approving an allocation factor adjustment should be conducted in the following manner:

(a) Any allocation factor adjustment will be made in conjunction with a standard, annual true up. Any such adjustment will be filed with the Commission at least 90 days before the date the proposed adjustment will become effective. The filing will contain the proposed changes to the transition charge rates, justification for such changes as necessary to specifically address the cause(s) of the adjustment and a statement of the proposed adjustment date.

(b) Concurrently with the filing with the Commission, the servicer will notify all parties to this docket of the filing of the proposed adjustment.

(c) The servicer will issue appropriate notice and the Commission will conduct a contested case proceeding on the allocation adjustment pursuant to PURA § 39.003.

The scope of the proceeding will be limited to determining whether the proposed adjustment complies with this Financing Order. In any true-up proceeding that involves the adjustment of the PBRAFs, all parties in the proceeding shall have the right to challenge the reasonableness of the forecasts of billing determinants proposed as a basis for adjusting the PBRAFs. The Commission will issue a final order by the proposed adjustment date stated in the filing. In the event that the Commission cannot issue an order by that date, the servicer will be permitted to implement its proposed changes. Any modifications subsequently ordered by the Commission will be made by the servicer in the next true-up filing.

102. The Stipulation and amended schedule TC2 provides for an additional true-up provision and adjustment to PBRAFs for the Industrial TC group. Under the Stipulation, the first 10% of load loss within an Industrial TC class is borne by that class, with the excess of load loss over 10% allocated to the remaining Industrial TC classes.

103. The Stipulation Regarding Industrial Intra-Class Allocation is reasonable, in the public interest, will have no effect on the allocation of costs to any non-industrial class, and protects consumers in industrial classes that experience precipitous load loss. The Stipulation is attached to this Financing Order as Appendix E.

104. The allocation adjustment procedures contained in Schedule TC2, as amended, are necessary to avoid inequities, are reasonable, and should be adopted.

14. Additional True-Up Provisions

105. The true-up adjustment filing will set forth the servicer's calculation of the true-up adjustment to the transition charges. Except for the allocation adjustment described in Findings of Fact Nos. 100 through 102, the Commission will have 15 days after the date of a true-up adjustment filing in which to confirm the mathematical accuracy of the servicer's adjustment. Except for the allocation adjustment described above, any true-up adjustment filed with the Commission should be effective on its proposed effective date, which shall be not less than 15 days after filing. Any necessary corrections to the true-up adjustment, due to mathematical errors in the calculation of such adjustment or otherwise, will be made in future true-up adjustment filings.

106. The true-up procedures contained in Schedule TC2, as modified by the Stipulation Regarding Industrial Intra-Class Allocations, are reasonable and will reduce risks related to the transition bonds, resulting in lower transition bond charges and greater benefits to ratepayers and should be approved.

107. The broad-based nature of the true-up mechanism and the pledge of the State of Texas embodied in PURA § 39.310, along with the bankruptcy remoteness of the special purpose entity and the collection account, will serve to effectively

eliminate for all practical purposes and circumstances any credit risk associated with the transition bonds (i.e., that sufficient funds will be available and paid to discharge all principal and interest obligations when due).

15. Designated Representative or Financial Advisor

108. In order to ensure, as required by PURA § 39.301, that the structuring and pricing of the transition bonds result in the lowest transition bond charges consistent with market conditions and the terms of this Financing Order, the Commission finds that it is necessary for the Commission, acting through its designated representative or financial advisor, to have a decision-making role co-equal with CenterPoint with respect to the structuring and pricing of the transition bonds and that all matters relating to the structuring and pricing of the transition bonds shall be determined through a joint decision of CenterPoint and the Commission's designated representative or financial advisor. The primary responsibilities of the Commission's designated representative or financial advisor are to ensure that the structuring and pricing of the transition bonds result in the lowest transition bond charges consistent with market conditions and the terms of this Financing Order.

109. To properly advise the Commission, any financial advisor to the Commission must not participate in the underwriting of the transition bonds and its fee should not be based upon a percentage of the transition bond issuance. Its role should be limited to advising the Commission or acting on behalf of the Commission regarding the structuring, marketing, and pricing of the transition bonds. The Commission's designated representative or financial advisor must, however, have an integral role in the structuring, marketing, and pricing of the transition bonds in order to provide competent advice to the Commission. This requires the Commission's designated representative or financial advisor to participate fully and in advance in all plans and decisions related to the structuring, marketing, and pricing of the transition bonds and that it be provided timely information as necessary to fulfill its obligation to advise the Commission in a timely manner (including, but not limited to, information prepared for the benefit of rating agencies and information prepared for use in marketing the transition bonds to

investors). The financial advisor's fee and fees of any attorneys or other professionals hired to assist the financial advisor or the Commission are determined pursuant to the Commission's contract with the financial advisor or other professionals and will be included in the up-front qualified costs that may be securitized.

110. The Commission's financial advisor or designated representative shall require a certificate from the bookrunning underwriter(s) confirming that the structuring, marketing, and pricing of the transition bonds resulted in the lowest transition bond charges consistent with market conditions and the terms of this financing order.

111. CenterPoint submitted draft transaction documents with its application, specifically forms of the Administration Agreement, the Indenture Agreement, the LLC Agreement, S-3 Registration Statement, Servicing Agreement, Transition Property Sale Agreement, and Term Sheet (attachments 2A, 2C, 2D, 2E, 2F, 2G, and Attachment 3, respectively). These draft documents have not been reviewed or approved by the Commission. The Commission's financial advisor or designated representative shall review and comment on these documents before they are finalized.

16. Lowest Transition Bond Charges

112. CenterPoint has proposed a transaction structure that is expected to include (but is not limited to):

(a) the use of BondCo as issuer of the transition bonds, limiting the risks to transition bond holders of any adverse impact resulting from a bankruptcy proceeding of its parent or any affiliate;

(b) the right to impose and collect transition charges that are nonbypassable and which must be trued-up at least annually, but may be trued-up more frequently under certain circumstances, in order to assure the timely payment of the debt service and other ongoing transaction costs;

(c) additional collateral in the form of a collection account which includes a capital subaccount funded in cash in an amount equal to not less than 0.5% of the original principal amount of the transition bonds and an overcollateralization subaccount in which funds build up over time to equal not less than an additional 0.5% of the original principal amount of the transition bonds and, as of the day before any scheduled payment date, amounts on deposit in such account will equal at least 10% of the next scheduled payment of principal and interest on the transition bonds, and other subaccounts resulting in greater certainty of payment of interest and principal to investors and that are consistent with the Internal Revenue Service ("IRS") requirements that must be met to receive the desired federal income tax treatment for the transition bond transaction;

(d) protection of transition bondholders against potential defaults by a servicer or REPs that are responsible for billing and collecting the transition charges from existing or future retail consumers;

(e) benefits for federal income tax purposes including: (i) the transfer of the rights under this Financing Order to BondCo not resulting in gross income to CenterPoint Energy and the future revenues under the transition charges being included in CenterPoint Energy's gross income under its normal method of accounting, (ii) the issuance of the transition bonds and the transfer of the proceeds of the transition bonds to CenterPoint not resulting in gross income to CenterPoint Energy and (iii) the transition bonds constituting obligations of CenterPoint Energy;

(f) the transition bonds will be marketed using proven underwriting and marketing processes, through which market conditions and investors' preferences, with regard to the timing of the issuance, the terms and conditions, related maturities, type of interest (fixed or variable) and other aspects of the structuring and pricing will be determined, evaluated and factored into the structuring and pricing of the transition bonds;

(g) participation by the Commission, acting through its designated representative or financial advisor, on an equal basis with CenterPoint in

determining the structuring, marketing, and pricing of the transition bonds, which will help to ensure that benefits to ratepayers as the result of securitization are realized; and

(h) hedging and swap agreements used to mitigate the risk of future rate increases if CenterPoint and the Commission's designated representative or financial advisor jointly determine that it is prudent to enter into these types of agreements.

113. CenterPoint's proposed transaction structure is necessary to enable the transition bonds to obtain the highest possible bond credit rating, ensures that the structuring and pricing of the transition bonds will result in the lowest transition bond charges consistent with market conditions and the terms of this Financing Order, ensures the greatest benefit to ratepayers consistent with market conditions and the terms of this Financing Order, and protects the competitiveness of the retail electric market.

114. To ensure that ratepayers receive the tangible and quantifiable economic benefits due from the proposed securitization and so that the proposed transition bond transaction will be consistent with the standards set forth in PURA §§ 39.301 and 39.303, it is necessary that (i) the effective annual weighted average interest rate of the transition bonds, excluding up-front qualified and ongoing qualified costs, does not exceed 9.0%, (ii) the expected final maturity of the last class of transition bonds does not exceed 14 years (although the legal final maturity of the transition bonds may extend to 15 years), (iii) the level payment pattern of the transition bonds is structured to produce level rates over the term of the bonds, and (iv) CenterPoint otherwise satisfies the requirements of this Financing Order.

115. To allow the Commission to fulfill its obligations under PURA related to the securitization approved in this Financing Order, it is necessary for CenterPoint, for each series of transition bonds issued, to certify to the Commission that the structure and pricing of that series results in the lowest transition bond charges consistent with market conditions at the time that the transition bonds are priced and the terms (including the specified amortization pattern) of this Financing

Order and, if additional credit enhancements or arrangements to enhance marketability or reduce interest rate risks were used, to certify that they are expected to provide benefits in excess of their cost as required by Finding of Fact No. 46 of this Financing Order.

D. Use of Proceeds

116. Upon the issuance of transition bonds, BondCo will use the net proceeds from the sale of the transition bonds (after payment of transaction costs) to pay to CenterPoint the purchase price of the transition property.

117. The net proceeds from the sale of the transition property (after payment of transaction costs) will be applied to reduce the debt and/or common equity on the regulatory books of CenterPoint. CenterPoint agreed not to use the net proceeds to repay the $303 million intracompany payable owed by CenterPoint Houston to CenterPoint Energy, Inc.

118. Through the steps described in Findings of Fact Nos. 116 and 117, the net proceeds from the sale of transition bonds will be used solely to retire existing debt and/or common equity of CenterPoint and will result in a reduction in CenterPoint's recoverable transition costs as determined in Docket No. 29526.

IV. CONCLUSIONS OF LAW

1. CenterPoint is a public utility, as defined in PURA § 11.004, and an electric utility, as defined in PURA § 31.002(6).

2. CenterPoint is entitled to file an application for a financing order under PURA § 39.301.

3. The Commission has jurisdiction and authority over CenterPoint's application pursuant to PURA §§ 14.001, 32.001, 39.201 and 39.301-.313.

4. The Commission has authority to approve this Financing Order under Subchapters E, F and G of Chapter 39 of PURA.

5. Notice of CenterPoint's application was provided in compliance with the Administrative Procedure Act[40] and Procedural Rules 22.54 and 22.55.

6. This application does not constitute a major rate proceeding as defined by P.U.C. Procedural Rule 22.2.

7. Only the retail portion of regulatory assets may be recovered through a transition charge assessed against retail consumers.

8. BondCo will be an assignee as defined in PURA § 39.302(1) when an interest in transition property is transferred, other than as security, to BondCo.

9. The holders of the transition bonds and the indenture trustee will each be a financing party as defined in PURA § 39.302(3).

10. BondCo may issue transition bonds in accordance with this Financing Order.

11. The securitization approved in this Financing Order satisfies the requirement of PURA § 39.301 dictating that the proceeds of the transition bonds shall be used solely for the purposes of reducing the amount of recoverable regulatory assets and stranded costs through the refinancing or retirement of utility debt and/or equity.

12. The securitization approved in this Financing Order satisfies the requirement of PURA § 39.301 mandating that the securitization provides tangible and quantifiable benefits to ratepayers greater than would have been achieved absent the issuance of transition bonds. Consistent with fundamental financial principles, this requirement in PURA § 39.301 can only be determined using an economic analysis to account for the time value of money. An analysis that compares in the aggregate over a 14-year period the present value of the revenue requirement associated with use of a competition transition charge (which is the alternative recovery method permitted under PURA to recover stranded costs and regulatory assets and reflects conventional utility financing) with the present value of the revenue required under securitization is an appropriate economic

[40] TEX. GOV'T CODE ANN. §§ 2001.001-901 (Vernon 2000).

analysis to demonstrate whether securitization provides economic benefits to ratepayers.

13. BondCo's issuance of the transition bonds approved in this Financing Order in compliance with the criteria established by this Financing Order satisfies the requirement of PURA § 39.301 prescribing that the structuring and pricing of the transition bonds will result in the lowest transition bond charges consistent with market conditions and the terms of this Financing Order.

14. The amount approved in this Financing Order for securitization does not exceed the present value of the revenue requirement over the life of the transition bonds approved in this Financing Order that are associated with the costs sought to be securitized, as required by PURA § 39.301.

15. The securitization approved in this Financing Order satisfies the requirements of PURA § 39.303(a) directing that the total amount of revenues to be collected under this Financing Order be less than the revenue requirement that would be recovered using conventional financing methods (which, in the case of the balance at issue in this proceeding, is a competition transition charge) and that this Financing Order be consistent with the standards of PURA § 39.301.

16. The stranded costs balance as determined in Docket No. 29526 accrues interest from August 31, 2004 through the date of issuance of the transition bonds. CenterPoint may securitize interest accrued during this period.

17. CenterPoint may securitize the principal portion of EMCs that it pays through the earlier of the date the EMCs are terminated or the transition bonds are issued.

18. This Financing Order adequately details the amount to be recovered and the period over which CenterPoint will be permitted to recover nonbypassable transition charges in accordance with the requirements of PURA § 39.303(b). Transition charges related to a series of transition bonds may not be collected after 15 years from the date of issuance of that series of bonds. This provision does not preclude the servicer from recovering transition charges attributable to

service rendered during the 15-year period but remaining unpaid at the end of the 15-year period.

19. The method approved in this Financing Order for collecting and allocating the transition charges satisfies the requirements of PURA §§ 39.303(c) and 39.253.

20. As provided in PURA § 39.303(d), this Financing Order, together with the transition charges authorized by this Financing Order, is irrevocable and not subject to reduction, impairment, or adjustment by further act of the Commission, except for the true-up procedures approved in this Financing Order, as required by PURA § 39.307; provided, however, that such irrevocability shall not preclude the Commission from extending the deadline for issuance of transition bonds if requested to do so by CenterPoint.

21. As provided in PURA § 39.304(a), the rights and interests of CenterPoint or its successor under this Financing Order, including the right to impose, collect and receive the transition charges authorized in this Financing Order, are assignable and shall become transition property when they are first transferred to BondCo.

22. The rights, interests and property conveyed to BondCo in the Sale Agreement and the related Bill of Sale, including the irrevocable right to impose, collect and receive transition charges and the revenues and collections from transition charges are "transition property" within the meaning of PURA §§ 39.302(8) and 39.304.

23. Transition property will constitute a present property right for purposes of contracts concerning the sale or pledge of property, even though the imposition and collection of the transition charges depend on further acts by CenterPoint or others that have not yet occurred, as provided by PURA § 39.304(b).

24. All revenues and collections resulting from the transition charges will constitute proceeds only of the transition property arising from this Financing Order, as provided by PURA § 39.304(c).

25. Upon the transfer by CenterPoint of the transition property to BondCo, BondCo will have all of the rights, title and interest of CenterPoint with respect to such

transition property including the right to impose, collect and receive the transition charges authorized by the Financing Order.

26. The transition bonds issued pursuant to this Financing Order will be "transition bonds" within the meaning of PURA § 39.302(6) and the transition bonds and holders thereof are entitled to all of the protections provided under Subchapter G of Chapter 39 of PURA.

27. The transition charges paid by the REPs to the servicer as transition charges pursuant to this Financing Order are "transition charges" as defined in PURA § 39.302(7).

28. The amounts collected from retail consumers who purchase electricity from a REP are "transition charges" as defined in PURA § 39.302(7), to the extent that such amounts are attributable to transition charges billed to the REPs by the servicer, whether such charges are set out as a separate line-item on the retail consumer's bill or not.

29. Any payment of transition charges by a retail consumer to its REP or directly to the servicer will discharge the retail consumer's obligations in respect of that payment, but will not discharge the obligations of any REP to remit such payments to the servicer of the transition bonds on behalf of BondCo or an assignee or its obligations to pay amounts determined through subsequent true-up adjustments.

30. As provided in PURA § 39.305, the interests of an assignee, the holders of transition bonds, and the indenture trustee in transition property and in the revenues and collections arising from that property are not subject to setoff, counterclaim, surcharge, or defense by CenterPoint or any other person or in connection with the bankruptcy of CenterPoint or any other entity.

31. The methodology approved in this Financing Order to true-up the transition charges satisfies the requirements of PURA § 39.307.

32. If and when CenterPoint transfers to BondCo the right to impose, collect, and receive the transition charges and to issue the transition bonds, the servicer will be

able to recover the transition charges associated with such transition property only for the benefit of BondCo and the holders of the transition bonds in accordance with the servicing agreement.

33. If and when CenterPoint transfers its rights under this Financing Order to BondCo under an agreement that expressly states that the transfer is a sale or other absolute transfer in accordance with the true-sale provisions of PURA § 39.308, then, pursuant to that statutory provision, that transfer will be a true sale of an interest in transition property and not a secured transaction or other financing arrangement and title, legal and equitable, to the transition property will pass to BondCo. As provided by PURA § 39.308, this true sale shall apply regardless of whether the purchaser has any recourse against the seller, or any other term of the parties' agreement, including the seller's retention of an equity interest in the transition property, CenterPoint's role as the collector of transition charges relating to the transition property, or the treatment of the transfer as a financing for tax, financial reporting, or other purposes.

34. As provided in PURA § 39.309(b), a valid and enforceable lien and security interest in the transition property in favor of the holders of the transition bonds or a trustee on their behalf will be created by this Financing Order and the execution and delivery of a security agreement with the holders of the transition bonds or a trustee on their behalf in connection with the issuance of the transition bonds. The lien and security interest will attach automatically from the time that value is received for the transition bonds and, on perfection through the filing of notice with the Secretary of State in accordance with the rules prescribed by the Secretary of State under PURA § 39.309(d), will be a continuously perfected lien and security interest in the transition property and all proceeds of the transition property, whether accrued or not, will have priority in the order of filing and will take precedence over any subsequent judicial or other lien creditor.

35. As provided in PURA § 39.309(c), the transfer of an interest in transition property to an assignee will be perfected against all third parties, including subsequent judicial or other lien creditors, when this Financing Order becomes effective,

transfer documents have been delivered to that assignee, and a notice of that transfer has been filed in accordance with the rules prescribed by the Secretary of State under PURA § 39.309(d); provided, however, that if notice of the transfer has not been filed in accordance with this process within 10 days after the delivery of transfer documentation, the transfer of the interest will not be perfected against third parties until the notice is filed. The transfer to BondCo of CenterPoint's rights under this Financing Order will be a transfer of an interest in transition property for purposes of PURA § 39.309(c).

36. As provided in PURA § 39.309(e), the priority of a lien and security interest perfected in accordance with PURA § 39.309 will not be impaired by any later change in the transition charges pursuant to PURA § 39.307 or by the commingling of funds arising from transition charges with other funds, and any other security interest that may apply to those funds will be terminated when they are transferred to a segregated account for an assignee or a financing party. To the extent that transition charges are not collected separately from other funds owed by REPs, the amounts to be remitted to such segregated account for an assignee or a financing party may be determined according to system-wide charge off percentages, collection curves or such other reasonable methods of estimation, as are set forth in the servicing agreement.

37. As provided in PURA § 39.309(e), if transition property is transferred to an assignee, any proceeds of the transition property will be treated as held in trust for the assignee.

38. As provided in PURA § 39.309(f), if a default or termination occurs under the transition bonds, the financing parties or their representatives may foreclose on or otherwise enforce their lien and security interest in any transition property as if they were secured parties under Chapter 9, Texas Business and Commerce Code, and, upon application by or on behalf of the financing parties, the Commission may order that amounts arising from the transition charges be transferred to a separate account for the financing parties' benefit, to which their lien and security interest may apply.

39. As provided in PURA § 39.309(f), if a default or termination occurs under the transition bonds, on application by or on behalf of the financing parties, a district court of Travis County, Texas shall order the sequestration and payment to those parties of revenues arising from the transition charges.

40. As provided by PURA § 39.310, the transition bonds authorized by this Financing Order are not a debt or obligation of the State of Texas and are not a charge on its full faith and credit or taxing power.

41. Pursuant to PURA § 39.310, the State of Texas has pledged for the benefit and protection of all financing parties and CenterPoint, that it will not take or permit any action that would impair the value of transition property, or, except as permitted by PURA § 39.307, reduce, alter or impair the transition charges to be imposed, collected, and remitted to any financing parties, until the principal, interest and premium, and any other charges incurred and contracts to be performed in connection with the transition bonds have been paid and performed in full. BondCo, in issuing transition bonds, is authorized pursuant to PURA § 39.310 and this Financing Order to include this pledge in any documentation relating to the transition bonds.

42. As provided in PURA § 39.311, transactions involving the transfer and ownership of the transition property and the receipt of transition charges are exempt from state and local income, sales, franchise, gross receipts, and other taxes or similar charges.

43. This Financing Order will remain in full force and effect and unabated notwithstanding the bankruptcy of CenterPoint, its successors, or assignees.

44. CenterPoint retains sole discretion regarding whether or when to assign, sell or otherwise transfer the rights and interests created by this Financing Order or any interest therein, or, subject to the approval of the Commission acting through its designated representative or financial advisor, to cause the issuance of any transition bonds authorized by this Financing Order.

45. This Financing Order is final, is not subject to rehearing by this Commission, and is not subject to review or appeal except as expressly provided in PURA § 39.303(f). The finality of this Financing Order is not impaired in any manner by the participation of the Commission through its designated representative or financial advisor in any decisions related to issuance of the transition bonds or by the Commission's review of or issuance of an order related to the issuance advice letter required to be filed with the Commission by this Financing Order.

46. This Financing Order meets the requirements for a financing order under Subchapter G of Chapter 39 of PURA.

47. The true-up mechanism and all other obligations of the State of Texas, and the Commission set forth in this Financing Order are direct, explicit, irrevocable and unconditional upon issuance of the transition bonds and are legally enforceable against the State of Texas and the Commission.

V. ORDERING PARAGRAPHS

Based upon the record, the Findings of Fact and Conclusions of Law set forth herein, and for the reasons stated above, this Commission orders:

A. Approval

1. **Approval of Application**. The application of CenterPoint Energy Houston Electric, LLC for the issuance of a financing order under PURA § 39.303, is approved, as provided in this Financing Order.

2. **Authority to Securitize.** CenterPoint is authorized to issue transition bonds with a principal amount equal to (1) the sum of stranded costs, interest on stranded costs accrued until August 31, 2004, EMCs paid up to August 31, 2004, and regulatory assets not already securitized as determined in Docket No. 29526 ($1,493,747,264) plus (a) the amount of excess mitigation credits provided by CenterPoint after August 31, 2004 through the date of issuance of the transition bonds or the date of termination of EMCs, whichever is earlier, (b) interest on stranded costs accrued after August 31, 2004 through the date of issuance of the transition bonds and (c) up-front qualified costs subject to the caps set forth in

Appendix C, as adjusted as provided for in this Financing Order. If the actual up-front qualified costs are less than the up-front qualified costs included in the principal amount securitized, the periodic billing requirement for the first annual true-up adjustment shall be reduced by the amount of such unused funds (together with interest earned thereon through investment by the trustee in eligible investments) and such unused funds (together with interest earned thereon through investment by the trustee in eligible investments) shall be available for payment of debt service on the bond payment date next succeeding such true-up adjustment. If the final up-front qualified costs are more than the up-front qualified costs included in the principal amount securitized or exceed the aggregate cap on upfront costs as set out on Appendix C, adjusted as provided in this Financing Order, CenterPoint may request recovery of the remaining up-front qualified costs through a surcharge to CenterPoint Houston's rates for transmission and distribution service.

3. **Recovery of Transition Charges.** CenterPoint shall impose on, and the servicer shall collect from, REPs, as provided in this Financing Order, transition charges in an amount sufficient to provide for the timely recovery of its aggregate qualified costs detailed in this Financing Order (including payment of principal and interest on the transition bonds). REPs shall pay the transition charges billed to them whether or not they collect the transition charges from their retail consumers.

4. **Issuance Advice Letter.** CenterPoint shall submit a draft issuance advice letter to the Commission Staff for review not later than two weeks prior to the expected date of pricing the transition bonds. Within one week after receipt of the draft issuance advice letter, Commission Staff shall provide CenterPoint comments and recommendations regarding the adequacy of the information provided. Within 24 hours after pricing of the transition bonds and prior to issuance of the transition bonds, CenterPoint, in consultation with the Commission acting through its designated representative or financial advisor, shall file with the Commission an issuance advice letter in substantially the form of the issuance advice letter attached as Appendix A to this Financing Order. As part of the issuance advice

letter, an officer of CenterPoint shall provide a certification worded precisely as the statement in the form of issuance advice letter approved by the Commission. The issuance advice letter shall be completed and evidence the actual dollar amount of the initial transition charges and other information specific to the transition bonds to be issued, and shall certify to the Commission that the structure and pricing of that series results in the lowest transition bond charges consistent with market conditions at the time that the transition bonds are priced, and the terms set out in this Financing Order. In addition, if original issue discount, additional credit enhancements, or arrangements to reduce interest rate risks or enhance marketability are used, the issuance advice letter shall include certification that the original issue discount, additional credit enhancements, or other arrangements are reasonably expected to provide benefits as required by this Financing Order. All amounts which require computation shall be computed using the mathematical formulas contained in the form of the issuance advice letter in Appendix A to this Financing Order and Schedule TC2 approved in this Financing Order. Electronic spreadsheets with the formulas supporting the schedules contained in the issuance advice letter shall be included with such letter. The Commission's review of the issuance advice letter shall be limited to the arithmetic accuracy of the calculations and to compliance with PURA, this financing order, and the requirements that are contained in the issuance advice letter. The initial transition charges and the final terms of the transition bonds set forth in the issuance advice letter shall become effective on the date of issuance of the transition bonds (which shall not occur prior to the fifth business day after pricing) unless prior to noon on the fourth business day after pricing the Commission issues an order finding that the proposed issuance does not comply with PURA and the financing order.

5. **Approval of Tariff**. The form of the Schedule TC2 tariff attached as Appendix B to this order is approved. Prior to the issuance of any transition bonds under this Financing Order, CenterPoint shall file a tariff that conforms to the form of the Schedule TC2 tariff attached to this Financing Order.

B. Transition Charges

6. **Imposition and Collection.** CenterPoint is authorized to impose on, and the servicer is authorized to collect from, REPs, as provided in this Financing Order, transition charges in an amount sufficient to provide for the timely recovery of the aggregate Periodic Payment Requirements (including payment of principal and interest on the transition bonds), as approved in this Financing Order. If there is a shortfall in payment of an amount billed, the amount paid shall first be proportioned between the transition charges and other fees and charges (including transition charges attributable to the transition bonds issued in October 2001 pursuant to the financing order in Docket 21665), other than late fees, and second, any remaining portion of the payment shall be attributed to late fees.

7. **BondCo's Rights and Remedies.** Upon the transfer by CenterPoint of the transition property to BondCo, BondCo shall have all of the rights, title and interest of CenterPoint with respect to such transition property, including, without limitation, the right to exercise any and all rights and remedies with respect thereto, including the right to authorize disconnection of electric service and to assess and collect any amounts payable by any retail consumer in respect of the transition property.

8. **Collector of Transition Charges.** CenterPoint or any subsequent servicer of the transition bonds shall bill a consumer's REP for the transition charges attributable to that consumer and the REP shall pay to the servicer of the transition bonds the amount billed for transition charges less the applicable charge-off allowance as provided in Findings of Fact No. 60(j) whether or not the REP has collected the transition charges from its customers.

9. **Collection Period.** The transition charges related to a series of transition bonds shall be designed to be collected over the expected 14-year life of the transition bonds. However, to the extent that any amounts are not recovered at the end of this 14-year period, CenterPoint may continue to recover them over a period ending not more than 15 years from the date of issuance of that series of transition bonds. Amounts remaining unpaid after this 15-year period may be recovered but

only to the extent that the charges are attributable to services rendered during the 15-year period.

10. **Allocation.** The Allocation Settlement Agreement is reasonable, in the public interest, compliant with PURA, and is approved. CenterPoint shall allocate the transition charges among consumer classes in the manner described in this order and in the Allocation Settlement Agreement, attached as Appendix D to this Financing Order.

11. **Nonbypassability.** CenterPoint and any other entity providing electric transmission or distribution services and any REP providing services to any retail consumer within HL&P's certificated service area as it existed on May 1, 1999, are entitled to collect and must remit, consistent with this Financing Order, the transition charges from such retail consumers and, except as provided under PURA §§ 39.252(b) and 39.262(k), as implemented by Substantive Rule 25.345, from retail consumers that switch to new on-site generation, and such retail consumers are required to pay such transition charges. The Commission will ensure that such obligations are undertaken and performed by CenterPoint, any other entity providing electric transmission or distribution services within HL&P's certificated service area as of May 1, 1999 and any REP providing services to any retail consumer within such certificated service area.

12. **True-Ups.** True-ups of the transition charges, including any required adjustments to PBRAFs, shall be undertaken and conducted as described in Schedule TC2, as amended by the Stipulation Regarding Industrial Intra-Class Allocations. The servicer shall file the adjustment in a compliance docket and shall give notice of the filing to all parties in this docket.

13. **Non-Standard True-Up:** The Stipulation Regarding Industrial Intra-Class Allocations is reasonable, in the public interest, compliant with PURA, and is approved.

14. **Ownership Notification.** Any entity that bills transition charges to retail consumers shall, at least annually, provide written notification to each retail consumer for which the entity bills transition charges that the transition charges

are the property of BondCo and not of the entity issuing such bill. In addition, the entity that bills transition charges to retail consumers shall include on its invoices a statement that all or part of the receivable reflected on the invoice has been or may be assigned.

C. Transition Bonds

15. **Issuance.** BondCo is authorized to issue transition bonds as specified in this Financing Order. The aggregate amount of other qualified costs described in Appendix C that may be recovered directly through the transition charges shall be limited as provided in Appendix C.

16. CenterPoint may not securitize greater than $12,700,000 in upfront costs. This amount reflects a cap on CenterPoint's securitizable up-front qualified costs and a $1 million cap on the Commission's financial advisor fee. The Commission will update the cap with respect to the SEC Filing Fee and Underwriter's Fee if these amounts deviate from those listed in Appendix C as a result of an increase in the size of the transition bond issuance. This cap on up-front qualified costs does not apply to costs associated with original issue discount, interest rate swaps, or other credit enhancements as discussed in Ordering Paragraph No. 22. These costs are not capped by this Financing Order.

17. CenterPoint may recover no more than $1,055,500 in ongoing costs per year through its TC, as reflected in Appendix C. This amount is subject to updating if any component of the fee is greater than stated in Appendix C as a result of an increase in the size of the transition bond issuance. This cap on ongoing qualified costs does not apply to costs associated with original issue discount, interest rate swaps, or other credit enhancements as discussed in Ordering Paragraph No. 22. These costs are not capped by this Financing Order.

18. **Refinancing.** CenterPoint or any assignee may apply for one or more new financing orders pursuant to PURA § 39.303(g).

19. **Collateral.** All transition property and other collateral shall be held and administered by the indenture trustee pursuant to the indenture as described in

CenterPoint's application. BondCo shall establish a collection account with the indenture trustee as described in the application and Findings of Fact Nos. 65-72. Upon payment of the principal amount of all transition bonds and the discharge of all obligations in respect thereof, all amounts in the collection account, other than amounts in the capital subaccount, including investment earnings therein, shall be released to by the indenture trustee to the servicer. CenterPoint shall notify the Commission within 30 days after the date that these funds are eligible to be released of the amount of such funds available for crediting to the benefit of ratepayers.

20. **Distribution Following Repayment.** Following repayment of the transition bonds authorized in this Financing Order and release of the funds held by the trustee, the servicer, on behalf of BondCo, shall distribute to REPs and other entities responsible for collection of transition charges from retail ratepayers, the final balance of the overcollateralization, general, reserve, class and all other subaccounts (except the capital subaccount), whether such balance is attributable to principal amounts deposited in such subaccounts or to interest thereon, remaining after all other qualified costs have been paid. The amounts shall be distributed to each REP and other entity that paid Schedule TC2 transition charges during the last 12 months that the Schedule TC2 transition charges were in effect. The amount paid to each REP and the other entity shall be determined by multiplying the total amount available for distribution by a fraction, the numerator of which is the total Schedule TC2 transition charges paid by the REP and the other entity during the last 12 months Schedule TC2 charges were in effect and the denominator of which is the total Schedule TC2 transition charges paid by all REPs and other entities responsible for collection of transition charges from retail ratepayers during the last 12 months the Schedule TC2 transition charges were in effect.

21. **Funding of Capital Subaccount.** The capital contribution by CenterPoint to BondCo to be deposited into the capital subaccount shall, with respect to each series of transition bonds, be funded by CenterPoint and not from the proceeds of the sale of transition bonds. Upon payment of the principal amount of all

transition bonds and the discharge of all obligations in respect thereof, all amounts in the capital subaccount, including investment earnings, shall be released to BondCo. Investment earnings in this subaccount may be released earlier in accordance with the indenture.

22. **Original Issue Discount, Credit Enhancement and Swaps.** CenterPoint may provide original issue discount or provide for various forms of credit enhancement including letters of credit, reserve accounts, and surety bonds, and other mechanisms designed to promote the credit quality or marketability of the transition bonds and may enter into swap, hedging or other arrangements to mitigate the risk of an increase in interest rates if floating rate bonds are issued. The decision to use such arrangements to enhance credits, promote marketability or reduce interest rate risks shall be made in conjunction with the Commission acting through its designated representative or financial advisor. CenterPoint may include the costs of original issue discount, credit enhancements, swaps or other arrangements to promote credit quality, marketability or mitigate interest rate risks as qualified costs only if CenterPoint certifies that such arrangements are reasonably expected to provide benefits greater than their cost and such certifications are agreed with by the Commission's designated representative or financial advisor. CenterPoint shall not be required to enter any arrangements to promote credit quality, marketability or mitigate interest rate risks unless all related costs and liabilities can be included in qualified costs. CenterPoint and the Commission's designated representative or financial advisor shall evaluate the relative benefits of the arrangements in the same way that benefits are quantified under the quantifiable benefits test. This Ordering Paragraph does not apply to the collection account or its subaccounts approved in this Financing Order.

23. **Annual Weighted Average Interest Rate of Bonds.** The effective annual weighted average interest rate of the transition bonds, excluding up-front and ongoing costs, shall not exceed 9.0% on an annual basis.

24. **Life of Bonds.** The expected final maturity of the transition bonds authorized by this Financing Order shall not exceed 15 years.

25. **Amortization Schedule.** The Commission approves, and the transition bond shall be structured to provide, a transition charge that is level over the period of recovery if the actual year-to-year changes in residential load match the changes forecast at the time the bonds are structured.

26. **Commission Participation in Bond Issuance.** The Commission, acting through its designated representative or financial advisor, shall participate directly with CenterPoint in negotiations regarding the structuring, marketing, and pricing, and shall have equal rights with CenterPoint to approve or disapprove the proposed pricing, marketing and structuring of the transition bonds. The Commission's designated representative or financial advisor shall have the right to participate fully and in advance regarding all aspects of the structuring, marketing, and pricing of the transition bonds (and all parties shall be notified of the designated representative's or financial advisor's role) and shall be provided timely information that is necessary to fulfill its obligation to the Commission. The Commission directs its designated representative or financial advisor to veto any proposal that does not comply in any material respect with the criteria established in this Financing Order. The Commission's designated representative or financial advisor shall ensure that the structuring, marketing, and pricing of the transition bonds result in the lowest transition bond charges consistent with market conditions that exist at the time and with the terms of this Financing Order. The Commission's designated representative or financial advisor shall inform the Commission of any items that, in the designated representative's or financial advisor's opinion, are not reasonable. The Commission's designated representative or financial advisor shall notify CenterPoint and the Commission no later than 12:00 p.m. CST on the second business day after the Commission's receipt of the issuance advice letter for each series of transition bonds whether the structuring, marketing, and pricing of that series of transition bonds comply with the criteria established in this Financing Order.

27. **Use of BondCo.** CenterPoint shall use BondCo, a special purpose entity as proposed in its application, in conjunction with the issuance of any transition bonds authorized under this Financing Order. BondCo shall be funded with an

amount of capital that is sufficient for BondCo to carry out its intended functions and to avoid the possibility that CenterPoint would have to extend funds to BondCo in a manner that could jeopardize the bankruptcy remoteness of BondCo.

D. Servicing

28. **Servicing Agreement.** The Commission authorizes CenterPoint to enter into the servicing agreement with BondCo and to perform the servicing duties approved in this Financing Order. Without limiting the foregoing, in its capacity as initial servicer of the transition property, CenterPoint is authorized to calculate, bill and collect for the account of BondCo, the transition charges initially authorized in this Financing Order, as adjusted from time to time to meet the Periodic Payment Requirements as provided in this Financing Order; and to make such filings and take such other actions as are required or permitted by this Financing Order in connection with the periodic true-ups described in this Financing Order. The servicer shall be entitled to collect servicing fees in accordance with the provisions of the servicing agreement, provided that, as set forth in Appendix C, (i) the annual servicing fee payable to CenterPoint while it is serving as servicer (or to any other servicer affiliated with CenterPoint) shall not at any time exceed 0.05% of the original principal amount of the transition bonds. The annual servicing fee payable to any other servicer not affiliated with CenterPoint shall not at any time exceed 0.6% of the original principal amount of the transition bonds unless such higher rate is approved by the Commission pursuant to Ordering Paragraph No. 29.

29. **Replacement of CenterPoint as Servicer.** Upon the occurrence of an event of default under the servicing agreement relating to servicer's performance of its servicing functions with respect to the transition charges, the financing parties may replace CenterPoint as the servicer in accordance with the terms of the servicing agreement. If the servicing fee of the replacement servicer will exceed the applicable maximum servicing fee specified in Ordering Paragraph No. 28, the replacement servicer shall not begin providing service until (i) the date the Commission approves the appointment of such replacement servicer or (ii) if the

Commission does not act to either approve or disapprove the appointment, the date which is 45 days after notice of appointment of the replacement servicer is provided to the Commission. No entity may replace CenterPoint as the servicer in any of its servicing functions with respect to the transition charges and the transition property authorized by this Financing Order, if the replacement would cause any of the then current credit ratings of the transition bonds to be suspended, withdrawn, or downgraded.

30. **Amendment of Agreements.** The parties to the servicing agreement, indenture, and sale agreement may amend the terms of such agreements; provided, however, that no amendment to any such agreement shall increase the ongoing qualified costs without the approval of the Commission. Any amendment that does not increase the ongoing qualified costs shall be effective without prior Commission authorization. Any amendment to any such agreement that may have the effect of increasing ongoing qualified costs shall be provided by BondCo to the Commission along with a statement as to the possible effect of the amendment on the ongoing qualified costs. The amendment shall become effective on the later of (i) the date proposed by the parties to the amendment or (ii) 31 days after such submission to the Commission unless the Commission issues an order disapproving the amendment within a 30-day period.

31. **Collection Terms.** The servicer shall remit collections of the transition charges to BondCo or the indenture trustee for BondCo's account in accordance with the terms of the servicing agreement.

32. **Contract to Provide Service.** To the extent that any interest in the transition property created by this Financing Order is assigned, sold or transferred to an assignee, CenterPoint shall enter into a contract with that assignee that requires CenterPoint to continue to operate its transmission and distribution system in order to provide electric services to CenterPoint's customers; provided, however, that this provision shall not prohibit CenterPoint from selling, assigning, or otherwise divesting its transmission and distribution systems or any part thereof

so long as the entities acquiring such system agrees to continue operating the facilities to provide electric service to CenterPoint's customers.

E. Retail Electric Providers

33. **REP Billing and Credit Standards.** The Commission approves the REP standards detailed in Finding of Fact Nos. 58 through 62. These proposed REP standards relate only to the billing and collection of transition charges authorized under this Financing Order, and do not apply to collection of any other nonbypassable charges or other charges. The standards apply to all REPs other than REPs that have contracted with CenterPoint to have CenterPoint bill and collect transition charges from retail consumers. REPs may contract with parties other than CenterPoint to bill and collect transition charges from retail consumers, but such REPs shall remain subject to these standards. Upon adoption of any amendment to the rules governing REP standards as set out in Substantive Rule 25.108, the Commission staff shall initiate a proceeding to investigate the need to modify the standards adopted in this Financing Order to conform to that rule and to address whether each of the rating agencies that have rated the transition bonds will determine that such modifications will not cause a suspension, withdrawal, or downgrade of the ratings on the transition bonds. Modifications to the REP standards adopted in this Financing Order may not be implemented absent prior written confirmation from each of the rating agencies that have rated the transition bonds that such modifications will not cause a suspension, withdrawal, or downgrade of the ratings on the transition bonds. The servicer of the transition bonds shall also comply with the provisions of the REP standards adopted by this Financing Order that are applicable to the servicer.

34. **Transition Charge Remittance Procedures.** Transition charges shall be billed and collected in accordance with the REP standards adopted by this Financing Order. REPs shall be subject to penalties as provided in these standards. A REP shall not be obligated to pay the overdue transition charges of another REP whose customers it agrees to serve.

35. **Remedies Upon REP Default.** A servicer of transition bonds shall have the remedies provided in the REP standards adopted by this Financing Order. If a REP that is in default fails to immediately select and implement one of the options provided in the REP standards or, after making its selection, fails to adequately meet its responsibilities under the selected option, then, subject to the limitations and requirements of the bankruptcy code if the REP is a debtor in bankruptcy, the servicer shall immediately cause the POLR or a qualified REP to assume the responsibility for the billing and collection of transition charges in the manner and for the time provided in the REP standards.

36. **Billing by POLRs**. Every POLR appointed by the Commission shall comply with the minimum credit rating or deposit/credit support requirements described in the REP standards in addition to any other standard that may be adopted by the Commission. If the POLR defaults or is not eligible to provide billing and collection services, the servicer shall immediately assume responsibility for billing and collection of transition charges and continue to meet this obligation until a new POLR can be named by the Commission or the consumer requests the services of a REP in good standing. Retail consumers may never be directly re-billed by the successor REP, the POLR, or the servicer for any amount of transition charges the consumers have paid their REP.

37. **Disputes.** Disputes between a REP and a servicer regarding any amount of billed transition charges shall be resolved in the manner provided by the REP standards adopted by this Financing Order.

38. **Metering Data.** If the servicer is providing metering services to a REP's retail consumers, then metering data shall be provided to the REP at the same time as the billing. If the servicer is not providing metering services, the entity providing metering services shall comply with Commission rules and ensure that the servicer and the REP receive timely and accurate metering data in order for the servicer to meet its obligations under the servicing agreement and this Financing Order.

39. **Charge-Off Allowance.** The REP may retain an allowance for charge-offs from its payments to the servicer as provided in the REP standards adopted by this Financing Order.

40. **Service Termination.** In the event that the servicer is billing consumers for transition charges, the servicer shall have the right to terminate transmission and distribution service to the end-use consumer for non-payment by the end-use consumer pursuant to applicable Commission rules. In the event that a REP or the POLR is billing consumers for transition charges, the REP or POLR shall have the right to transfer to terminate transmission and distribution service to the end-use consumer for non-payment by the end-use consumer to the extent permitted by and pursuant to terms and limitations of the applicable Commission rules.

F. Structure of the Securitization

41. **Structure.** CenterPoint shall structure the securitization as proposed in CenterPoint's application, except that CenterPoint shall use an amortization schedule consistent with the Commission's decision to use a level transition charge as required by Ordering Paragraph No. 25. This structure shall be consistent with Findings of Fact Nos. 112 through 115.

G. Use of Proceeds

42. **Use of Proceeds.** Upon the issuance of transition bonds, BondCo shall pay the net proceeds from the sale of the transition bonds (after payment of transaction costs) to CenterPoint for the purchase price of the transition property. CenterPoint will apply these net proceeds to reduce the debt and/or common equity on its regulatory books.

H. Miscellaneous Provisions

43. **Continuing Issuance Right.** CenterPoint has the continuing irrevocable right to cause the issuance of transition bonds in one or more series in accordance with this Financing Order for a period of 24 months following the later of (i) the date

on which this Financing Order becomes final and no longer subject to any appeal; (ii) the date on which the Commission's final order in Docket No. 29526 becomes final and no longer subject to any appeal; or (iii) the date on which any other regulatory approvals necessary to issue the transition bonds are obtained and no longer subject to any appeal. If at any time during the effective period of this Financing Order there is a severe disruption in the financial markets of the United States, the effective period shall automatically be extended to a date which is not less than 90 days after the date such disruption ends.

44. **Internal Revenue Service Private Letter or Other Rulings.** CenterPoint is not required by this Financing Order to obtain a ruling from the IRS; however, if it elects to do so, then upon receipt, CenterPoint shall promptly deliver to the Commission a copy of each private letter or other ruling issued by the IRS with respect to the proposed transaction, the transition bonds or any other matter related thereto. CenterPoint shall also include a copy of every such ruling by the IRS it has received as an attachment to each issuance advice letter required to be filed by this Financing Order. CenterPoint may cause transition bonds to be issued without a private letter ruling if it obtains an opinion of tax counsel sufficient to support the issuance of the bonds.

45. **Binding on Successors.** This Financing Order, together with the transition charges authorized in it, shall be binding on CenterPoint and any successor to CenterPoint that provides transmission and distribution service directly to retail consumers in HL&P's certificated service area as of May 1, 1999, and any other entity that provides transmission or distribution services to retail consumers within that service area. This Financing Order is also binding on each REP, and any successor, that sells electric energy to retail consumers located within that service area, any other entity responsible for billing and collecting transition charges on behalf of BondCo, and any successor to the Commission. In this paragraph, a "successor" means any entity that succeeds by any means whatsoever to any interest or obligation of its predecessor, including by way of bankruptcy, reorganization or other insolvency proceeding, merger, consolidation,

conversion, assignment, pledge or other security, by operation of law or otherwise.

46. **Flexibility.** Subject to compliance with the requirements of this Financing Order, CenterPoint and BondCo shall be afforded flexibility in establishing the terms and conditions of the transition bonds, including the final structure of BondCo, repayment schedules, term, payment dates, collateral, credit enhancement, required debt service, reserves, interest rates (which may include floating or variable interest rates), use of original issue discount, swaps or hedges, indices and other financing costs and the ability of CenterPoint, at its option, to issue one or more series of transition bonds.

47. **Effectiveness of Order.** This Financing Order is effective upon issuance and is not subject to rehearing by the Commission. Notwithstanding the foregoing, no transition property shall be created hereunder, and CenterPoint shall not be authorized to impose, collect, and receive transition charges, until concurrently with the transfer of CenterPoint's rights hereunder to BondCo in conjunction with the issuance of the transition bonds.

48. **Regulatory Approvals.** All regulatory approvals within the jurisdiction of the Commission that are necessary for the securitization of the transition charges associated with the costs that are the subject of the application, and all related transactions contemplated in the application, are granted.

49. **Payment of Commission's Costs for Professional Services.** In accordance with PURA § 39.302(4), CenterPoint shall pay the costs to the Commission of acquiring professional services for the purpose of evaluating CenterPoint's proposed transaction, including, but not limited to, the Commission's outside attorneys' fees in the amounts specified in this Financing Order no later than 30 days after the issuance of any transition bonds.

50. **Payment of Commission's Financial Advisor.** The fee for the Commission's financial advisor shall be a fixed fee payable at closing by wire transfer and shall not exceed $1,000,000.

51. **Effect.** This Financing Order constitutes a legal financing order for CenterPoint under Subchapter G of Chapter 39 of PURA. The Commission finds this Financing Order complies with the provisions of Subchapter G of Chapter 39 of PURA. A financing order gives rise to rights, interests, obligations and duties as expressed in Subchapter G of Chapter 39 of PURA. It is the Commission's express intent to give rise to those rights, interests, obligations and duties by issuing this Financing Order. CenterPoint and the servicer are directed to take all actions as are required to effectuate the transactions approved in this Financing Order, subject to compliance with the criteria established in this Financing Order.

52. **Further Commission Action.** The Commission guarantees that it will act pursuant to this Financing Order as expressly authorized by PURA to ensure that transition charge revenues are sufficient to pay principal and interest on the transition bonds issued pursuant to this Financing Order and other costs, including fees and expenses, in connection with the transition bonds.

53. **All Other Motions Denied.** All motions, requests for entry of specific findings of fact and conclusions of law, and any other requests for general or specific relief not expressly granted herein, are denied for want of merit.

SIGNED AT AUSTIN, TEXAS the 16th day of March 2005.

PUBLIC UTILITY COMMISSION OF TEXAS

JULIE PARSLEY, COMMISSIONER

PAUL HUDSON, CHAIRMAN

Commissioner Smitherman does not join in the decision related to the securitization of no more than $1,000,000 in fees for the Commission's financial advisor as discussed in section II of this Financing Order and files a separate dissenting opinion on this issue. In all other respects, Commissioner Smitherman joins in the decisions reflected in this Financing Order.

BARRY T. SMITHERMAN, COMMISSIONER

q:\pd\orders\final\30000\30485 financing order.doc

PUC DOCKET NO. 21665
SOAH DOCKET NO. 473-99-2747

APPLICATION OF RELIANT ENERGY, INCORPORATED FOR FINANCING ORDER TO SECURITIZE REGULATORY ASSETS AND OTHER QUALIFIED COSTS	**§ § § § §**	**PUBLIC UTILITY COMMISSION OF TEXAS**

FINANCING ORDER

Table of Contents

Appendix A

1. Settlement Agreement (with exhibits unless otherwise noted)
   - Exhibit A — Form of Financing Order (Not Included)
   - Exhibit B — List of Covered Regulatory Assets
   - Exhibit C — Maximum Up-Front Qualified Costs and Maximum Ongoing Qualified Costs
   - Exhibit D — Transition Bond Structure
   - Exhibit E — Demonstrations of Compliance with Total Revenue, Benefits, and Present Value Tests
   - Exhibit F — Form of Tariff (Schedule TC)

Appendix B

1. Form of Issuance Advice Letter

Appendix C

1. Benefits of Securitization

PUC DOCKET NO. 21665
SOAH DOCKET NO. 473-99-2747

APPLICATION OF RELIANT ENERGY, INCORPORATED FOR FINANCING ORDER TO SECURITIZE REGULATORY ASSETS AND OTHER QUALIFIED COSTS	**§**	**PUBLIC UTILITY COMMISSION OF TEXAS**

FINANCING ORDER

This Financing Order addresses the application of Reliant Energy, Incorporated (Applicant or Company) to securitize regulatory assets and other qualified costs, for authority to issue transition bonds, for approval of transition charges sufficient to recover qualified costs, and for approval of a tariff to implement the transition charges. On April 28, 2000, the Company, the Commission's Office of Regulatory Affairs and other parties to this proceeding submitted a stipulation and agreement (the "Settlement Agreement") that resolves all issues in this proceeding. The Settlement Agreement, excluding Attachment A to that agreement, is attached as Appendix A to this Financing Order.

As discussed in this Financing Order, the Public Utility Commission of Texas ("Commission") finds that the Company's request to securitize regulatory assets and other qualified costs as modified by the Settlement Agreement and this Financing Order should be approved. The Commission also finds that the securitization approved in this Financing Order meets all applicable requirements of the Public Utility Regulatory Act.[1] Accordingly, the Commission (1) approves the securitization of regulatory assets and qualified costs as specified in this Financing Order, and authorizes, subject to the terms of this Financing Order, the issuance of transition bonds in an amount not to exceed $740,000,000 of regulatory assets plus actual up-front qualified costs, up to the maximum amount specified in the Settlement Agreement, as set forth in this Financing Order; (2) approves transition charges in an amount to be calculated as provided in this Financing Order; (3) approves the structure of the securitization financing as

[1] TEX. UTIL. CODE ANN. §§ 11.001-64.158 (Vernon 1998 & Supp. 2000) (PURA).

proposed in the Settlement Agreement; and (4) approves the settlement form of tariff, as modified by this Financing Order, to implement those transition charges. As a result of the securitization approved by this Financing Order, customers in the Company's service area will realize benefits in excess of $150 million on a present value basis. In addition, this Financing Order will result in a reduction in the amount of revenues collected by the Company of almost $800 million, on a nominal basis, when compared to the amount that would have been collected under conventional financing methods.

Under the terms of the Settlement Agreement, the parties have agreed that the Company should be authorized to securitize $740 million plus up-front qualified costs. The $740 million is an agreed amount for recovery of the $1,070,530,866 of generation-related regulatory assets the Company asked to securitize in its application in this docket and fully reflects the present value of the reduction in revenue requirements that would have resulted under conventional ratemaking if the $592,633,762 of accumulated deferred income taxes associated with such assets as of December 31, 1998 had continued to be included in invested capital. The Settlement Agreement specifies that the $175,460,771 of SFAS 109[2] generation-related regulatory assets that the Company did not ask to securitize are not included in the amount securitized under this Financing Order. Under the Settlement Agreement, those SFAS 109 assets may be requested by the Company to be included in the computation of stranded costs in the preliminary estimate of ECOM and other future proceedings concerning the calculation of stranded costs. Except for the regulatory assets covered by this Financing Order that are listed on Exhibit B of the Settlement Agreement and the remaining $175,460,771 of SFAS 109 generation-related regulatory assets, the Company agreed in the Settlement Agreement that it will continue to amortize, but will not seek securitization of any generation-related regulatory asset amounts shown on Exhibit B of the Settlement Agreement.

The Company provided a general description of the proposed transaction structure in its application, in the Settlement Agreement, and in the testimony and exhibits submitted in support

[2] STATEMENT OF FINANCIAL ACCOUNT STANDARDS NO. 109 (Financial Accounting Standards Board Feb. 1992) (SFAS 109).

of the settlement. The proposed transaction structure does not contain every relevant detail and, in certain places, uses only approximations of certain costs and requirements. The final transaction structure will depend, in part, upon the requirements of the nationally recognized credit rating agencies which will rate the transition bonds and, in part, upon the market conditions that exist at the time the transition bonds are taken to the market.

While the Commission recognizes the need for some degree of flexibility with regard to the final details of the securitization transactions approved in this Financing Order, its primary focus is upon the statutory requirements—not the least of which is to ensure that securitization results in tangible and quantifiable benefits to ratepayers—that must be met prior to issuing a financing order. Furthermore, in issuing such an order, the Commission must be mindful of its responsibility to shepherd the restructuring of the electric industry in Texas in a manner that ensures that a competitive retail electric market develops in this state.

In view of these obligations, the Commission has established certain criteria in this Financing Order that must be met in order for the approvals and authorizations granted in this Financing Order to become effective. This Financing Order grants authority to issue transition bonds and to impose and collect transition charges only if the final structure of the securitization transactions complies in all material respects with these criteria. In addition, the Commission, acting through its designated representative or financial advisor, will participate in the pricing and structure of the transition bonds, and will make the decision, in conjunction with the Company, as to whether to issue the bonds. Finally, the authority and approval granted in this Financing Order is effective only upon the Company filing with the Commission an issuance advice letter demonstrating compliance with the provisions of this Financing Order.

I. DISCUSSION AND STATUTORY OVERVIEW

The Texas Legislature amended PURA in 1999 to provide for competition in the provision of retail electric service.[3] To facilitate the transition to a competitive environment, electric utilities are authorized to undertake securitization financing of qualified costs, which include specified regulatory assets, eligible stranded costs, and associated costs.[4] The Legislature provided this option for recovering stranded costs based on the conclusion that securitized financing will result in lower carrying costs for utility assets relative to the costs that would be incurred using conventional utility financing methods. As a precondition to the use of securitization, the Legislature required that a utility demonstrate that ratepayers would receive tangible and quantifiable benefits as a result of securitization and that this Commission make a specific finding that such benefits exist before issuing a financing order. Consequently, a basic purpose of securitized financing, the recovery of electric utilities' stranded costs, is conditioned upon the other basic purpose, providing economic benefits to consumers of electricity in this state.

To securitize an electric utility's regulatory assets, the Commission may authorize the issuance of a new security known as transition bonds. Transition bonds are generally defined as evidences of indebtedness or ownership that are issued under a financing order, are limited to a term of not longer than 15 years, and are secured by or payable from transition property.[5] The net proceeds from the sale of the transition bonds must be used to reduce the amount of a utility's recoverable regulatory assets or stranded costs through the refinancing or retirement of the utility's debt or equity. If transition bonds are approved and issued, retail electric customers must pay the principal, interest, and related charges of the transition bonds through transition charges. Transition charges are nonbypassable charges that will be paid as a component of the

[3] *See* Act of May 27, 1999, 76th Leg., R.S., ch. 440, 1999 TEX. GEN. LAWS 1111 (codified primarily at TEX. UTIL. CODE Chapters 39, 40, and 41) (S.B. 7).

[4] *See* PURA §§ 39.201, .301-.303.

[5] *See Id.* § 39.302(6).

monthly charge for electric service. Transition charges must be approved by the Commission pursuant to a financing order.[6]

The Commission may adopt a financing order allowing recovery of an electric utility's regulatory assets only if it finds that 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 regulatory assets using conventional financing methods. Furthermore, consistent with PURA § 39.301, the Commission must also ensure that the net proceeds of transition bonds may be used only for the purposes of reducing the amount of stranded costs through the refinancing or retirement of utility debt or equity. In addition, the Commission must ensure that (1) securitization provides tangible and quantifiable benefits to ratepayers greater than would have been achieved absent the issuance of the transition bonds, and (2) the structuring and pricing of the transition bonds result in the lowest transition-bond charges consistent with market conditions and the terms of a financing order. Finally, the amount securitized may not exceed the present value of the revenue requirement over the life of the proposed transition bonds associated with the regulatory assets sought to be securitized, and the present value calculation must use a discount rate equal to the proposed interest rate on the transition bonds. All of these statutory requirements go to ensure that securitization will provide real benefits to a utility's customers.

The essential finding by the Commission that is needed to issue a financing order is that ratepayers will receive tangible and quantifiable benefits as a result of securitization. This finding can only be made upon a showing of economic benefits to ratepayers through an economic analysis. An economic analysis is necessary to recognize the time value of money in evaluating whether and the extent to which benefits accrue from securitization. Moreover, an economic analysis recognizes the concept that the timing of a payment can be as important as the magnitude of a payment in determining the value of the payment. Thus, an analysis showing an economic benefit is necessary to quantify a tangible benefit to ratepayers.

[6] *See Id.* § 39.302(7).

Economic benefits also depend upon a favorable financial market—one in which transition bonds may be sold at an interest rate lower than the carrying costs of the assets being securitized. The precise interest rate at which transition bonds can be sold in a future market, however, is not known today. Nevertheless, benefits can be calculated based upon certain known facts (the amount of assets to be securitized) and assumptions—the interest rate of the transition bonds, the term of the transition bonds, and the cost of the alternative to securitization—and by analyzing the proposed securitization based upon those facts and assumptions, a determination can be made as to whether tangible and quantifiable benefits result. To ensure that benefits are realized, the securitization transaction must be structured in a manner to conform to the economic analysis.

In this proceeding, financial analysis shows an economic benefit to ratepayers in an amount in excess of $150 million on a present value basis as a result of securitizing the assets in the manner provided by this Order. This benefit will result if the bond market is unfavorable and transition bonds have to be issued at the maximum interest rate allowed by this Order. If a more favorable market allows the transition bonds to be issued at a lower interest rate, then the economic benefit to ratepayers could increase substantially.

To issue a financing order, PURA also requires that the Commission find that the total amount of revenues collected under the financing order will be less than would otherwise have been collected under conventional financing methods. In this proceeding, the analysis using worst case market conditions demonstrates that revenues will be reduced by almost $800 million on a nominal basis under this Financing Order compared to the amount that would be recovered under conventional financing methods. If transition bonds are issued in a more favorable market, this reduction in revenues will increase.

To obtain the most favorable issuance of transition bonds—and the greatest benefits to ratepayers—the Commission, acting through its financial advisor, will participate in the pricing, marketing and structuring of the bonds. This participation will provide assurances that the

minimum cost of securitization and the maximum benefits for customers are obtained. In addition, before the transition bonds may be issued, the Company must submit to the Commission an issuance advice letter in which it demonstrates, based upon the actual market conditions at the time of pricing, that the proposed structure and pricing of the transition bonds will provide real economic benefits to customers and comply with this Financing Order. As part of this submission, the Company must also certify to the Commission that the structure and pricing of the transition bonds results in the lowest transition-bond charges consistent with market conditions at the time of pricing and the general parameters set out in this Financing Order. The Commission, by order, may stop the issuance of the transition bonds authorized by this Financing Order if the Company fails to make this demonstration or certification.

PURA requires that transition charges be charged for the use or availability of electric services to pay the transition-bond charges–in this case the principal and interest on the bonds and the associated costs to issue and service those bonds.[7] Transition charges can be recovered over a period that does not exceed 15 years.[8] The Commission concludes that this prevents the collection of transition charges from retail customers in the normal course of business after the 15-year period. However, because of the protections afforded in PURA § 39.305, the Commission also concludes that the 15-year limitation does not apply to the recovery of amounts still owed after the end of the 15-year period through the use of judicial process.

Transition charges will be collected by an electric utility, its successors, an assignee, or other collection agents as provided for in the financing order.[9] The right to impose, collect, and receive transition charges (including all other rights of an electric utility under the financing order) are only contract rights until they are first transferred to an assignee or pledged in connection with the issuance of transition bonds. Upon the transfer or pledge of those rights,

[7] *See Id.* § 39.302(7).

[8] *Id.* § 39.303(b).

[9] *Id.* § 39.302(7).

they become transition property and, as such, are afforded certain statutory protections to ensure that the charges are available for bond retirement.[10]

This Financing Order contains terms, as it must, ensuring that the imposition and collection of transition charges authorized in the order shall be nonbypassable.[11] It also includes a mechanism requiring that transition charges be reviewed and adjusted at least annually, within 45 days of the anniversary date of the issuance of the transition bonds, to correct any overcollections or undercollections during the preceding 12 months and to ensure the expected recovery of amounts sufficient to timely provide all payments of debt service and other required amounts and charges in connection with the transition bonds.[12] In addition to the required annual reviews, more frequent reviews are allowed to ensure that the amount of the transition charges matches the funding requirements approved in this Order. These provisions will help to ensure that the amount of transition charges paid by retail customers does not exceed the amounts necessary to cover the costs of this securitization, and will also help to foster the development of a robust and competitive retail electric market in Texas.

To encourage utilities to undertake securitization financing, other benefits and assurances are provided. The State of Texas has pledged, for the benefit and protection of financing parties and electric utilities, that it will not take or permit any action that would impair the value of transition property, or, except for the true-up expressly allowed by law, reduce, alter, or impair the transition charges to be imposed, collected and remitted to financing parties, until the principal, interest and premium, and any other charges incurred and contracts to be performed in connection with the related transition bonds have been paid and performed in full.[13]

Transition property constitutes a present property right for purposes of contracts concerning the sale or pledge of property, and the property will continue to exist for as long as

[10] *Id.* § 39.304(b).

[11] *See Id.* § 39.306.

[12] *Id* § 39.307.

[13] *Id.* § 39.310.

the pledge of the state described in PURA § 39.310.[14] In addition, the interest of an assignee or pledgee in transition property (as well as the revenues and collections arising from the property) are not subject to setoff, counterclaim, surcharge, or defense by the electric utility or any other person or in connection with the bankruptcy of the electric utility or any other entity.[15] Further, transactions involving the transfer and ownership of transition property and the receipt of transition charges are exempt from state and local income, sales, franchise, gross receipts, and other taxes or similar charges.[16] The creation, granting, perfection, and enforcement of liens and security interests in transition property are governed by PURA § 39.309 and not by the Texas Business and Commerce Code.[17]

The Commission may adopt a financing order providing for the retiring and refunding of transition bonds only upon making a finding that the future transition charges required to service the new transition bonds, including transaction costs, will be less than the future transition charges required to service the bonds being retired or refunded.[18] The Company has not requested and this Financing Order does not grant any authority to refinance transition bonds authorized by this Financing Order. This Financing Order does not preclude the Company from filing a request for a financing order to retire or refund the transition bonds approved in this Financing Order upon a showing that the statutory criteria in PURA § 39.303(g) is met.[19]

To facilitate compliance and consistency with applicable statutory provisions, this Financing Order adopts the definitions in PURA § 39.302.

[14] *Id.* § 39.304(b).

[15] *Id.* § 39.305.

[16] *Id.* § 39.311.

[17] *Id.* § 39.309(a).

[18] *Id.* § 39.303(g).

[19] *Id.*

II. DESCRIPTION OF PROPOSED TRANSACTION

A description of the transactions proposed by the Company is contained in its application, the Settlement Agreement, and the testimony and exhibits submitted in support of the settlement. A brief summary of the proposed transactions is provided in this section, a more detailed description is included in Section III.C, titled "*Structure of the Proposed Securitization*" and in the Settlement Agreement attached in Appendix A.

To facilitate the proposed securitization, the Company proposed that a special purpose entity (SPE) be created to which will be transferred the rights to impose, collect and receive transition charges along with the other rights arising pursuant to this Financing Order. Upon transfer, these rights will become transition property as provided by PURA § 39.304. The SPE will issue transition bonds and will transfer the net proceeds from the sale of the transition bonds to the Company or its successor wires company in consideration for the transfer of the transition property. The SPE will be organized and managed in a manner to ensure the SPE will be bankruptcy remote from and will not be affected by a bankruptcy of the Company or any of its successors. In addition, the SPE will have at least one independent manager, trustee or director whose approval will be required for certain major actions or organizational changes by the SPE. The transition bonds will be issued pursuant to an indenture and administered by an indenture trustee. The transition bonds will be secured by and payable solely out of the transition property created pursuant to this Financing Order and other collateral described in the Company's application. That collateral will be pledged to the indenture trustee for the benefit of the holders of the transition bonds.

The servicer of the transition bonds will collect the transition charges and remit those amounts to the indenture trustee on behalf of the SPE. The servicer will be responsible for making any required or allowed true-ups of the transition charges. If the servicer defaults on its obligations under the servicing agreement, the indenture trustee may appoint a successor servicer. The Company or its successor wires company will act as the initial servicer for the transition bonds.

After the beginning of customer choice on January 1, 2002 (or earlier in connection with pilot programs), retail electric providers (REPs) will be required to meet certain financial standards to collect transition charges under this Financing Order. If the REP qualifies to collect transition charges, the servicer will bill to and collect from the REP the transition charges attributable to the REP's customers. The REP in turn will bill to and collect from its retail customers the transition charges attributable to them. If any REP fails to qualify to collect transition charges or defaults in the remittance of those charges to the servicer of the transition bonds, another entity can assume responsibility for collection of the transition charges from the REP's retail customers.

Transition charges will be calculated to ensure the collection of an amount sufficient to service the principal, interest, and related charges for the transition bonds and in a manner that allocates this amount to the various classes of retail customers as provided in PURA. The transition charges will be calculated pursuant to the method described in Exhibit F to the Settlement Agreement (referenced as Schedule TC). In addition to the annual true-up required by PURA § 39.307, periodic true-ups may be performed as necessary to ensure that the amount collected from transition charges is sufficient to service the transition bonds. In addition, an adjustment to the transition charge class allocations will be allowed under certain circumstances. The methodology for making true-ups and allocation adjustments and the circumstances under which each shall be made are described in Schedule TC.

Pursuant to the terms of the Settlement Agreement, the Company requests authority to issue transition bonds in the original principal amount not to exceed the sum of $740,000,000 of regulatory assets plus the amount necessary to recover its up-front qualified costs, not to exceed $10.7 million, as described in Exhibit C to the Settlement Agreement. The Company also requests approval of transition charges sufficient to recover the principal and interest on the transition bonds plus an additional amount of ongoing qualified costs as described in Exhibit C to the Settlement Agreement. The Company requests that the transition charges be recovered from retail customers and that the amount of the transition charges be calculated based upon the allocation methodology and billing determinants specified in the Settlement Agreement. The

Company also requests that certain standards related to the billing and collection of transition charges be applied to REPs, as specified in the Settlement Agreement. To implement the transition charges and billing and collection requirements, the Company requests approval of Schedule TC.

Under the terms of the settlement, $1,070,530,866 of generation-related regulatory assets and $592,633,762 of related accumulated deferred income taxes on the Company's regulatory books will be recovered through the securitization. The specific regulatory assets being recovered and the accumulated deferred income taxes associated with each of the assets are shown on Exhibit B of the Settlement Agreement. The securitized assets and related ADIT included in the Company's invested capital as of December 31, 1998 will be removed from invested capital as of the date the transition bonds are issued and (except for recovery of costs for the portion of the year prior to issuance of the transition bonds) will not be included in any annual report calculation or in the calculation of excess cost over market. The procedures for proportional inclusion of the securitized assets and related ADIT in invested capital in the annual report for the year in which the transition bonds are issued are described in the Settlement Agreement.

III. FINDINGS OF FACT

A. Identification and Procedure

Identification of Applicant and Application

1. Reliant Energy HL&P, a division of Reliant Energy, Incorporated (Applicant or the Company), owns and operates for compensation in this state generation facilities and an extensive transmission and distribution network to provide electric service in Texas and is an electric utility providing retail and wholesale electric service in Texas.

2. The Company's application was filed on November 16, 1999 and includes the exhibits, schedules, attachments, testimony and filings by or for the Company in this docket.

3. In its application, the Company used the term Applicant to refer to Reliant Energy, Incorporated and its successors and assigns that provide transmission or distribution service, or both, directly to retail customers in Reliant Energy HL&P's existing service area, but not to any successor or assign that provides competitive services after the advent of customer choice under PURA § 39.051. As used in this Financing Order, the term "Applicant" has the meaning ascribed to it by the Company in its application.

Procedural History

4. On November 16, 1999, Applicant initially filed its application for a financing order under Subchapter G of Chapter 39 of the Public Utility Regulatory Act[20] to permit securitization of some of its regulatory assets and other qualified costs.

5. The following persons moved to intervene and were granted party status in this proceeding: Office of Public Utility Counsel (OPC); NewEnergy Texas, L.L.C. (NewEnergy); Texas Industrial Energy Consumers (TIEC); State of Texas; the Texas Retailers Association (TRA); Enron Energy Services, Inc. (Enron); Entergy Gulf States, Inc. (Entergy); Occidental Chemical Corporation (Occidental); Shell Energy Services Co., L.L.C. (Shell); the Coalition of Independent Universities (Universities); and Texas Hospital Association (THA). The Commission's Office of Regulatory Affairs (ORA) also participated as a party. The Universities' counsel filed a notice of withdrawal on January 5, 2000, no successor counsel entered an appearance in this docket for Universities, and Universities did not participate in this docket.

6. On November 17, 1999, the Commission referred the Company's application to the State Office of Administrative Hearings (SOAH).

7. On April 19, 2000, the Company filed an agreement with ORA and all intervenors (except Universities, which did not participate in this docket) to resolve by settlement all issues in this proceeding.

8. On April 19, 2000, the Company and ORA filed testimony supporting the approval of the Settlement Agreement. On April 20, 2000, a hearing was held before the SOAH Administrative Law Judge. The Administrative Law Judge recommended approval of the Settlement Agreement and adoption of the Financing Order attached to the Settlement Agreement.

9. On May 18, 2000, in open meeting, the Commission deliberated on the merits of the Company's application and the Settlement Agreement, including the proposed financing order, heard additional argument, and rendered its final decision in this docket.

Notice of Application

10. Notice of the Company's application was provided through publication once a week for two consecutive weeks in newspapers having general circulation in Reliant Energy HL&P's Texas service area, beginning shortly after the filing of the application. In addition, Reliant Energy HL&P provided individual notice to the governing bodies of all Texas incorporated municipalities served by Reliant Energy HL&P that have retained original jurisdiction over Reliant Energy HL&P. Proof of publication was submitted in the form of publishers' affidavits and verification of the mailing of individual notices and the provision of notice to the municipalities.

Evidence of Record

11. The following items were admitted into evidence: (a) Reliant Energy Exhibits 1, 2, and 3, and (b) ORA Exhibit 1.

B. Qualified Costs and Amount to be Securitized

Identification and Amounts

12. Qualified costs are defined to include 100% of an electric utility's regulatory assets and 75% of its recoverable costs determined by the Commission under PURA § 39.201 and any remaining stranded costs determined under PURA § 39.262 together with the costs of issuing, supporting, and servicing transition bonds and any costs of retiring and refunding the electric

[20] TEX. UTIL. CODE §§ 11.001-64.158 (Vernon 1998 & Supp. 2000) (PURA).

utility's existing debt and equity securities in connection with the issuance of transition bonds. Qualified costs also include the costs to the Commission of acquiring professional services for the purpose of evaluating proposed securitization transactions.[21]

13. The Company proposed to recover qualified costs consisting of certain of its regulatory assets, the costs of issuing, supporting and servicing the transition bonds, and the costs to the Commission of acquiring professional services for the purpose of evaluating the Company's proposed securitization transactions. The Company also proposed to include the costs of possible swap or hedge agreements entered into under the circumstances described in the testimony submitted in support of the settlement as qualified costs.

14. Regulatory assets are defined to include only the generation-related portion of the Texas jurisdictional portion of the amount reported by an electric utility in its 1998 annual report on Securities and Exchange Commission (SEC) Form 10-K as regulatory assets and liabilities, offset by the applicable portion of generation-related investment tax credits permitted under the Internal Revenue Code of 1986.[22] The Company identified the amount of regulatory assets reported in its Form 10-K and allocated those amounts to generation-related and non-generation-related amounts.

15. The Company originally proposed to securitize $1,070,530,866 of regulatory assets and to leave the associated accumulated deferred income taxes (ADIT) on its books to be flowed back to customers in wires charges or through a negative competition transition charge (CTC).

16. Under the terms of the Settlement Agreement, the parties have agreed that Applicant should be authorized to securitize $740 million plus, up-front qualified costs. The $740 million is an agreed amount for recovery of the $1,070,530,866 of generation-related regulatory assets Applicant asked to securitize in its application in this docket and fully reflects the present value of the reduction in revenue requirements that under conventional ratemaking would have resulted

[21] *See* PURA § 39.302(4).

[22] *Id.* § 39.302(5).

if the $592,633,762 of accumulated deferred income taxes associated with such assets as of December 31, 1998 had continued to be included in invested capital. The specific generation-related regulatory assets that comprise the $1,070,530,866 and the associated accumulated deferred income taxes as of December 31, 1998 are listed on Exhibit B of the Settlement Agreement.

17. The actual costs of issuing and supporting the transition bonds will not be known until the transition bonds are issued, and certain ongoing costs relating to the transition bonds may not be known until such costs are incurred. The costs of credit enhancement and servicing, including third party fees and expenses, also will not be known until the time the transition bonds are priced. The Settlement Agreement contains an estimate of the maximum amount of these costs as shown in Exhibit C to that agreement and permits recovery of the actual amounts, subject to an aggregate cap applicable to the up-front qualified costs, a separate cap applicable to the up-front and ongoing costs of credit enhancement, and other caps related to ongoing servicing fees and fixed operating expenses.

18. The Settlement Agreement would permit Applicant to issue transition bonds with a principal amount equal to the sum of $740 million plus the actual amount of the up-front qualified costs, subject to the aggregate cap provided in Exhibit C to the Settlement Agreement, plus the actual costs, which are not quantified, of swap and hedge agreements subject to the cap provided in Exhibit C of the settlement agreement and subject to a finding that such agreements provide benefits greater than their costs. The Settlement Agreement permits Applicant to recover the remaining qualified costs, composed of the ongoing support and servicing costs listed in Exhibit C to the Settlement Agreement, directly through transition charges subject to the caps provided in Exhibit C to the Settlement Agreement.

19. The Settlement Agreement specifies that the $175,460,771 of SFAS 109 generation related regulatory assets that the Company did not ask to securitize are not included in the amount securitized under this Financing Order. Under the Settlement Agreement, the Applicant may request that those SFAS 109 assets be included in the computation of stranded costs in the

preliminary estimate of ECOM and other future proceedings concerning the calculation of stranded costs. This Financing Order does not address any issues regarding recovery of any other regulatory assets on the Company's books as of December 31, 1998 or any regulatory assets created subsequent to December 31, 1998. However, except for the securitized regulatory assets and the remaining $175,460,771 of SFAS 109 generation-related regulatory assets, Applicant agreed in the Settlement Agreement that it will continue to amortize, but will not seek securitization of any generation-related regulatory asset amounts shown on Exhibit B to the Settlement Agreement.

20. The benefits of the Company's proposed securitization are dependent, in part, upon the total amount of qualified costs other than regulatory assets sought to be securitized or directly recovered through transition charges. To satisfy the Commission's statutory obligations to ensure quantifiable and tangible benefits to ratepayers, the Settlement Agreement limits the maximum amount of up-front qualified costs other than regulatory assets approved in this Financing Order so that the sum of the fixed and variable up-front qualified costs does not exceed $10.7 million, and the annual ongoing servicing fees do not exceed the maximum amount shown in Exhibit C to the Settlement Agreement. To further ensure the benefits promised by this securitization, the excess of any amounts securitized (including associated interest) over the actual amounts incurred by Applicant for up-front costs must be provided as a credit in Applicant's ECOM proceeding or a future securitization proceeding.

21. The proposed recovery of $1,070,530,866 of regulatory assets through issuance of transition bonds in the principal amount of $740 million plus other up-front qualified costs as provided in this Financing Order should be approved because ratepayers will receive tangible and quantifiable benefits as a result of the securitization, and the amount of Applicant's stranded costs will be reduced, leading to further benefits for ratepayers.

Issuance Advice Letter

22. Because the actual structure and pricing of the transition bonds and the precise amounts of up-front costs and expenses will not be known at the time that this Financing Order is issued,

Applicant proposed that, following determination of the final terms of the transition bonds and prior to issuance of the transition bonds, Applicant will file with the Commission for each series of transition bonds issued, and no later than the second business day after the pricing date for that series of transition bonds, an issuance advice letter. The issuance advice letter will be completed to report the actual dollar amount of the initial transition charges and other information specific to the transition bonds to be issued. All amounts that require computation will be computed using the mathematical formulas contained in the form of the issuance advice letter in Appendix B to this Financing Order and Exhibit F to the Settlement Agreement (Schedule TC). Applicant proposed that the Commission's review of the issuance advice letter be limited to the arithmetic accuracy of the calculations and to compliance with the specific requirements that are contained in the issuance advice letter, and that the initial transition charges and the final terms of the transition bonds set forth in the issuance advice letter shall become effective on the later of the third business day after submission to the Commission or the date of issuance of the transition bonds unless, prior to such third business day, the Commission issues an order finding that the proposed issuance does not comply with those requirements.

23. The completion and filing of an issuance advice letter in the form of the Issuance Advice Letter attached as Appendix B, including the certification from Applicant discussed in Finding of Fact No. 98, is necessary to ensure that any securitization actually undertaken by Applicant complies with the terms of this Financing Order. Therefore, Applicant's proposal should be approved.

Tangible and Quantifiable Benefit

24. The statutory requirement in PURA § 39.301 that directs the Commission to ensure that securitization provides tangible and quantifiable benefits to ratepayers greater than would be achieved absent the issuance of transition bonds can only be determined using an economic analysis to account for the time value of money. A present-value analysis that compares the traditional revenue requirement associated with an asset (reflective of conventional utility financing) with the revenue required under securitization is an appropriate economic analysis to demonstrate whether securitization provides economic benefits to ratepayers.

25. Securitization financing for the regulatory assets detailed in Exhibit B to the Settlement Agreement is expected to result in excess of approximately $159 million of tangible and quantifiable economic benefits to ratepayers on a present-value basis if the transition bonds are issued at the maximum interest rate of 9.0% allowed by this Financing Order and approximately $240 million if the transition bonds are issued at 7.5%. The actual benefit to ratepayers will depend upon market conditions at the time the transition bonds are issued. This quantification is the sum of the economic benefit calculated for each securitized regulatory asset using the methodology described in Applicant's settlement testimony using a discount rate of 9.0% or 7.5%, as applicable, and a maximum expected life of 12 years as detailed in Appendix C to this Financing Order, offset by the present value amount of up-front and ongoing costs approved in this Financing Order.

26. The methodology described in Applicant's settlement testimony to calculate the economic benefits to ratepayers as a result of this Financing Order is appropriate and properly calculates the economic benefits to ratepayers resulting from securitization of the qualified costs approved in this Financing Order and detailed in Exhibits B and C to the Settlement Agreement.

Present Value Cap

27. The amount securitized may not exceed the present value of the revenue requirement over the life of the proposed transition bonds associated with the regulatory assets or stranded costs sought to be securitized where the present value analysis uses a discount rate equal to the proposed interest rate on the transition bonds.[23] The methodology used by Applicant to calculate economic benefits also demonstrates that the amount Applicant seeks to securitize does not exceed the present value of the revenue requirement over the maximum expected 12-year life of the transition bonds associated with those regulatory assets. That present value (calculated using the maximum rate of 9.0%) is $913,829,697 as shown in Appendix C to this Financing Order.

28. The amount of qualified costs to be securitized detailed in Exhibits B and C to the Settlement Agreement does not exceed the present value of the revenue requirement over the

[23] *See* PURA § 39.301.

maximum expected 12-year life of the transition bonds associated with the regulatory assets approved to be securitized in this Financing Order. The present value analysis uses a discount rate equal to the maximum allowed weighted average interest rate on the transition bonds on an annual basis.

Total Amount of Revenue to be Recovered

29. The Commission is required to find that the total amount of revenues to be collected under this Financing Order will be less than the revenue requirement that would be recovered over the remaining life of the regulatory assets that are securitized under this Financing Order, using conventional financing methods.[24] The total amount of revenues to be collected under this Financing Order is expected to be approximately $350 million less than the revenue requirement that would be recovered using conventional utility financing methods over the current remaining life of the securitized regulatory assets. This quantification is the sum of the reduction in the amount of revenues resulting from securitization for each regulatory asset that is proposed to be securitized using the methodology contained in Applicant's settlement testimony using a transition bond interest rate of 9.0% and a maximum expected life of 12 years as detailed in Appendix C to this Financing Order.

30. The Commission finds that the methodology described in Applicant's settlement testimony to calculate the differential between the total amount of revenues to be collected under this Financing Order and the revenue requirement that would be collected over the remaining life of the regulatory assets that are securitized is appropriate and properly calculates the reduction in total revenues collected from ratepayers as a result of securitization of the qualified costs approved in this Financing Order and detailed in Exhibits B and C to the Settlement Agreement.

[24] *See Id.* § 39.303(a).

C. Structure of the Proposed Securitization

The SPE

31. For purposes of this securitization, Applicant will create a special purpose entity (SPE), which will be either a Delaware limited liability company with Applicant as its sole member or a Delaware business trust with Applicant as grantor and owner of all beneficial interests. The SPE will be formed for the limited purpose of acquiring transition property (including any transition property authorized by the Commission in a subsequent financing order), issuing transition bonds (including any transition bonds authorized by the Commission in a subsequent financing order), and performing other activities relating thereto or otherwise authorized by this Financing Order. The SPE will not be permitted to engage in any other activities and will have no assets other than transition property (and any subsequent transition property) and related assets to support its obligations under the transition bonds (and any subsequent transition bonds). Obligations relating to the transition bonds (or any subsequent transition bonds) will be the SPE's only significant liabilities. These restrictions on the activities of the SPE and restrictions on the ability of Applicant to take action on the SPE's behalf are imposed to ensure that the SPE will be bankruptcy remote and will not be affected by a bankruptcy of Applicant. The SPE will be managed by a board of managers, trustees or a board of directors with rights similar to those of boards of directors of corporations. As long as the transition bonds remain outstanding, the SPE will have at least one independent manager, trustee or director, *i.e.*, with no organizational affiliation with Applicant. The SPE will not be permitted to amend the provisions of the organizational documents that ensure bankruptcy-remoteness of the SPE without the consent of the independent manager, trustee or director. Similarly, the SPE will not be permitted to institute bankruptcy or insolvency proceedings or to consent to the institution of bankruptcy or insolvency proceedings against it, or to dissolve, liquidate, consolidate, convert or merge without the consent of the independent manager, trustee or director. Other restrictions to assure bankruptcy-remoteness may also be included in the organizational documents of the SPE as indicated by the rating agencies.

32. The initial capital of the SPE is expected to be not less than 0.5% of the original principal amount of each series of transition bonds issued by the SPE. The initial capitalization of the SPE

must be sufficient to allow the SPE to meet any reasonably expected expenses that might arise that are related to the transition charges and the transition bonds. Adequate funding of the SPE is intended to avoid the possibility that Applicant would have to extend funds to the SPE in a manner that could jeopardize the bankruptcy remoteness of the SPE. A sufficient level of capital is necessary to minimize this risk and, therefore, assist in achieving the lowest transition-bond charges possible.

33. The SPE will issue transition bonds in an aggregate amount not to exceed the principal amount approved by this Financing Order and will pledge to the indenture trustee, as collateral for payment of the transition bonds, the transition property, including the SPE's right to receive the transition charges as and when collected, and certain other collateral described in the Company's application.

34. Concurrently with the issuance of any of the transition bonds, Applicant will transfer to the SPE all of Applicant's rights under this Financing Order, including rights to impose, collect, and receive the transition charges approved in this Financing Order. This transfer will be structured so that it will qualify as a true sale within the meaning of PURA § 39.308. By virtue of the transfer, the SPE will acquire all of the right, title, and interest of Applicant in the transition property arising under this Financing Order.

35. The use and proposed structure of the SPE and the limitations related to its organization and management are necessary to minimize risks related to the proposed securitization transactions and to minimize the transition charges. Therefore, the use and proposed structure of the SPE should be approved.

Credit Enhancement

36. Applicant proposed that Applicant might provide for various other forms of credit enhancement including letters of credit, reserve accounts, surety bonds, swap arrangements, hedging arrangements and other mechanisms designed to promote the credit quality and marketability of the transition bonds and that the costs of any credit enhancements be included in the amount of qualified costs to be securitized. Consistent with the terms of the Settlement

Agreement, Applicant should be permitted to recover the up-front and on-going costs of credit enhancements, provided that the sum of such up-front and on-going costs do not exceed an amount equivalent to 15 basis points on the outstanding balance of transition bonds and provided further that the Commission's financial advisor and Applicant's underwriter agree in advance that such enhancements provide benefits greater than their cost. If use of credit enhancements is proposed by Applicant, Applicant shall provide the Commission's financial advisor copies of all cost/benefit analyses performed by Applicant and its lead underwriter that support the request to use the credit enhancement. This finding does not apply to the collection account or its subaccounts approved in this Financing Order.

37. Applicant's proposed use of credit enhancements as described in Finding of Fact No. 36 is reasonable and should be approved, provided that Applicant certifies that the enhancements provide benefits greater than their cost and that such certifications are agreed with by the Commission's financial advisor.

Transition Property

38. Under PURA § 39.304, the rights and interest of an electric utility or successor under a financing order, including the right to impose, collect and receive the transition charges authorized in the order, are only contract rights until they are first transferred to an assignee or pledged in connection with the issuance of transition bonds, at which time they will become transition property.[25]

39. The rights to impose, collect and receive the transition charges approved in this Financing Order along with the other rights arising pursuant to this Financing Order will become transition property upon the transfer of such rights by Applicant to the SPE pursuant to PURA § 39.304.

40. Transition property and all other collateral will be held and administered by the indenture trustee pursuant to the indenture, as described in Applicant's application. This proposal will help ensure the lowest transition-bond charges and should be approved.

41. Under PURA § 39.304(b), transition property constitutes a present property right for purposes of contracts concerning the sale or pledge of property, even though the imposition and collection of transition charges depends on further acts of the utility or others that have not yet occurred.

Servicer and the Servicing Agreement

42. To the extent that any interest in the transition property created by this Financing Order is assigned, sold or transferred to an assignee,[26] Applicant will enter into a contract with that assignee that will require Applicant to continue to operate its transmission and distribution system in order to provide electric services to Applicant's customers.

43. Applicant will execute a servicing agreement with the SPE; this agreement may be amended, renewed or replaced by another servicing agreement. The entity responsible for carrying out the servicing obligations under any servicing agreement is the servicer. The Applicant will be the initial servicer but may be succeeded as servicer by another entity under certain circumstances detailed in the servicing agreement. Pursuant to the servicing agreement, the servicer is required, among other things, to impose and collect the applicable transition charges for the benefit and account of the SPE, to make the periodic true-up adjustments of transition charges required or allowed by this Financing Order, and to account for and remit the applicable transition charges to or for the account of the SPE in accordance with the remittance procedures contained in the servicing agreement without any charge, deduction or surcharge of any kind (other than the servicing fee specified in the servicing agreement). Under the terms of the servicing agreement, if any servicer fails to fully perform its servicing obligations, the indenture trustee acting under the indenture to be entered into in connection with the issuance of the transition bonds, or the indenture trustee's designee, may, or, upon the instruction of the requisite percentage of holders of the outstanding amount of transition bonds, shall, appoint an alternate party to replace the defaulting servicer, in which case the replacement servicer will

[25] *See Id.* § 39.304(a).

[26] *See Id.* § 39.302(1) (assignee means any individual, corporation, or other legally recognized entity to which an interest in transition property in transferred, other than as security, including any assignee of that party).

perform the obligations of the servicer under the servicing agreement. The obligations of the servicer under the servicing agreement and the circumstances under which an alternate servicer may be appointed will be more fully described in the servicing agreement. The rights of the SPE under the servicing agreement will be included in the collateral pledged to the indenture trustee under the indenture for the benefit of holders of the transition bonds.

44. The obligations to continue to provide service and to collect and account for transition charges will be binding upon Applicant and any other entity that provides transmission and distribution services or direct wire services to a person that was a retail customer of Reliant Energy HL&P located within Reliant Energy HL&P's certificated service area on May 1, 1999, or that became a retail customer for electric services within such area after May 1, 1999, and is still located within such area. Further, and to the extent REPs are responsible for imposing and billing transition charges on behalf of the SPE, billing and credit standards approved in this Financing Order will be binding on all REPs that bill and collect transition charges from such retail customers, together with their successors and assigns. The Commission will enforce the obligations imposed by this Financing Order, its applicable substantive rules and statutory provisions.

45. The proposals described in Findings of Fact Nos. 42 through 44 are reasonable, will reduce risk associated with the proposed securitization and will, therefore, facilitate the obtainment of the lowest transition-bond charges and the greatest benefits to ratepayers and should be approved.

Retail Electric Providers

46. Beginning on the date of customer choice for any retail customers, the servicer will bill the transition charges for those customers to each retail customer's REP and the REP will collect the transition charges from its retail customers.

47. In many of the jurisdictions that have approved the issuance of transition bonds, the financing orders have provided that the entities that collect transition charges must remit the amounts collected to the servicing entity within a specified number of days and that the servicing

entity would be allowed to assume the billing and collection of transition charges in the event of default by the collecting entity. Financing orders in other jurisdictions have typically also established credit qualifications or deposit requirements, or both, for the entities that intend to bill, collect, and remit transition charges.

48. The Settlement Agreement sets forth minimum billing and collection standards to apply to REPs that collect transition charges approved by this Financing Order from retail electric customers. The Commission finds, however, that the proposed REP standards adopted in Docket Nos. 21528[27] and 21527[28] should also be adopted in this docket to preserve uniform requirements throughout the state.

49. The proposed standards are the most stringent that can be imposed on REPs by the servicer under this Financing Order. The standards relate only to the billing and collection of transition charges authorized under this Financing Order, and do not apply to collection of any other nonbypassable charges or other charges. The standards apply to all REPs other than REPs that have contracted with the transmission and distribution company to have it bill and collect transition charges from retail customers. REPs may contract with parties other than the transmission and distribution company to bill and collect transition charges from retail customers, but such REPs shall remain subject to these standards. If the Commission later determines (e.g., through Project No. 21082, *Certification of Retail Electric Providers and Registration of Power Generation Companies and Aggregators* or other rulemakings or proceedings) that different standards are to be applied to REPs in particular areas (e.g., payment terms), those standards, with appropriate modifications to related provisions, may replace those specific items. Upon adoption of any rule addressing any of the standards, ORA will open a proceeding to investigate the need to modify the standards to conform to that rule, with the understanding that such modifications may not be implemented absent prior written confirmation

[27] *Application of Central Power and Light Company for Financing Order to Securitize Regulatory Assets and Other Qualified Costs*, Docket No. 21528 (Mar. 27, 2000).

[28] *Application of TXU Electric Company for Financing Order to Securitize Regulatory Assets and Other Qualified Costs*, Docket No. 21527 (May 2, 2000).

from each of the rating agencies that have rated the transition bonds that such modifications will not cause a suspension, withdrawal, or downgrade of the ratings on the transition bonds.

50. The proposed REP standards are as follows:

(a) Rating, Deposit, and Related Requirements. Each REP must (1) have a long-term, unsecured credit rating of not less than "BBB-" and "Baa3" (or the equivalent) from Standard & Poor's and Moody's Investors Service, respectively, or (2) provide (A) a deposit of two months' maximum expected transition charge collections in the form of cash, (B) an affiliate guarantee, surety bond, or letter of credit providing for payment of such amount of transition-charge collections in the event that the REP defaults in its payment obligations, or (C) a combination of any of the foregoing. A REP that does not have or maintain the requisite long-term, unsecured credit rating may select which alternate form of deposit, credit support, or combination thereof it will utilize, in its sole discretion. The indenture trustee shall be the beneficiary of any affiliate guarantee, surety bond or letter of credit. The provider of any affiliate guarantee, surety bond, or letter of credit must have and maintain a long-term, unsecured credit ratings of not less than "BBB-" and "Baa3" (or the equivalent) from Standard & Poor's and Moody's Investors Service, respectively.

(b) Loss of Rating. If the long-term, unsecured credit rating from either Standard & Poor's or Moody's Investors Service of a REP that did not previously provide the alternate form of deposit, credit support, or combination thereof or of any provider of an affiliate guarantee, surety bond, or letter of credit is suspended, withdrawn, or downgraded below "BBB-" or "Baa3" (or the equivalent), the REP must provide the alternate form of deposit, credit support, or combination thereof, or new forms thereof, in each case from providers with the requisite ratings, within 10 business days following such suspension, withdrawal, or downgrade. A REP failing to make such provision must comply with the provisions set forth in Paragraph (e).

(c) Computation of Deposit, etc. The computation of the size of a required deposit shall be agreed upon by the servicer and the REP, and reviewed no more frequently than quarterly to ensure that the deposit accurately reflects two months' maximum collections. Within 10 business days following such review, (1) the REP shall remit to the indenture trustee the amount of any shortfall in such required deposit or (2) the servicer shall instruct the indenture

trustee to remit to the REP any amount in excess of such required deposit. A REP failing to so remit any such shortfall must comply with the provisions set forth in Paragraph (e). REP cash deposits shall be held by the indenture trustee, maintained in a segregated account, and invested in short-term high quality investments, as permitted by the rating agencies rating the transition bonds. Investment earnings on REP cash deposits shall be considered part of such cash deposits so long as they remain on deposit with the indenture trustee. At the instruction of the servicer, cash deposits will be remitted with investment earnings to the REP at the end of the term of the transition bonds unless otherwise utilized for the payment of the REP's obligations for transition bond payments. Once the deposit is no longer required, the servicer shall promptly (but not later than 30 calendar days) instruct the indenture trustee to remit the amounts in the segregated accounts to the REP.

(d) Payment of Transition Charges. Payments of transition charges are due 35 calendar days following each billing by the servicer to the REP, without regard to whether or when the REP receives payment from its retail customers. The servicer shall accept payment by electronic funds transfer, wire transfer, and/or check. Payment will be considered received the date the electronic funds transfer or wire transfer is received by the servicer, or the date the check clears. A 5% penalty is to be charged on amounts received after 35 calendar days; however, a 10 calendar-day grace period will be allowed before the REP is considered to be in default. A REP in default must comply with the provisions set forth in Paragraph (e). The 5% penalty will be a one-time assessment measured against the current amount overdue from the REP to the servicer. The "current amount" consists of the total unpaid transition charges existing on the 36th calendar day after billing by the servicer. Any and all such penalty payments will be made to the indenture trustee to be applied against transition charge obligations. A REP shall not be obligated to pay the overdue transition charges of another REP. If a REP agrees to assume the responsibility for the payment of overdue transition charges as a condition of receiving the customers of another REP that has decided to terminate service to those customers for any reason, the new REP shall not be assessed the 5% penalty upon such transition charges; however, the prior REP shall not be relieved of the previously-assessed penalties.

(e) Remedies Upon Default. After the 10 calendar-day grace period (the 45th calendar day after the billing date) referred to in Paragraph (d), the servicer shall have the option

to seek recourse against any cash deposit, affiliate guarantee, surety bond, letter of credit, or combination thereof provided by the REP, and avail itself of such legal remedies as may be appropriate to collect any remaining unpaid transition charges and associated penalties due the servicer after the application of the REP's deposit or alternate form of credit support. In addition, a REP that is in default with respect to the requirements set forth in Paragraphs (b), (c), or (d) shall select and implement one of the following options:

(1) Allow the Provider of Last Resort ("POLR") or a qualified REP of the customer's choosing to immediately assume the responsibility for the billing and collection of transition charges.

(2) Immediately implement other mutually suitable and agreeable arrangements with the servicer. It is expressly understood that the servicer's ability to agree to any other arrangements will be limited by the terms of the Servicing Agreement and requirements of each of the rating agencies that have rated the transition bonds necessary to avoid a suspension, withdrawal, or downgrade of the ratings on the transition bonds.

(3) Arrange that all amounts owed by retail customers for services rendered be timely billed and immediately paid directly into a lock-box controlled by the servicer with such amounts to be applied first to pay transition charges before the remaining amounts are released to the REP. All costs associated with this mechanism will be borne solely by the REP.

If a REP that is in default fails to immediately select and implement one of the foregoing options or, after so selecting one of the foregoing options, fails to adequately meet its responsibilities thereunder, then the servicer shall immediately implement option (1). Upon re-establishment of compliance with the requirements set forth in Paragraphs. (b), (c) and (d) and the payment of all past-due amounts and associated penalties, the REP will no longer be required to comply with this paragraph.

(f) Billing by Providers of Last Resort, etc. The initial POLR appointed by the Commission, or any Commission-appointed successor to the POLR, must meet the minimum credit rating or deposit/credit support requirements described in Paragraph (a) in addition to any other standards that may be adopted by the Commission. If the POLR defaults or is not eligible

to provide such services, responsibility for billing and collection of transition charges will immediately be transferred to and assumed by the servicer until a new POLR can be named by the Commission or the customer requests the services of a certified REP. Retail customers may never be re-billed by the successor REP, the POLR, or the servicer for any amount of transition charges they have paid their REP (although future transition charges shall reflect REP and other system-wide charge-offs). Additionally, if the amount of the penalty detailed in Paragraph (d) is the sole remaining past-due amount after the 45th calendar day, the REP shall not be required to comply with clauses (1), (2) or (3) of Paragraph (e), unless the penalty is not paid within an additional 30 calendar days.

(g) Disputes. In the event that a REP disputes any amount of billed transition charges, the REP shall pay the disputed amount under protest according to the timelines detailed in Paragraph (d). The REP and servicer shall first attempt to informally resolve the dispute, but if they fail to do so within 30 calendar days, either party may file a complaint with the Commission. If the REP is successful in the dispute process (informal or formal), the REP shall be entitled to interest on the disputed amount paid to the servicer at the Commission-approved interest rate. Disputes about the date of receipt of transition charge payments (and penalties arising thereof) or the size of a required REP deposit will be handled in a like manner. It is expressly intended that any interest paid by the servicer on disputed amounts shall not be recovered through transition charges if it is determined that the servicer's claim to the funds is clearly unfounded. No interest shall be paid by the servicer if it is determined that the servicer has received inaccurate metering data from another entity providing competitive metering services pursuant to Utilities Code § 39.107.

(h) Metering Data. If the servicer is providing the metering, metering data will be provided to the REP at the same time as the billing. If the servicer is not providing the metering, the entity providing the metering services will be responsible for complying with Commission rules and ensuring that the servicer and the REP receive timely and accurate metering data in order for the servicer to meet its obligations under the Servicing Agreement and this Financing Order with respect to billing and true ups.

(i) Charge-Off Allowance. The REP will be allowed to hold back an allowance for charge-offs in its payments to the servicer. Such charge-off rate will be recalculated each year in

connection with the annual true-up procedure. In the initial year, REPs will be allowed to remit payments based on the same system-wide charge-off percentage then being used by the servicer to remit payments to the indenture trustee for the holders of transition bonds. On an annual basis in connection with the true-up process, the REP and the servicer will be responsible for reconciling the amounts held back with amounts actually written off as uncollectible in accordance with the terms agreed to by the REP and the servicer, provided that:

(1) The REP's right to reconciliation for write-offs will be limited to customers whose service has been permanently terminated and whose entire accounts (i.e., all amounts due the REP for its own account as well as the portion representing transition charges) have been written off.

(2) The REP's recourse will be limited to a credit against future transition charge payments unless the REP and the servicer agree to alternative arrangements, but in no event will the REP have recourse to the indenture trustee, the SPE or the SPE's funds for such payments.

(3) The REP shall provide information on a timely basis to the servicer so that the servicer can include the REP's default experience and any subsequent credits into its calculation of the adjusted transition-charge rates for the next transition-charge billing period and the REP's rights to credits will not take effect until after such adjusted transition-charges rates have been implemented.

(j) Service Termination. In the event that the servicer is billing customers for transition charges, the servicer shall have the right to terminate transmission and distribution service to the end-use customer for non-payment by the end-use customer pursuant to applicable Commission rules. In the event that a REP or the POLR is billing customers for transition charges, the REP shall have the right to transfer the customer to the POLR (or to another certified REP) or to direct the servicer to terminate transmission and distribution service to the end-use customer for non-payment by the end-use customer pursuant to applicable Commission rules.

51. The proposed billing and collection standards for REPs and the applicability of those standards are appropriate for the collection of transition charges resulting from this Financing

Order, are reasonable and will lower risks associated with the collection of transition charges and will result in lower transition-bond charges and greater benefits to ratepayers. Therefore, the proposed billing and collection standards for REPs and the applicability of those standards described in Finding of Fact Nos. 49 and 50 should be approved.

52. Prior to the introduction of customer choice,[29] Applicant will collect transition charges out of the bundled rates and will remit the amount of the transition charges to the indenture trustee for the account of the SPE. Beginning on the date of introduction of customer choice (including any customer-choice pilot programs under PURA § 39.104), Applicant or the current servicer of the transition bonds, as required under PURA § 39.107(d), will bill a customer's REP for the transition charges attributable to that customer. PURA § 39.107(d) provides that the REP must pay these transition charges. This proposal for collection of transition charges is reasonable and should be approved.

Transition Bonds

53. The SPE will issue and sell transition bonds in one or more series, and each series may be issued in one or more classes or tranches. The legal final maturity date of any series of transition bonds will not exceed 15 years from the date of issuance of such series. The legal final maturity date of each series and class or tranche within a series and amounts in each series will be finally determined by Applicant and the Commission's designated personnel or financial advisor, consistent with market conditions and indications of the rating agencies, at the time the transition bonds are issued, but subject to ultimate Commission review through the issuance advice letter process. Applicant will retain sole discretion regarding whether or when to assign, sell, or otherwise transfer any rights concerning transition property arising under this Financing Order, or to cause the issuance of any transition bonds authorized in this Financing Order, subject to the right of the Commission to participate in the pricing and structure of the transition bonds. It is proposed that the SPE issue the transition bonds on or after the third business day after Applicant has filed its issuance advice letter in accordance with this Financing Order unless, prior to such

[29] *See* PURA § 39.101-102.

third business day, the Commission issues an order finding that the proposed issuance does not comply with the requirements established by this Financing Order.

54. The Settlement Agreement includes an agreed structure for transition bond amortization in Exhibit D to the Settlement Agreement and requires Applicant to structure the actual bond amortization to conform to the agreed pattern.

55. The settlement structure of the transition bonds with respect to the maturities and classes or tranches, of the transition bonds will facilitate competition, is reasonable and should be approved, provided that the weighted average interest rate for the bonds does not exceed 9.0% on an annual basis and the amortization of the transition bonds complies with the Settlement Agreement. These restrictions are necessary to ensure that the stated economic benefits to ratepayers materialize. To further ensure benefits to ratepayers, the Commission's financial advisor should be charged with the obligation to ensure that the structure and pricing of the transition bonds results in the lowest transition-bond charges consistent with market conditions and achievement of the settlement amortization pattern.

Security for Transition Bonds

56. The payment of the transition bonds and related charges authorized by this Financing Order is to be secured by the transition property created by this Financing Order and by certain other collateral as described in the Application. The transition bonds will be issued pursuant to the indenture administered by the indenture trustee. The indenture will include provisions for a collection account and included subaccounts for the collection and administration of the transition charges and payment or funding of the principal and interest on the transition bonds and other costs, including fees and expenses, in connection with the transition bonds, as described in Applicant's Application. Pursuant to the indenture, the SPE will establish a collection account as a trust account to be held by the indenture trustee as collateral to ensure the payment of the principal, interest, and other costs approved in this Financing Order related to the transition bonds in full and on a timely basis. The collection account will include the general

subaccount, the overcollateralization subaccount, the capital subaccount, and the reserve subaccount, and may include other subaccounts.

i. The General Subaccount

57. The indenture trustee will deposit the transition-charge remittances that the servicer remits to the indenture trustee for the account of the SPE into one or more segregated trust accounts and allocate the amount of those remittances to the general subaccount. The indenture trustee will on a periodic basis apply moneys in this subaccount to pay expenses of the SPE, to pay principal and interest on the transition bonds, and to meet the funding requirements of the other subaccounts. The moneys in the general subaccount will be invested by the indenture trustee in short-term high-quality investments, and such moneys (including, to the extent necessary, investment earnings) will be applied by the indenture trustee to pay principal and interest on the transition bonds and all other components of the Periodic Payment Requirement, and otherwise in accordance with the terms of the indenture.

ii. The Overcollateralization Subaccount

58. The overcollateralization subaccount will be periodically funded from transition charge remittances over the life of the transition bonds. The aggregate amount and timing of the actual funding will depend on tax and rating-agency requirements, and is expected to be not less than 0.5% of the original principal amount of the transition bonds. This subaccount will serve as collateral to ensure timely payment of principal and interest on the transition bonds and all other components of the Periodic Payment Requirement. To the extent that the overcollateralization subaccount must be drawn upon to pay any of these amounts due to a shortfall in the transition-charge remittances, it will be replenished through future transition-charge remittances to its required level through the true-up process. The moneys in this subaccount will be invested by the indenture trustee in short-term high-quality investments, and such moneys (including investment earnings) will be used by the indenture trustee to pay principal and interest on the transition bonds and all other components of the Periodic Payment Requirement.

iii. The Capital Subaccount

59. When a series of transition bonds is issued, the Applicant will make a capital contribution to the SPE for that series, which the SPE will deposit into the capital subaccount. The amount of the capital contribution is expected to be not less than 0.5% of the original principal amount of each series of transition bonds, although the actual amount will depend on tax and rating agency requirements. The capital subaccount will serve as collateral to ensure timely payment of principal and interest on the transition bonds and all other components of the Periodic Payment Requirement. To the extent that the capital subaccount must be drawn upon to pay these amounts due to a shortfall in the transition-charge remittances, it will be replenished through future transition-charge remittances to its original level through the true-up process. The moneys in this subaccount will be invested by the indenture trustee in short-term high-quality investments, and such moneys (including investment earnings) will be used by the indenture trustee to pay principal and interest on the transition bonds and all other components of the Periodic Payment Requirement. Upon maturity of the transition bonds and the discharge of all obligations that may be paid by use of transition charges, all moneys in the capital subaccount, including any investment earnings, will be released to the SPE for payment to Applicant. Investment earnings in this subaccount may be released earlier in accordance with the indenture.

60. The capital contribution to the SPE should be funded by Applicant and the proceeds from the sale of the transition bonds that are used to reduce Applicant's equity should not be offset by the amount of this capital contribution to ensure that ratepayers receive the appropriate benefit from the securitization approved in this Financing Order. Because Applicant funds the capital subaccount, Applicant should receive the investment earnings earned through the indenture trustee's investment of that capital.

iv. The Reserve Subaccount

61. The reserve subaccount will hold any transition-charge remittances and investment earnings on the collection account (other than earnings attributable to the capital subaccount and released under the terms of the indenture) in excess of the amounts needed to pay current principal and interest on the transition bonds and to pay other Periodic Payment Requirements

(including, but not limited to, funding or replenishing the overcollateralization subaccount and the capital subaccount). Any balance in or allocated to the reserve subaccount on a true-up adjustment date will be subtracted from the Periodic Payment Requirements for purposes of the true-up adjustment. The money in this subaccount will be invested by the indenture trustee in short-term high-quality investments, and such money (including investment earnings thereon) will be used by the indenture trustee to pay principal and interest on the transition bonds and other Periodic Payment Requirements.

v. General Provisions

62. The collection account and the subaccounts described above are intended to provide for full and timely payment of scheduled principal and interest on the transition bonds and all other components of the Periodic Payment Requirement. If the amount of transition charges remitted to the general subaccount is insufficient to make all scheduled payments of principal and interest on the transition bonds and to make payment on all of the other components of the Periodic Payment Requirement, the reserve subaccount, the overcollateralization subaccount, and the capital subaccount will be drawn down, in that order, to make those payments. Any deficiency in the overcollateralization subaccount or the capital subaccount due to such withdrawals must be replenished first to the capital subaccount and then to the overcollateralization subaccount on a periodic basis through the true-up process. In addition to the foregoing, there may be such additional accounts and subaccounts as are necessary to segregate amounts received from various sources (i.e., amounts received from REPs), or to be used for specified purposes. Such accounts will be administered and utilized as set forth in the servicing agreement and the indenture. Upon the maturity of the transition bonds and the discharge of all obligations in respect thereof, remaining amounts in the collection account, other than amounts that were in the capital subaccount, will be released to the SPE and equivalent amounts will be credited by Applicant to customers consistent with PURA § 39.262(g).

63. The use of a collection account and its subaccounts in the manner proposed by Applicant is reasonable, will lower risks associated with the securitization and thus lower the costs to ratepayers, and should, therefore, be approved.

Transition Charges—Imposition and Collection, Nonbypassibility, and Self-Generation

64. Applicant seeks authorization to impose on and collect from retail customers and REPs transition charges in an amount sufficient to provide for the timely recovery of its qualified costs approved in this Financing Order (including payment of principal and interest on the transition bonds and ongoing costs related to the transition bonds).

65. Transition charges will be separately identified on bills presented to retail customers and REPs to the extent provided in the Application.

66. If there is a shortfall in payment of an amount billed, the amount paid will first be proportioned between the transition charges and other fees and charges, other than late fees, and second, any remaining portion of the payment will be attributed to late fees. This allocation will facilitate a proper balance between the competing claims to this source of revenue in an equitable manner.

67. Under the settlement amortization pattern, the transition bonds have an expected final maturity of not longer than 12 years. However, amounts may still need to be recovered after the expiration of the 12-year period. Applicant proposed that the transition charges related to a series of transition bonds will be recovered over a period of not more than 15 years from the date of issuance of that series of the transition bonds but that amounts due at the end of that period for services rendered during the 15-year term may be collected after the conclusion of the 15-year period.

68. PURA § 39.303(b) prohibits the recovery of transition charges for a period of time that exceeds 15 years. Transition charges related to a series of transition bonds may not be collected after 15 years from the date of issuance of that series of bonds. This restriction does not, however, prevent the recovery of amounts due through judicial process.

69. Applicant will collect transition charges from all existing retail customers of Reliant Energy HL&P and all future retail customers located within Reliant Energy HL&P's certificated service area as it existed on May 1, 1999, except as provided in Finding of Fact No. 70. In

accordance with PURA § 39.252(c), a retail customer within such area may not avoid transition charges by switching to another electric utility, electric cooperative or municipally-owned utility after May 1, 1999. However, a customer in a multiply-certificated service area that requested to switch providers on or before May 1, 1999, or was not taking service from Reliant Energy HL&P on May 1, 1999, and does not do so after that date, will not be responsible for paying transition charges.

70. Except as provided by PURA §§ 39.262(k) and 39.252, as implemented by P.U.C. SUBST. R. 25.345, a retail customer may not avoid the payment of transition charges by switching to new, on-site generation. If a customer commences taking energy from new on-site generation that materially reduces the customer's use of energy delivered through Reliant Energy HL&P's facilities, the customer will pay an amount each month computed by multiplying the output of the on-site generation utilized to meet the internal electrical requirements of the customer by the applicable transition charges in effect for that month. Any reduction equivalent to more than 12.5% of the customer's annual average use of energy delivered through Reliant Energy HL&P's facilities will be considered material for this purpose. Payments of the transition charges owed by such customers under PURA § 39.252(b)(2) will be made to the servicer (as defined in this Order) and will be collected in addition to any other charges applicable to services provided to the customer through Reliant Energy HL&P's facilities and any other competition transition charges applicable to self-generation under PURA § 39.252.

71. Applicant's proposal related to imposition and collection of transition charges is reasonable and is necessary to ensure collection of transition charges sufficient to support recovery of the qualified costs approved in this Financing Order and should be approved. It is reasonable to approve the form of Applicant's Schedule TC in this Financing Order and require that a tariff be filed before any transition bonds are issued.

Allocation of Transition Charges Among Texas Retail Customers

72. The energy consumption of Texas-retail customers measured at the meter for the twelve-month period ending April 30, 1999 and adjusted only for normal weather conditions and line

losses should be used to calculate the residential customers' regulatory asset allocation factor (RAAF). This methodology is in compliance with PURA § 39.253(g) and P.U.C. SUBST. R. 25.345(h)(2)(v).

73. PURA §§ 39.253(c) through (e) requires the use of the methodology used to allocate costs of the underlying assets in the electric utility's most recent Commission order addressing rate design as a basis for developing the allocation of stranded costs among the classes. In Docket No. 12065, the most recent docket addressing Applicant's rate design, the Commission approved the use of the Average & Excess 4CP (A&E 4CP) to allocate Applicant's costs. Development of demand allocators using the generation-related base revenues by class resulting from the A&E 4CP is reasonable and appropriate and should be approved.

74. No pro forma adjustments should be made to the demand allocators to remove anticipated qualifying co-generation projects under PURA § 39.262(k) before calculating the RAAFs.

75. The following procedure is used to develop the RAAFs in this Financing Order:

(a) The qualified costs are allocated to transition-charge classes using the procedures in PURA § 39.253 (c) through (e). In determining the initial RAAFs (i) the residential allocations were determined based 50% on A&E 4CP factors and 50% on energy factors; (ii) non-firm industrial allocations were set at 150% of the A&E 4CP allocation they otherwise would bear; and (iii) all remaining class allocations (i.e. allocations to all classes except residential and non-firm industrial) were made on the A&E 4CP factors adjusted to account for the allocations being made to the residential and non-firm industrial customers.

(b) The allocations were made as described in Schedule TC by applying the A&E 4CP methodology used in Docket No. 12065 to demand and energy consumption data from the 12 month period ending April 30, 1999. The historical data was adjusted to reflect normalized weather (using 10 years of historical weather data) and to reflect line losses. The historical data was not adjusted to reflect expected load losses attributable to facilities that meet the requirements of Section 39.262 (k).

76. Using the procedures described in Finding of Fact No. 75, $1,803,000 of the $740 million approved for securitization in this Financing Order was allocated to Texas-New Mexico Power (TNMP). This amount is to be recovered from TNMP out of existing base rates during the remaining term of the TNMP contract. No portion of this amount will be included in any true-up adjustment.

77. The Settlement Agreement included the following initial RAAFs:

Class	*RAAF*
Residential	35.5763%
MGS	31.0544%
LGS	17.4076%
LOS-A	5.2845%
LOS-B	3.4886%
SCP	3.6578%
Non-Metered Lighting	0.2536%
Standby Electric Service – Distribution	0.0304%
Interruptible Service Supplemental– Distribution	0.0606%
Standby Electric Service-Transmission	0.3718%
Interruptible Service 30-Minute Notice	1.0752%
Interruptible Service 10-Minute Notice	1.3720%
Interruptible Service Instantaneous	0.1294%
Interruptible Service Supplemental-Transmission	0.0769%
Standby Interruptible Service	0.1609%
Total	100.0000%

78. As of the date for customer choice under PURA § 39.102, new customers will be assigned to the transition change classes listed above based on the definitions and procedures described in Schedule TC.

79. The settling parties agreed that no signatory admits to the propriety of any cost allocation or rate design theory or principle that may be said to underlie any of these issues resolved by the Settlement Agreement. The settling parties agreed that they are under no obligation to take the same positions as set out in the Settlement Agreement in any other proceedings.

80. Due to the nature of the Settlement Agreement as a product of compromise and settlement, and to further the Commission's policy of encouraging parties to resolve disputes without litigation, the settling parties agreed that the allocation factors derived in this Financing Order should have no binding or precedential effect in future proceedings other than future true-up proceedings concerning the transition charges established in this Financing Order.

81. The RAAFs approved in this Financing Order comply with the requirements of PURA § 39.253 and should be approved.

True-Up of Transition Charges

82. Pursuant to PURA § 39.307, the servicer of the transition bonds will make annual adjustments to the transition charges to:

(a) correct any undercollections or overcollections, including without limitation any caused by REP defaults, during the preceding 12 months; and

(b) ensure the billing of transition charges necessary to generate the collection of amounts sufficient to timely provide all payments of principal and interest (or deposits to sinking funds in respect of principal and interest) and any other amounts due in connection with the transition bonds (including ongoing fees and expenses and amounts required to be deposited in or allocated to any collection account or subaccount) during the period for which such adjusted transition charges are to be in effect.

Such amounts are referred to as the "Periodic Payment Requirement" and the amounts necessary to be billed to collect such Periodic Payment Requirement are referred to as the "Periodic Billing Requirement." With respect to any series of transition bonds, the servicer will make true-up adjustment filings with the Commission at least annually, within 45 days of the anniversary of the date of the original issuance of the transition bonds of that series.

83. True-up filings will be based upon the cumulative differences, regardless of the reason, between the Periodic Payment Requirement (including scheduled principal and interest payments on the transition bonds) and the amount of transition-charge remittances to the indenture trustee. True-up procedures are necessary to ensure full recovery of amounts sufficient to meet the Periodic Payment Requirements over the expected life of the transition bonds. In order to assure adequate transition-charge revenues to fund the Periodic Payment Requirement and to avoid large overcollections and undercollections over time, the servicer will reconcile the transition charges using Applicant's most recent forecast of electricity deliveries (i.e., forecasted billing units) and estimates of transaction-related expenses. The calculation of the transition charges will also reflect both a projection of uncollectible transition charges and a projection of payment lags between the billing and collection of transition charges based upon Applicant's most recent experience, taking into consideration the payment of transition charges.

84. The servicer will make reconciliation adjustments in the manner described in Section 8 of Schedule TC. summarized as follows:

(a) allocate the upcoming period's Periodic Billing Requirement, including any undercollection or overcollection, including without limitation any caused by REP defaults, from the preceding period, based on the RAAFs determined in accordance with Schedule TC approved in this Financing Order; and

(b) divide the amount assigned to the residential customer class in step (a) above by the appropriate forecasted billing units to determine the transition charge rate by class for the upcoming period.

(c) For each of the Commercial and Industrial Groups as defined in Schedule TC, an adjustment factor shall be computed by dividing the sum of the existing rates times the forecasted billing determinants for each class in the group by the amount assigned to the group in step (a) above. For each class in a group, the transition charge for the upcoming period shall be the product of the existing transition charge times the adjustment factor for the group in which that class resides.

Interim True Up

85. In addition to these annual true-up adjustments, true-up adjustments may be made more frequently at any time during the term of the transition bonds to correct any undercollection or overcollection, as provided for in this Financing Order, based on rating agency and bondholder considerations. Either of the following two conditions may invoke an interim true-up adjustment in the month prior to an upcoming transition bond principal payment date:

(a) The servicer determines that collection of transition charges for the upcoming payment date would result in a difference that is greater than 5% in absolute value, between (i) the actual outstanding principal balances of the transition bonds plus amounts on deposit in the reserve subaccount and (ii) the outstanding principal balances anticipated in the expected amortization schedule; or

(b) Any series of transition bonds that matures after a date determined mutually by the Applicant and the Commission's designated personnel or financial advisor to be required to meet rating agency requirements would not be paid in full by its expected maturity date.

86. In the event an interim true up is necessary, the interim true-up adjustment should be filed on the fifteenth day of the current month for implementation in the first billing cycle of the following month. In no event would such interim true-up adjustments occur more frequently than every three months if quarterly transition bond payments are required or every six months if semi-annual transition bond payments are required.

Adjustment to RAAFs

87. Schedule TC contains detailed procedures for adjustment of RAAFs to reflect load losses a transition charge class or group of transition charge classes may suffer and certain changes that may be ordered by the Commission.

88. A proceeding for the purpose of approving an allocation factor adjustment should be conducted in the following manner:

(a) Any allocation factor adjustment required under the terms of the Settlement Agreement will be made in conjunction with a standard, annual true up. Any such adjustment will be filed with the Commission at least 90 days before the date the proposed adjustment will become effective. The filing will contain the proposed changes to the transition charge rates, justification for such changes as necessary to specifically address the cause(s) of the adjustment and a statement of the proposed adjustment date.

(b) Concurrently with the filing with the Commission, the servicer will notify all parties to this Docket No. 21665 of the filing of the proposed adjustment.

(c) The servicer will issue appropriate notice and the Commission will conduct a contested case proceeding on the allocation adjustment pursuant to PURA § 39.003.

The scope of the proceeding will be limited to determining whether the proposed adjustment complies with this Financing Order. In any true-up proceeding that involves the adjustment of the RAAFs, all parties in the proceeding shall have the right to challenge the reasonableness of the forecasts of billing determinants proposed as a basis for adjusting the RAAFs. The Commission will issue a final order by the proposed adjustment date stated in the filing. In the event that the Commission cannot issue an order by that date, the servicer will be permitted to implement its proposed changes. Any modifications subsequently ordered by the Commission will be made by the servicer in the next true-up filing.

89. The allocation adjustment procedures contained in the settlement are necessary to avoid inequities, are reasonable, and should be adopted.

Additional True-Up Provisions

90. If, for any reason, the transition charge rate for any class exceeds the maximum rate, if any, which customers in such class may then be obligated to pay under PURA § 39.202(a), then both the following provisions should apply:

(a) The transition charge rate for such class will equal such maximum rate.

(b) The rates for the remaining classes will be recalculated using such maximum rate as the transition charge rate for the class that exceeded the maximum rate. The resulting

deficiency will be allocated to the remaining classes based on the ratio of the RAAFs then in effect.

91. The true-up adjustment filing will set forth the servicer's calculation of the true-up adjustment to the transition charges. Except for the allocation adjustment described in Findings of Fact No. 88 through 90, the Commission will have 15 days after the date of a true-up adjustment filing in which to confirm the mathematical accuracy of the servicer's adjustment. Except for the allocation adjustment described above, any true-up adjustment filed with the Commission should be effective on its proposed effective date, which shall be not less than 15 days after filing. Any necessary corrections to the true-up adjustment, due to mathematical errors in the calculation of such adjustment or otherwise, will be made in future true-up adjustment filings.

92. The true-up procedures contained in the settlement are reasonable and will reduce risks related to the transition bonds, resulting in lower transition-bond charges and greater benefits to ratepayers and should be approved.

Financial Advisor

93. In order to ensure, as required by PURA § 39.301, that the structuring and pricing of the transition bonds result in the lowest transition-bond charges consistent with market conditions and the terms of this Financing Order, the Commission finds that it is necessary for the Commission, acting through its designated personnel or financial advisor, to have a decision making role co-equal with Applicant with respect to the structuring and pricing of the transition bonds and that all matters relating to the structuring and pricing of the transition bonds shall be determined through a joint decision of Applicant and the Commission's designated personnel or financial advisor. The primary responsibilities of the Commission's financial advisor are to ensure that the structuring and pricing of the transition bonds result in the lowest transition-bond charges consistent with market conditions and the terms of this Financing Order. To fulfill its obligations under this Financing Order, the Commission's financial advisor must give effect to

the Commission's directive that the caps in this Order related to costs and maximum interest rates are ceilings, not floors.

94. To properly advise the Commission, the Commission's financial advisor must not participate in the underwriting of the transition bonds and its fee should not be based upon a percentage of the transition-bond issuance. Its role should be limited to advising the Commission or acting on behalf of the Commission regarding the structure and pricing of the transition bonds. The financial advisor must, however, have an integral role in the pricing, marketing and structuring of the transition bonds in order to provide competent advice to the Commission. This requires the financial advisor to participate fully and in advance in all plans and decisions related to the pricing, marketing, and structuring of the transition bonds and that it be provided timely information as necessary to fulfill its obligation to advise the Commission in a timely manner. In addition, the financial advisor's fee should be capped at an amount not to exceed $1,600,000, with $471,000 to be funded out of the underwriter's spread as set forth in Exhibit C to the Settlement Agreement, and the remaining $1,129,000 to be included in the aggregate cap on the up-front costs to be securitized of $10.7 million.

Lowest Transition-Bond Charges

95. Applicant has proposed a transaction structure that includes (but is not limited to):

(a) the use of the SPE as issuer of transition bonds, limiting the risks to bond holders of any adverse impact resulting from a bankruptcy proceeding of its parent or any affiliate;

(b) the right to impose and collect transition charges that are nonbypassable and which must be trued-up at least annually, but may be trued-up more frequently under certain circumstances, in order to assure the timely payment of the debt service and other ongoing transaction costs;

(c) additional collateral in the form of a collection account which includes a capital subaccount of not less than 0.5% of the original principal amount of the transition bonds and an overcollateralization subaccount which builds up over time to equal not less than an additional 0.5% of the original principal amount of the transition bonds, and other

subaccounts resulting in greater certainty of payment of interest and principal to investors and that are consistent with the requirements of the Internal Revenue Service that are needed to receive the desired federal income tax treatment for the transition-bond transaction;

(d) protection of bondholders against potential defaults by a servicer or REPs that are responsible for billing and collecting the transition charges from existing or future retail customers;

(e) benefits for federal income tax purposes including: (i) the transfer of the rights under this Financing Order to the SPE will not result in gross income to Applicant and the future revenues under the transition charges will be included in Applicant's gross income in the year in which the related electric service is provided to customers, (ii) the issuance of the transition bonds and the transfer of the proceeds of the transition bonds to Applicant will not result in gross income to Applicant and (iii) the transition bonds will constitute obligations of Applicant;

(f) the transition bonds will be marketed using proven underwriting and marketing processes, through which market conditions and investors' preferences, with regard to the timing of the issuance, the terms and conditions, related maturities, type of interest (fixed or variable) and other aspects of the structuring and pricing will be determined, evaluated and factored into the structuring and pricing of the transition bonds;

(g) participation by the Commission, acting through its designated personnel or financial advisor, on an equal basis with Applicant in determining the pricing and structure of the transition bonds which will help to ensure that benefits to ratepayers as the result of securitization are realized; and

(h) hedging and swap agreements used to mitigate the risk of future rate increases if Applicant and the Commission's designated personnel or financial advisor jointly determine that it is prudent to enter into these types of agreements.

96. Applicant's proposed transaction structure proposed in the Settlement Agreement, as modified by this Financing Order, is necessary to enable the transition bonds to obtain the highest possible bond credit rating, to ensure that the structuring and pricing of the transition

bonds will result in the lowest transition-bond charges consistent with market conditions and the terms of this Financing Order, to ensure the greatest benefit to ratepayers consistent with market conditions and the terms of this Financing Order, and to protect the competitiveness of the retail electric market.

97. To ensure that ratepayers receive the tangible and quantifiable economic benefits due from the proposed securitization and so that the proposed transition bond transaction will be consistent with the standards set forth in PURA §§ 39.301 and 303, it is necessary that (i) the effective annual weighted average interest rate of the transition bonds, excluding up-front and ongoing costs, does not exceed 9.0%, (ii) the expected maximum life of the longest bonds does not exceed 12 years (although the legal maximum life of the bonds may extend to 15 years), (iii) the amortization of the transition bonds is structured to be consistent with the terms of the Settlement Agreement, (iv) up-front and ongoing costs to issue, service and support the transition bonds and costs to refund and retire the debt and equity not exceed the appropriate aggregate caps established in this Financing Order, and (v) Applicant otherwise satisfies the requirements of this Financing Order.

98. To allow the Commission to fulfill its obligations under PURA related to the securitization approved in this Financing Order, it is necessary for Applicant, for each series of transition bonds issued, to certify to the Commission that the structure and pricing of that series 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 specified amortization pattern) set out in this Financing Order and, if additional credit enhancements were used, to certify that they are expected to provide benefits in excess of their cost as required by Finding of Fact No. 37 of this Financing Order.

D. Use of Proceeds

99. Upon the issuance of transition bonds, the SPE will use the net proceeds from the sale of the transition bonds (after payment of transaction costs) to pay to Applicant the purchase price of the transition property.

100. The net proceeds from the sale of the transition bonds (after payment of transaction costs) will be applied to reduce the common equity on the regulatory books of Reliant Energy HL&P. In the cost separation proceedings conducted pursuant to PURA § 39.201, any impact on Applicant's capital structure as a result of securitization will not be used to set a higher cost of capital for the Company's successor transmission and distribution utility than would otherwise be calculated based upon the risks, operations and business conditions of the regulated transmission and distribution utility.

101. As a result of the sale of transition property created pursuant to this Financing Order, the regulatory assets shall cease to be recorded on the regulatory books of Applicant and Applicant will receive the net proceeds from the sale of the transition bonds. Pursuant to this Financing Order, $1,070,350,866 of recoverable generation-related regulatory assets and $592,633,762 of ADIT associated with these regulatory assets on Reliant Energy HL&P's regulatory books will be eliminated through the securitization.

102. The net proceeds from the sale of transition bonds will be used solely to retire existing common equity of Reliant Energy HL&P and will result in a reduction in the amount of Reliant Energy HL&P's recoverable regulatory assets and stranded costs.

E. Annual Report Under PURA § 39.257 and Stranded Costs

103. The amortization expense for the regulatory assets securitized under this Financing Order will be excluded from the annual report submitted pursuant to PURA § 39.257 for 1999 and subsequent years.

104. The unamortized balance of the regulatory assets (including related SFAS 109 assets) and associated ADIT securitized under this Financing Order will be excluded from rate base in the annual report submitted pursuant to PURA § 39.257 for the year in which the transition bonds are issued and the associated adjustment will be prorated to reflect the portion of that year that the transition bonds are outstanding. The parties agree that such treatment is consistent with PURA. For all subsequent years, the unamortized balance of securitized regulatory assets

(including related SFAS 109 assets) and associated ADIT will be excluded from the annual report submitted pursuant to PURA § 39.257.

105. To ensure tangible and quantifiable benefits to customers from the securitization approved by this Financing Order, the treatments of the regulatory assets (including related SFAS 109 assets) and associated ADIT securitized, the amortization expense related to such regulatory assets, the transition bonds, and the transition-charge revenues for purposes of the annual report under PURA § 39.257 and future determinations of stranded costs set forth in Findings of Facts Nos. 103 through 104 of this Financing Order should be implemented.

IV. CONCLUSIONS OF LAW

1. Reliant Energy HL&P is a public utility, as defined in PURA § 11.004, and an electric utility, as defined in PURA § 31.002(6).

2. Reliant Energy, Incorporated (the Company or Applicant) is entitled to file an application for a financing order under PURA § 39.301.

3. The Commission has jurisdiction and authority over the Company's application pursuant to PURA §§ 14.001, 32.001, 39.201 and 39.301-313.

4. The Commission has authority to approve this Financing Order under Subchapters E, F and G of Chapter 39 of PURA.

5. Notice of the Company's application was provided in compliance with the Administrative Procedure Act[30] and P.U.C. PROC. R. 22.54 and 22.55.

6. This application does not constitute a major rate proceeding as defined by P.U.C. PROC. R. 22.2.

[30] TEX. GOV'T CODE ANN. §§ 2001.001-901 (Vernon 2000)

7. Only the retail portion of regulatory assets may be recovered through a transition charge assessed against retail customers.

8. The SPE will be an assignee as defined in PURA § 39.302(1) when an interest in transition property is transferred, other than as security, to the SPE.

9. The holders of the transition bonds and the indenture trustee will each be a financing party as defined in PURA § 39.302(3).

10. The SPE may issue transition bonds in accordance with this Financing Order.

11. The securitization approved in this Financing Order satisfies the requirement of PURA § 39.301 dictating that the proceeds of the transition bonds shall be used solely for the purposes of reducing the amount of recoverable regulatory assets through the refinancing or retirement of utility debt or equity.

12. The securitization approved in this Financing Order satisfies the requirement of PURA § 39.301 mandating that the securitization provides tangible and quantifiable benefits to ratepayers greater than would have been achieved absent the issuance of transition bonds. Consistent with fundamental financial principles, this requirement in PURA § 39.301 can only be determined using an economic analysis to account for the time value of money. A present-value analysis that compares the traditional revenue requirement associated with an asset (reflective of conventional utility financing) with the revenue required under securitization is an appropriate economic analysis to demonstrate whether securitization provides economic benefits to ratepayers satisfies this requirement.

13. The SPE's issuance of the transition bonds approved in this Financing Order in compliance with the criteria established by this Financing Order, satisfies the requirement of PURA § 39.301 prescribing that the structuring and pricing of the transition bonds will result in the lowest transition-bond charges consistent with market conditions and the terms of this Financing Order.

14. The amount of regulatory assets approved in this Financing Order for securitization does not exceed the present value of the revenue requirement over the life of the transition bonds approved in this Financing Order that are associated with the regulatory assets sought to be securitized, as required by PURA § 39.301.

15. The securitization approved in this Financing Order satisfies the requirement of PURA § 39.303(a) directing that the total amount of revenues to be collected under this Financing Order be less than the revenue requirement that would be recovered over the remaining life of the regulatory assets using conventional financing methods and that this Financing Order is consistent with the standards of PURA § 39.301.

16. This Financing Order adequately details the amount of regulatory assets to be recovered and the period over which Applicant will be permitted to recover nonbypassable transition charges in accordance with the requirements of PURA § 39.303(b). Transition charges related to a series of transition bonds may not be collected after 15 years from the date of issuance of that series of bonds. Amounts remaining unpaid after this 15-year period may be recovered through the use of judicial process.

17. The method approved in this Financing Order for collecting and allocating the transition charges among customers satisfies the requirements of PURA §§ 39.303(c) and 39.253.

18. As provided in PURA § 39.303(d), this Financing Order, together with the transition charges authorized by this Financing Order, is irrevocable and not subject to reduction, impairment, or adjustment by further act of the Commission, except for the true-up procedures approved in this Financing Order, as required by PURA § 39.307.

19. As provided in PURA § 39.304(a), the rights and interests of Applicant or its successor under this Financing Order, including the right to impose, collect and receive the transition charges authorized in this Financing Order, are assignable and shall become transition property when they are first transferred to the SPE.

20. Transition property will constitute a present property right for purposes of contracts concerning the sale or pledge of property, even though the imposition and collection of the transition charges depend on further acts by Applicant or others that have not yet occurred, as provided by PURA § 39.304(b).

21. All revenues and collections resulting from the transition charges will constitute proceeds only of the transition property arising from this Financing Order, as provided by PURA § 39.304(c).

22. Upon the transfer by Applicant of the transition property to the SPE, the SPE will have all of the rights of Applicant with respect to such transition property.

23. Any payment of transition charges by a retail customer to its REP or directly to the servicer will discharge the retail customer's obligations in respect of that payment, but will not discharge the obligations of any REP to remit such payments to the servicer of the transition bonds on behalf of the SPE or an assignee.

24. As provided in PURA § 39.305, the interests of an assignee, the holders of transition bonds, and the indenture trustee in transition property and in the revenues and collections arising from that property are not subject to setoff, counterclaim, surcharge, or defense by Applicant or any other person or in connection with the bankruptcy of Applicant or any other entity.

25. The methodology approved in this Financing Order for allocating transition charges complies with PURA §§ 39.253 and 39.303(c).

26. The methodology approved in this Financing Order to true up the transition charges and adjust allocations satisfies the requirements of PURA § 39.307.

27. If and when Applicant transfers to the SPE the right to impose, collect, and receive the transition charges and to issue the transition bonds, the servicer will be able to recover the

transition charges associated with such transition property only for the benefit of the SPE and the holders of the transition bonds in accordance with the servicing agreement.

28. If and when Applicant transfers its rights under this Financing Order to the SPE under an agreement that expressly states that the transfer is a sale or other absolute transfer in accordance with the true-sale provisions of PURA § 39.308, then, pursuant to that statutory provision, that transfer will be a true sale of an interest in transition property and not a secured transaction or other financing arrangement and title, legal and equitable, to the transition property will pass to the SPE. As provided by PURA § 39.308, this true sale shall apply regardless of whether the purchaser has any recourse against the seller, or any other term of the parties' agreement, including the seller's retention of an equity interest in the transition property, Applicant's role as the collector of transition charges relating to the transition property, or the treatment of the transfer as a financing for tax, financial reporting, or other purposes.

29. As provided in PURA § 39.309(b), a valid and enforceable lien and security interest in the transition property in favor of the holders of the transition bonds or a trustee on their behalf will be created by this Financing Order and the execution and delivery of a security agreement with the holders of the transition bonds or a trustee on their behalf in connection with the issuance of the transition bonds. The lien and security interest will attach automatically from the time that value is received for the transition bonds and, on perfection through the filing of notice with the Secretary of State in accordance with the rules prescribed by the Secretary of State under PURA § 39.309(d), will be a continuously perfected lien and security interest in the transition property and all proceeds of the transition property, whether accrued or not, will have priority in the order of filing and will take precedence over any subsequent judicial or other lien creditor.

30. As provided in PURA § 39.309(c), the transfer of an interest in transition property to an assignee will be perfected against all third parties, including subsequent judicial or other lien creditors, when this Financing Order becomes effective, transfer documents have been delivered to that assignee, and a notice of that transfer has been filed in accordance with the rules

prescribed by the Secretary of State under PURA § 39.309(d); provided, however, that if notice of the transfer has not been filed in accordance with this process within 10 days after the delivery of transfer documentation, the transfer of the interest will not be perfected against third parties until the notice is filed. The transfer to the SPE of Applicant's rights under this Financing Order will be a transfer of an interest in transition property for purposes of PURA § 39.309(c).

31. As provided in PURA § 39.309(e), the priority of a lien and security interest perfected in accordance with PURA § 39.309 will not be impaired by any later change in the transition charges pursuant to PURA § 39.307 or by the commingling of funds arising from transition charges with other funds, and any other security interest that may apply to those funds will be terminated when they are transferred to a segregated account for an assignee or a financing party. To the extent that transition charges are not collected separately from other funds owed by retail customers or REPs, the amounts to be remitted to such segregated account for an assignee or a financing party may be determined according to system-wide charge off percentages, collection curves or such other reasonable methods of estimation, as are set forth in the servicing agreement.

32. As provided in PURA § 39.309(e), if transition property is transferred to an assignee, any proceeds of the transition property will be treated as held in trust for the assignee.

33. As provided in PURA § 39.309(f), if a default or termination occurs under the transition bonds, the financing parties or their representatives may foreclose on or otherwise enforce their lien and security interest in any transition property as if they were secured parties under Chapter 9, Texas Business and Commerce Code, and, upon application by or on behalf of the financing parties, the Commission may order that amounts arising from the transition charges be transferred to a separate account for the financing parties' benefit, to which their lien and security interest may apply.

34. As provided in PURA § 39.309(f), if a default or termination occurs under the transition bonds, on application by or on behalf of the financing parties, a district court of Travis County,

Texas shall order the sequestration and payment to those parties of revenues arising from the transition charges.

35. As provided by PURA § 39.310, the transition bonds authorized by this Financing Order are not a debt or obligation of the State of Texas and are not a charge on its full faith and credit or taxing power.

36. Pursuant to PURA § 39.310, the State of Texas has pledged for the benefit and protection of all financing parties and Applicant, that it (including the Commission) will not take or permit any action that would impair the value of transition property, or, except as permitted by PURA § 39.307, reduce, alter or impair the transition charges to be imposed, collected, and remitted to any financing parties, until the principal, interest and premium, and any other charges incurred and contracts to be performed in connection with the transition bonds have been paid and performed in full. The SPE, in issuing transition bonds, is authorized pursuant to PURA § 39.310 and this Financing Order to include this pledge in any documentation relating to the transition bonds.

37. As provided in PURA § 39.311, transactions involving the transfer and ownership of the transition property and the receipt of transition charges are exempt from state and local income, sales, franchise, gross receipts, and other taxes or similar charges.

38. This Financing Order will remain in full force and effect and unabated notwithstanding the bankruptcy of Applicant, its successors, or assignees.

39. Applicant retains sole discretion regarding whether or when to assign, sell or otherwise transfer the rights and interests created by this Financing Order or any interest therein, or, subject to the approval of the Commission acting through its designated representative or financial advisor, to cause the issuance of any transition bonds authorized by this Financing Order.

40. This Financing Order is final, is not subject to rehearing by this Commission, and is not subject to review or appeal except as expressly provided in PURA § 39.303(f). The finality of

this Financing Order is not impaired in any manner by the participation of the Commission through its designated personnel or financial advisor in any decisions related to issuance of the transition bonds or by the Commission's review of or issuance of an order related to the issuance advice letter required to be filed with the Commission by this Financing Order.

41. This Financing Order meets the requirements for a financing order under Subchapter G of Chapter 39 of PURA.

42. The provisions of this Financing Order relating to the treatment of the securitized regulatory assets (including related SFAS-109 assets) and associated ADIT, the amortization expense on the securitized regulatory assets, the transition bonds and the transition-charge revenues for purposes of the annual report under PURA § 39.257 and subsequent determinations of Applicant's stranded costs comport with the applicable provisions of Chapter 39 of PURA.

V. ORDERING PARAGRAPHS

Based upon the record, the Findings of Fact and Conclusions of Law set forth herein, and for the reasons stated above, this Commission orders:

1. **Approval of Application.** The application of Reliant Energy, Incorporated for the issuance of a financing order under PURA §§ 39.201(i) and 39.303, as modified by the Settlement Agreement filed April 28, 2000, and as further modified by this Financing Order is approved, as provided in this Financing Order.

2. **Authority to Securitize.** Applicant may securitize $740 million of regulatory assets and other qualified costs detailed in Exhibits B and C to the Settlement Agreement in the manner provided by this Financing Order. The excess of any amounts securitized (including interest) over the actual amounts incurred by Applicant for up-front costs shall be provided as a credit in Applicant's ECOM proceeding or a future securitization proceeding.

3. **Treatment of Other Specified Regulatory Assets.** The $175,460,771 of SFAS 109 generation-related regulatory assets that Applicant did not ask to securitize are not included in the amount securitized under this Financing Order. Applicant shall not resume amortizing those assets but may request that those SFAS 109 assets be included in the computation of stranded costs in the preliminary estimate of ECOM and other future proceedings concerning the calculation of stranded costs. Applicant shall continue to amortize, but shall not seek securitization of, the other generation-related regulatory asset amounts shown on Exhibit B of the Settlement Agreement.

4. **Recovery of Transition Charges.** Applicant shall impose on, and the servicer shall collect from, retail customers and REPs, as provided in this Financing Order, transition charges in an amount sufficient to provide for the timely recovery of its aggregate qualified costs detailed in Exhibits B and C of the Settlement Agreement (including payment of principal and interest on the transition bonds).

5. **Issuance Advice Letter.** Following determination of the final terms of the transition bonds and prior to issuance of the transition bonds, Applicant, in consultation with the Commission acting through its designated personnel or financial advisor, shall file with the Commission an issuance advice letter in substantially the form of the issuance advice letter attached as Appendix B to this Financing Order. As part of the issuance advice letter, Applicant shall make the certification addressed in Finding of Fact No. 98 through an officer of Applicant. The issuance advice letter shall be completed and evidence the actual dollar amount of the initial transition charges and other information specific to the transition bonds to be issued, and shall certify to the Commission that the structure and pricing of that series 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 agreed amortization structure) set out in this Financing Order. In addition, if additional credit enhancements are used, the issuance advice letter shall include certification that the additional credit enhancements are reasonably expected to provide benefits as required by Finding of Fact No. 37 of this Financing Order. All amounts which require computation shall be computed using the mathematical formulas contained in the

form of the issuance advice letter in Appendix B to this Financing Order and Schedule TC approved in this Financing Order and attached as Exhibit F to the Settlement Agreement. The Commission's review of the issuance advice letter shall be limited to the arithmetic accuracy of the calculations and to compliance with the specific requirements that are contained in the issuance advice letter. The initial transition charges and the final terms of the transition bonds set forth in the issuance advice letter shall become effective on the later of the third business day after submission to the Commission or the date of issuance of the transition bonds unless, prior to such third business day, the Commission issues an order finding that the proposed issuance does not comply with the requirements set forth above in this Ordering Paragraph.

6. **Approval of Tariff.** The form of the Schedule TC tariff attached as Exhibit F to the Settlement Agreement is approved. Prior to the issuance of any transition bonds under this Financing Order, Applicant shall file a tariff that conforms to the form of the Schedule TC tariff attached as Exhibit F to the Settlement Agreement.

A. Transition Charges

7. **Imposition and Collection; SPE's Rights and Remedies.** Applicant is authorized to impose on, and the servicer is authorized to collect from, retail customers and REPs, as provided in this Financing Order, transition charges in an amount sufficient to provide for the timely recovery of the aggregate Periodic Payment Requirements (including payment of principal and interest on the transition bonds), as approved in this Financing Order. If there is a shortfall in payment of an amount billed, the amount paid shall first be proportioned between the transition charges and other fees and charges, other than late fees, and second, any remaining portion of the payment shall be attributed to late fees. Upon the transfer by Applicant of the transition property to the SPE, the SPE shall have all of the rights of Applicant with respect to such transition property, including, without limitation, the right to exercise any and all rights and remedies with respect thereto, including the right to authorize disconnection of electric service and to assess and collect any amounts payable by any retail customer in respect of the transition property.

8. **Collector of Transition Charges.** Prior to the introduction of customer choice, Applicant shall collect transition charges out of its bundled rates and shall remit the amount of the transition charges to the indenture trustee for the account of the SPE. Beginning on the date of introduction of customer choice (including any customer-choice pilot programs under PURA § 39.104), Applicant or the current servicer of the transition bonds shall bill a customer's REP for the transition charges attributable to that customer and the REP shall pay the amount billed for transition charges to the servicer of the transition bonds.

9. **Collection Period.** The transition charges related to a series of transition bonds shall be designed to be collected over the expected 12 year life of the transition bonds. However, to the extent that any amounts are not recovered at the end of this 12 year period, Applicant may continue to recover them over a period of not more than 15 years from the date of issuance of that series of transition bonds. Amounts remaining unpaid after this 15-year period may be recovered through use of judicial process.

10. **Allocation.** Applicant shall allocate the transition charges among customers in the manner described in Findings of Fact Nos. 73 through 77 of this Financing Order.

11. **Nonbypassability.** Applicant and any other entity providing electric transmission or distribution services and any REP providing services to any retail customer within Reliant Energy HL&P's certificated service area as it existed on May 1, 1999, are entitled to collect and must remit, consistent with this Financing Order, the transition charges from such retail customers and, except as provided under PURA §§ 39.252(b) and 39.262(k), as implemented by P.U.C. SUBST. R. 25.345, from retail customers that switch to new on-site generation, and such retail customers are required to pay such transition charges. The Commission will ensure that such obligations are undertaken and performed by Applicant, any other entity providing electric transmission or distribution services within Reliant Energy HL&P's certificated service area as of May 1, 1999 and any REP providing services to any retail customer within Reliant Energy HL&P's certificated service area.

12. **True-ups.** True-ups of the transition charges, including any required adjustments to RAAFs, shall be undertaken and conducted as described in Schedule TC attached as Exhibit F to the Settlement Agreement. The servicer shall file the adjustment in a compliance docket and shall give notice of the filing to all parties in this Docket No. 21665.

13. **Ownership Notification.** Any entity that bills transition charges to customers shall, at least annually, provide written notification to each retail customer for which the entity bills transition charges that the transition charges are the property of the SPE and not of the entity issuing such bill.

B. Transition Bonds

14. **Issuance.** The SPE is authorized to issue transition bonds as specified in this Financing Order. The aggregate amount of other qualified costs described in Exhibit C to the Settlement Agreement that may be recovered directly through the transition charges shall be limited as provided in Exhibit C to the Settlement Agreement.

15. **Refinancing.** Applicant or any assignee may apply for one or more new financing orders pursuant to PURA § 39.303(g).

16. **Collateral.** All transition property and other collateral shall be held and administered by the indenture trustee pursuant to the indenture as described in Applicant's application. The SPE shall establish a collection account with the indenture trustee as described in the application as modified in Findings of Fact Nos. 58 through 64. Upon the maturity of the transition bonds and the discharge of all obligations in respect thereof, all amounts in the collection account, other than amounts in the capital subaccount, including investment earnings therein, shall be released from the lien of the SPE and equivalent amounts shall be credited by the Applicant to ratepayers. Applicant shall notify the Commission within 30 days after the date that these funds are eligible to be released of the amount of such funds available for crediting to the benefit of ratepayers.

17. **Funding of Capital Subaccount.** The capital contribution by Applicant to the SPE to be deposited into the capital subaccount shall, with respect to each series of transition bonds, be

funded by Applicant and not from the proceeds of the sale of transition bonds. Upon the maturity of the transition bonds and the discharge of all obligations in respect thereof, all amounts in the capital subaccount, including investment earnings, shall be released to the SPE. Investment earnings in this subaccount may be released earlier in accordance with the indenture.

18. **Credit Enhancement.** Applicant may provide for various forms of credit enhancement including letters of credit, reserve accounts, surety bonds, swap arrangements, hedging arrangements and other mechanisms designed to promote the credit quality and marketability of the transition bonds or mitigate the risk of an increase in interest rates. The decision to use such credit enhancement shall be made in conjunction with the Commission acting through its designated personnel or financial advisor. Applicant may include the costs of credit enhancements as qualified costs only if Applicant certifies that such enhancements are reasonably expected to provide benefits greater than their cost and that such certifications are agreed with by the Commission's financial advisor. Applicant and the Commission's financial advisor shall evaluate the relative benefits of the additional credit enhancements in the same way that benefits are quantified under the quantifiable benefits test. The total cost of up-front and ongoing credit enhancements to be recovered under this Ordering Paragraph may not exceed an amount equivalent to 15 basis points on the outstanding balance of transition bonds. Applicant is not required to incur costs in excess of the cap for credit enhancements and its failure to incur such non-recoverable costs will not provide the basis for any finding that interest or other costs affecting transition charges could have been reduced through such non-reimbursable expenditures. This Ordering Paragraph does not apply to the collection account or its subaccounts approved in this Financing Order.

19. **Annual Weighted Average Interest Rate of Bonds.** The effective annual weighted average interest rate of the transition bonds, excluding up-front and ongoing costs, shall not exceed 9.0% on an annual basis.

20. **Life of Bonds.** The life of the transition bonds authorized by this Financing Order shall not exceed 15 years.

21. **Amortization Schedule.** The amortization of the transition bonds shall be structured to be consistent with the requirements of the Settlement Agreement.

22. **Commission Participation in Bond Issuance.** The Commission, acting through its designated personnel or financial advisor, shall participate directly with Applicant in negotiations regarding the pricing, and structuring of the transition bonds, and shall have equal rights with Applicant to approve or disapprove the proposed pricing, marketing and structuring of the transition bonds. The Commission's financial advisor shall have the right to participate fully and in advance regarding all aspects of the pricing, marketing and structuring of the transition bonds (and all parties shall be notified of the financial advisor's role) and shall be provided timely information that is necessary to fulfill its obligation to the Commission. The Commission directs its financial advisor to veto any proposal that does not comply with all of the criteria established in this Financing Order. The Commission's financial advisor shall ensure that the structuring and pricing of the transition bonds result in the lowest transition-bond charges consistent with market conditions and the terms of this Financing Order. The Commission's financial advisor shall give effect to the Commission's directive that the caps in this Order related to costs and maximum interest rates are ceilings, not floors, and shall inform the Commission of any items that, in the financial advisor's opinion, are not reasonable. The financial advisor shall notify Applicant and the Commission no later than 12:00 p.m. CST on the second business day after the pricing date for each series of transition bonds whether the pricing and structuring of that series of transition bonds complies with the criteria established in this Financing Order.

23. **Use of SPE.** Applicant shall use a special purpose entity (SPE) as proposed in its application in conjunction with the issuance of any transition bonds authorized under this Financing Order. The SPE shall be funded with an amount of capital that is sufficient for the SPE to carry out its intended functions and to avoid the possibility that Applicant would have to extend funds to the SPE in a manner that could jeopardize the bankruptcy remoteness of the SPE.

C. Servicing

24. **Servicing Agreement.** The Commission authorizes Applicant to enter into the servicing agreement with the SPE and to perform the servicing duties approved in this Financing Order. Without limiting the foregoing, in its capacity as initial servicer of the transition property, Applicant is authorized to calculate, bill and collect for the account of the SPE, the transition charges initially authorized in this Financing Order, as adjusted from time to time to meet the Periodic Payment Requirements as provided in this Financing Order; and to make such filings and take such other actions as are required or permitted by this Financing Order in connection with the periodic true-ups described in this Financing Order. The servicer shall be entitled to collect servicing fees in accordance with the provisions of the servicing agreement, provided that, as set forth in Exhibit C to the Settlement Agreement, (i) 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 and (ii) the annual servicing fee payable to any other servicer not affiliated with Applicant shall not at any time exceed 0.6% of the original principal amount of the transition bonds.

25. **Replacement of Applicant as Servicer.** In the event of a default by Applicant in any of its servicing functions with respect to the transition charges, the financing parties may replace Applicant as the servicer in accordance with the terms of the servicing agreement. No entity may replace Applicant as the servicer in any of its servicing functions with respect to the transition charges and the transition property authorized by this Financing Order, if the replacement would cause any of the then current credit ratings of the transition bonds to be suspended, withdrawn, or downgraded.

26. **Collection Terms.** The servicer shall remit collections of the transition charges to the SPE or the indenture trustee for the SPE's account in accordance with the terms of the servicing agreement.

27. **Contract to Provide Service.** To the extent that any interest in the transition property created by this Financing Order is assigned, sold or transferred to an assignee, Applicant shall enter into a contract with that assignee that requires Applicant to continue to operate its transmission and distribution system in order to provide electric services to Applicant's customers.

D. Retail Electric Providers

28. **REP Billing and Credit Standards.** The Commission approves the REP standards detailed in Finding of Fact Nos. 48 through 50. These proposed REP standards are the most stringent that can be imposed on REPs by the servicer under this Financing Order and relate only to the billing and collection of transition charges authorized under this Financing Order, and do not apply to collection of any other nonbypassable charges or other charges. The standards apply to all REPs other than REPs that have contracted with the transmission and distribution company to have it bill and collect transition charges from retail customers. REPs may contract with parties other than the transmission and distribution company to bill and collect transition charges from retail customers, but such REPs shall remain subject to these standards. If the Commission later determines (e.g., through Project No. 21082, *Certification of Retail Electric Providers and Registration of Power Generation Companies and Aggregators* or other rulemakings or proceedings) that different standards are to be applied to REPs in particular areas (e.g., payment terms), then those new standards, with appropriate modifications to related provisions, may replace the specific areas in the standards approved by this Financing Order, but only if each of the rating agencies that have rated the transition bonds provides written confirmation to the Commission that such modifications will not cause a suspension, withdrawal, or downgrade of the ratings on the transition bonds. Upon adoption of any rule addressing any of these REP standards, ORA shall initiate a proceeding to investigate the need to modify the standards adopted in this Financing Order to conform to that rule and to address whether each of the rating agencies that have rated the transition bonds will determine that such modifications will not cause a suspension, withdrawal, or downgrade of the ratings on the transition bonds. Modifications to the REP standards adopted in this Financing Order may not be implemented absent prior written confirmation from each of the rating agencies that have rated the transition

bonds that such modifications will not cause a suspension, withdrawal, or downgrade of the ratings on the transition bonds. The servicer of the transition bonds shall also comply with the applicable provisions of the REP standards adopted by this Financing Order.

29. **Transition Charge Remittance Procedures.** Transition charges shall be billed and collected in accordance with the REP standards adopted by this Financing Order. REPs shall be subject to penalties as provided in these standards. A REP shall not be obligated to pay the overdue transition charges of another REP whose customers it agrees to serve.

30. **Remedies Upon REP Default.** A servicer of transition bonds shall have the remedies provided in the REP standards adopted by this Financing Order. If a REP that is in default fails to immediately select and implement one of the options provided in the REP standards or, after making its selection, fails to adequately meet its responsibilities under the selected option, then the servicer shall immediately cause the provider of last resort or a qualified REP to assume the responsibility for the billing and collection of transition charges in the manner and for the time provided in the REP standards.

31. **Billing by Providers of Last Resort.** Every provider of last resort appointed by the Commission shall comply with the minimum credit rating or deposit/credit support requirements described in the REP standards in addition to any other standard that may be adopted by the Commission. If the provider of last resort defaults or is not eligible to provide billing and collection services, the servicer shall immediately assume responsibility for billing and collection of transition charges and continue to meet this obligation until a new provider of last resort can be named by the Commission or the customer requests the services of a REP in good standing. Retail customers may never be directly re-billed by the successor REP, the provider of last resort, or the servicer for any amount of transition charges the customers have paid their REP.

32. **Disputes.** Disputes between a REP and a servicer regarding any amount of billed transition charges shall be resolved in the manner provided by the REP standards adopted by this Financing Order.

33. **Metering Data.** If the servicer is providing metering services to a REP's retail customers, then metering data shall be provided to the REP at the same time as the billing. If the servicer is not providing metering services, the entity providing metering services shall comply with Commission rules and ensure that the servicer and the REP receive timely and accurate metering data in order for the servicer to meet its obligations under the servicing agreement and this Financing Order.

34. **Charge-Off Allowance.** The REP may retain an allowance for charge-offs from its payments to the servicer as provided in the REP standards adopted by this Financing Order.

35. **Service Termination.** In the event that the servicer is billing customers for transition charges, the servicer shall have the right to terminate transmission and distribution service to the end-use customer for non-payment by the end-use customer pursuant to applicable Commission rules. In the event that a REP or the provider of last resort is billing customers for transition charges, the REP shall have the right to transfer the customer to the provider of last resort or to another certified REP, or to direct the servicer to terminate transmission and distribution service to the end-use customer for non-payment by the end-use customer pursuant to applicable Commission rules.

E. Structure of the Securitization

36. **Structure.** Applicant shall structure this securitization as proposed in the Company's application as modified by the Settlement Agreement. This structure shall be consistent with Findings of Fact Nos. 95 through 98.

F. Use of Proceeds

37. **Use of Proceeds.** Upon the issuance of transition bonds, the SPE shall pay the net proceeds from the sale of the transition bonds (after payment of transaction costs) to Applicant for the purchase price of the transition property. The net proceeds from the sale of the transition bonds (after payment of transaction costs) shall be applied to reduce the common equity on the regulatory books of Reliant Energy HL&P. In the cost unbundling and separation proceeding

conducted pursuant to PURA § 39.201, any impact on Applicant's capital structure as a result of securitization will not be used to set a higher cost of capital for Applicant's successor transmission and distribution utility than would otherwise be calculated based upon the risks, operations and business conditions of the regulated transmission and distribution utility.

G. Miscellaneous Provisions

38. **Annual Report and Stranded Costs.** Applicant shall remove from the annual report and from excess-cost-over-market calculations, the regulatory assets securitized under this Financing Order, the associated ADIT and associated cost of service items as described in Findings of Fact Nos. 103 through 104.

39. **Continuing Issuance Right.** Applicant has the continuing irrevocable right to cause the issuance of transition bonds in one or more series in accordance with this Financing Order for a period of fifteen months following the date on which this Financing Order becomes final and no longer appealable.

40. **Internal Revenue Service Private Letter or Other Rulings.** Upon receipt, Applicant shall promptly deliver to the Commission a copy of each private letter or other ruling issued by the Internal Revenue Service with respect to the proposed transaction, the transition bonds or any other matter related thereto. Applicant shall also include a copy of every such ruling by the IRS it has received as an attachment to each issuance advice letter required to be filed by this Financing Order. Applicant shall not cause transition bonds to be issued absent receipt of a private letter ruling as described in the Company's application.

41. **Binding on Successors.** This Financing Order, together with the transition charges authorized in it, shall be binding upon Applicant and any successor to Reliant Energy HL&P that provides transmission and distribution service directly to retail customers in Reliant Energy HL&P's existing certificated service area as of May 1, 1999, and any other entity that provides transmission or distribution services to retail customers within that service area. This Financing Order is also binding upon each REP, and any successor, that sells electric energy to retail

customers located within that service area, any other entity responsible for billing and collecting transition charges on behalf of the SPE, and any successor to the Commission. In this paragraph, a "successor" means any entity that succeeds by any means whatsoever to any interest or obligation of its predecessor, including by way of bankruptcy, reorganization or other insolvency proceeding, merger, assignment, pledge or other security, by operation of law or otherwise.

42. **Flexibility.** Subject to compliance with the requirements of this Financing Order, Applicant and the SPE shall be afforded flexibility in establishing the terms and conditions of the transition bonds, including the final structure of the SPE as a Delaware business trust or Delaware limited liability company, repayment schedules, term, payment dates, collateral, credit enhancement, required debt service, reserves, interest rates, indices and other financing costs and the ability of Applicant, at its option, to issue one or more series of transition bonds.

43. **Effectiveness of Order.** Subject to the terms of this Financing Order, it is effective upon issuance and is not subject to rehearing by the Commission. Notwithstanding the foregoing, no transition property shall be created hereunder, and Applicant shall not be authorized to impose, collect, and receive transition charges, until concurrently with the transfer of Applicant's rights hereunder to the SPE in conjunction with the issuance of the transition bonds.

44. **Regulatory Approvals.** All regulatory approvals within the jurisdiction of the Commission that are necessary for the securitization of the transition charges associated with the regulatory assets and other qualified costs that are the subject of the Application, and all related transactions contemplated in the Application, are granted.

45. **Payment of Commission's Costs for Professional Services.** In accordance with PURA § 39.302(4), Applicant shall pay the costs to the Commission of acquiring professional services for the purpose of evaluating Applicant's proposed transaction, including, but not limited to, the Commission's outside attorneys fees in the amounts specified in this Financing Order no later than 30 days after the issuance of any transition bonds.

46. **Payment of Commission's Financial Advisor.** The fee for the Commission's financial advisor shall be a fixed fee payable at closing by wire transfer and shall not exceed $1,600,000, with $471,000 to be funded out of the underwriter's spread as set forth in Appendix C, and the remaining $1,129,000 to be included in the aggregate cap on the up-front costs to be securitized of $10.7 million.

47. **Effect.** This Financing Order constitutes a legal financing order for Reliant Energy, Incorporated under Subchapter G of Chapter 39 of PURA. The Commission finds this Financing Order complies with the provisions of Subchapter G of Chapter 39 of PURA. A financing order gives rise to rights, interests, obligations and duties as expressed in Subchapter G of Chapter 39 of PURA. It is the Commission's express intent to give rise to those rights, interests, obligations and duties by issuing this Financing Order. Applicant and the servicer of transition bonds are directed to take all actions as are required to effectuate the transactions approved in this Financing Order, subject to compliance with the criteria established in this Financing Order.

48. **Approval of Settlement Agreement.** The terms of the Settlement Agreement as modified by this Financing Order are approved. All parties shall comply with the provisions of the Settlement Agreement, except where such provisions have been expressly modified by this Financing Order. The allocation factors approved in this Financing Order shall not be binding or precedential in future proceedings, other than future true-up proceedings concerning the transition charges established in this Financing Order. Entry of this Financing Order does not indicate the Commission's endorsement or approval of any principle or methodology that may underlie the Settlement Agreement. Neither shall entry of this Financing Order be regarded as a binding holding or precedent as to the appropriateness of any principle or methodology underlying the Settlement Agreement.

49. **All Other Motions Denied.** All motions, requests for entry of specific findings of fact and conclusions of law, and any other requests for general or specific relief not expressly granted herein, are denied for want of merit.

SIGNED AT AUSTIN, TEXAS the ____ day of May 2000.

PAT WOOD, III, CHAIRMAN

JUDY WALSH, COMMISSIONER

BRETT A. PERLMAN, COMMISSIONER

EX-99.5 4 dex995.htm FINANCING ORDER DATED SEPTEMBER 18, 2007

Exhibit 99.5

PUC DOCKET NO. 34448

APPLICATION OF CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC FOR FINANCING ORDER	**§ § §**	**PUBLIC UTILITY COMMISSION OF TEXAS**

TABLE OF CONTENTS

PUC DOCKET NO. 34448

APPLICATION OF CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC FOR FINANCING ORDER	**§ § § §**	**PUBLIC UTILITY COMMISSION OF TEXAS**

FINANCING ORDER

This Financing Order addresses the application of CenterPoint Energy Houston Electric, LLC (CenterPoint) under Subchapter G of Chapter 39 of the Public Utility Regulatory Act[1] (PURA): (1) to securitize the Securitizable Balance and other up-front qualified costs, (2) for approval of the proposed securitization financing structure, (3) for approval of transition charges sufficient to recover principal and interest on the transition bonds plus ongoing qualified costs, and (4) for approval of a tariff to implement the transition charges.

On July 23 and 24, 2007, CenterPoint submitted settlement agreements in which the signatories agreed to certain modifications to the application (together, the Settlement Agreement). As discussed in this Financing Order, the Commission finds that CenterPoint's application, as modified by the Settlement Agreement and this Financing Order, should be approved. The Commission also finds that the securitization approved in this Financing Order meets all applicable requirements of PURA. Accordingly, the Commission (1) approves the securitization of the Securitizable Balance, which consists of the principal amount that remains to be collected through continued application of the CTC if the CTC were to remain in effect for its then remaining term, minus the difference between (a) the balance of unexpended environmental retrofit funds CenterPoint is required to refund pursuant to the final order in Docket No. 33823 and (b) the settled adjustment to the fuel balance approved in Docket No. 34031;[2] (2) authorizes, subject to

[1] TEX. UTIL. CODE ANN. §§ 11.001-66.017 (Vernon 2007), as amended.

[2] As set forth in Schedule 2 of CenterPoint's Response to Order Requiring Additional Number Run, the remaining CTC balance as of September 29, 2007 is $533,569,946. Pursuant to the final order in Docket No. 33823, the balance of the unspent environmental retrofit funds CenterPoint is required to refund is $45 million. The settled adjustment to the fuel over-recovery balance approved in Docket No. 34031, minus the Texas-New Mexico Power (TNMP) allocation, plus interest, is currently $17,698,154. The resulting unexpended balance of environmental costs after subtraction of the settled adjustment to the fuel over-recovery balance would be $27,301,846. Accordingly, CenterPoint's Securitizable Balance, as approved by the Commission, would total $506,268,100.

the terms of this Financing Order, the issuance of transition bonds in one or more series in an aggregate amount not to exceed the Securitizable Balance as of the date the transition bonds are issued plus up-front qualified costs of $5,715,000; (3) approves the structure of the proposed securitization financing, including the requested prohibition on issuing bonds denominated in foreign currencies and entering into interest rate hedges; (4) approves transition charges in an amount to be calculated as provided in this Financing Order; (5) approves the form of tariff, as provided in this Financing Order, to implement those transition charges; and (6) finds that the potential benefits of (a) floating-rate notes and interest-rate swaps within the bond structure and (b) issuing transition bonds denominated in foreign currencies will not outweigh the costs and the incremental risks to customers; therefore, the Commission concludes that floating-rate notes and interest-rate swaps should not occur within the transition bond structure and that CenterPoint should not be authorized to issue bonds denominated in a foreign currency.

In order to approve the securitization of the regulatory assets and other true-up amounts, the Commission must consider whether the proposed securitization meets the financial tests set out in PURA Chapter 39, Subchapter G. The three financial tests require that the total revenues collected under the financing order are less than the revenues collected using conventional financing methods (total revenues test),[3] that the securitization of the regulatory assets and other true-up amounts provides greater tangible and quantifiable benefits to ratepayers than would have been achieved without the issuance of the transition bonds (tangible and quantifiable benefits test),[4] and that the amount securitized may not exceed the present value of the revenue requirement over the life of the proposed transition bonds associated with the regulatory assets or other true-up amounts sought to be securitized (present value test).[5]

[3] PURA § 39.303.
[4] PURA § 39.301.
[5] PURA § 39.301.

CenterPoint submitted evidence in the Settlement Agreement and in response to the Commission's orders requiring number runs issued on August 21, 2007 and September 4, 2007 that the proposed securitization met each of the financial tests set out in Subchapter G of PURA. The calculations performed by CenterPoint demonstrated that the transaction would pass these tests. Considering the magnitude of the benefits provided, the Commission declines to determine a particular number for each benefit conferred by the securitization. Accordingly, in quantifying the benefit to ratepayers as a result of this securitization, the Commission refers to the ranges of benefits calculated under CenterPoint's expected case scenario, in which the transition bonds bear 5.68% weighted-average interest, and its sensitivity scenario, in which the bonds are subject to a 7.32% weighted-average interest rate.

CenterPoint's evidence in the Settlement Agreement and revised number runs showed that as a result of the securitization approved by this Financing Order, consumers in CenterPoint's service area will realize benefits currently estimated to be approximately $57 million on a present value basis, using the expected weighted average interest rate,[6] and $9 million if interest rates rise to 7.32%.[7] In addition, with interest rates increased to 7.32%, the securitization approved by this Financing Order will result in a reduction in the amount of revenues collected by CenterPoint of approximately $196,000, on a nominal basis, when compared to the amount that would have been collected under CTCs which reflects the conventional financing methods that would otherwise be used to recover the costs.[8] In the expected case, the securitization will result in a reduction in the amount of revenues collected by CenterPoint of approximately $71 million.[9] The Commission concludes the benefits for consumers set forth in CenterPoint's evidence are fully indicative of the benefits that consumers will realize from the securitization approved in this Financing Order; however, in the issuance advice letter, CenterPoint will be required to update the benefit analysis to verify that the final structure of the securitization satisfies the statutory financial tests.

[6] *See* CenterPoint's Response to Order Requiring Additional Number Run, Schedule 1A (Sep. 6, 2007).
[7] *See id.* at Schedule 1B.
[8] *See id.* at Schedule 1B.
[9] *See id.* at Schedule 1A.

On December 17, 2004, the Commission issued an Order on Rehearing in Docket No. 29526 determining that CenterPoint is entitled pursuant to PURA § 39.262 to recover $2,300,888,665 of costs associated with the transition to competitive retail markets plus excess mitigation credits provided by CenterPoint after August 31, 2004.[10] The $2,300,888,665 balance was as of August 31, 2004 and, pursuant to the terms of the order in Docket No. 29526, accrues interest on the unrecovered balance until it is collected. Pursuant to the Commission's financing order in Docket No. 30485, CenterPoint securitized approximately $1.8 billion of that balance through transition bonds issued December 16, 2005. The remainder of that true-up balance is being recovered through CTCs that became effective August 1, 2005 pursuant to the Commission's order in Docket No. 30706.

CenterPoint's application in Docket No. 30485 sought approval to securitize the entire true-up balance; however, the Commission determined that a portion of those amounts were not eligible for securitization. During the 2007 legislative session, the legislature amended PURA to permit securitization of the entire true-up balance.[11]

CenterPoint provided a general description of the proposed transaction structure in its application and in the testimony and exhibits submitted in support of its application. The proposed transaction structure does not contain every relevant detail and, in certain places, uses only approximations of certain costs and requirements. The final transaction structure will depend, in part, upon the requirements of the nationally-recognized credit rating agencies that will rate the transition bonds and, in part, upon the market conditions that exist at the time the transition bonds are taken to the market.

While the Commission recognizes the need for some degree of flexibility with regard to the final details of the securitization transaction approved in this Financing

[10] Appeals of the Commission's final order in Docket No. 29526 are currently pending before the Third Court of Appeals in Austin in *CenterPoint Energy Houston, Electric, LLC and Texas Genco, LP v. Pub. Util. Comm'n of Texas, et al.,* Case No. 03-05-00557-CV.

[11] Act of May 29, 2007, H.B. 624 §§ 2-4, 80th Leg., R.S. (to be codified as an amendment to TEX. UTIL. CODE. ANN. §§ 39.301-39.303).

Order, its primary focus is upon the statutory requirements—the most important of which is to ensure that securitization results in tangible and quantifiable benefits to ratepayers—that must be met prior to issuing a financing order.

In view of these obligations, the Commission has established certain criteria in this Financing Order that must be met in order for the approvals and authorizations granted in this Financing Order to become effective. This Financing Order grants authority to issue transition bonds and to impose and collect transition charges only if the final structure of the securitization transaction complies in all material respects with these criteria. The authority and approval granted in this Financing Order is effective only upon CenterPoint filing with the Commission an issuance advice letter demonstrating compliance with the provisions of this Financing Order.

I. Discussion and Statutory Overview

The Texas Legislature amended PURA in 1999 to provide for competition in the provision of retail electric service.[12] To facilitate the transition to a competitive environment, electric utilities are authorized to undertake securitization financing of qualified costs.[13] The Legislature provided this option for recovering qualified costs based on the conclusion that securitized financing will result in lower carrying costs for utility assets relative to the costs that would be incurred using conventional utility financing methods. As a precondition to the use of securitization, the Legislature required that the utility demonstrate that ratepayers would receive tangible and quantifiable benefits as a result of securitization and that this Commission make a specific finding that such benefits exist before issuing a financing order. Consequently, a basic purpose of securitized financing—the recovery of an electric utility's qualified costs—is conditioned upon the other basic purpose—providing economic benefits to consumers of electricity in this state.

[12] *See* Act of May 27, 1999, 76th Leg., R.S., ch. 405, 1999 TEX. GEN. LAWS 2543 (codified primarily at TEX. UTIL. CODE Chapters 39, 40, and 41).
[13] *See* PURA §§ 39.201, 39.301-39.303.

The Commission's prior financing orders[14] determined that PURA authorized securitization of only part of the true-up balance. Effective June 15, 2007, PURA was amended to provide that all other elements of the true-up balances determined pursuant to §§ 39.201 and 39.262 of PURA may be securitized.[15] Amended PURA § 39.301 allows a utility to securitize its regulatory assets and other amounts determined under Section 39.201 or 39.262. In its application for financing order, CenterPoint sought to securitize the remaining amounts that are currently being collected by CenterPoint through Rider CTC, plus and minus other amounts described in the application, including a $12.5 million adjustment to the fuel over-recovery balance determined in Docket No. 34031[16] and the amount of unspent environmental retrofit funds determined in Docket No. 33823.[17]

The Commission finds that while CenterPoint's remaining CTC balance is an amount determined under § 39.262, the $12.5 million adjustment to the fuel over-recovery balance determined in Docket No. 34031 is neither a regulatory asset nor an amount determined under § 39.201 or 39.262. "Regulatory assets" is defined by PURA § 39.302(5) as "the generation-related portion of the Texas jurisdictional portion of the amount reported by the electric utility in its 1998 annual report on Securities and Exchange Commission Form 10-K as regulatory assets and liabilities, offset by the applicable portion of generation-related investment tax credits permitted under the Internal Revenue Code of 1986." Docket No. 34031, in which the $12.5 million adjustment to the fuel over-recovery balance was determined, was not a proceeding instituted under either PURA § 39.201 or 39.262; thus, inclusion of this amount in a securitization proceeding brought under PURA § 39.301 would not be warranted.

[14] *Application of CenterPoint Energy Houston Electric, LLC for Financing Order*, Docket No. 30485, Financing Order at 1 (Mar. 16, 2005).

[15] Act of May 28, 2007, H.B. 624 §§ 2-4, 80th Leg., R.S. (to be codified as an amendment to TEX. UTIL. CODE. ANN. §§ 39.301-39.303).

[16] *Application of CenterPoint Energy Houston Electric, LLC and City of Houston to Approve Final Fuel Balance,* Docket No. 34031, Order (Jun. 27, 2005).

[17] *Application of CenterPoint Energy Houston Electric LLP for Approval to Refund Unspent Environmental Retrofit Funds,* Docket No. 33823, Order, (Aug. 21, 2007).

The $45 million balance of unspent environmental retrofit funds that CenterPoint is required to refund pursuant to the final order in Docket No. 33823, on the other hand, is an amount determined under PURA § 39.262.[18] The initial determination of the amount for environmental expenditures as stranded costs was made in CenterPoint's true-up case in Docket No. 29526. The final order in Docket No. 29526 recognized that some of the approved environmental costs had been incurred but not yet spent and provided that if any portion of the approved costs was not spent on environmental programs by December 31, 2006, then the Commission would determine the appropriate manner for CenterPoint to return the unused funds to customers.[19] The entire amount of environmental costs approved in Docket No. 29526 was included in the amount authorized by the Commission for securitization in Docket No. 30485, CenterPoint's first securitization case.[20] Therefore, the Commission finds that it is appropriate to offset the remaining CTC balance to be securitized by the $45 million balance of unexpended environmental retrofit funds, subject to the additional offset described immediately below. Such treatment effectuates the Commission's prior determination in Docket No. 29526 that CenterPoint is required to return any unused, approved environmental funds to customers.

The Commission finds that the $12.5 million (plus interest) settled adjustment to the fuel balance may be used to offset the $45 million refund for unspent environmental retrofit funds approved in Docket No. 33823. Such treatment will enable CenterPoint to immediately recover the settled adjustment to the fuel balance that was approved in Docket No. 34031. The remaining balance of the unspent environmental retrofit funds refund, which is approximately $27.3 million, shall be deducted from the remaining CTC balance to form the Securitizable Balance. Treatment of the adjustment to the fuel over-recovery balance in this manner removes the $12.5 million (plus interest) from the securitization process, which complies with the description amended in PURA § 39.301 of those amounts that may be securitized.

[18] *Application of CenterPoint Energy Houston Electric LLP for Approval to Refund Unspent Environmental Retrofit Funds,* Docket No. 33823, Order (Aug. 21, 2007).
[19] Docket No. 29526, Order on Rehearing at 43-44 (Dec. 17, 2004).
[20] *Application of CenterPoint Energy Houston Electric, LLC for a Financing Order*, Docket No. 30485, Financing Order (Mar. 16, 2005).

To securitize an electric utility's qualified costs, the Commission may authorize the issuance of securities known as transition bonds. Transition bonds are generally defined as evidences of indebtedness or ownership that are issued under a financing order, are limited to a term of not longer than 15 years, and are secured by or payable from transition property.[21] The net proceeds from the sale of the transition bonds must be used to reduce the amount of a utility's recoverable regulatory assets or other true-up amounts through the refinancing or retirement of the utility's debt or equity. If transition bonds are approved and issued, retail electric consumers must pay the principal, interest, and related charges of the transition bonds through transition charges. Transition charges are nonbypassable charges that will be paid as a component of the monthly charge for electric service. Transition charges must be approved by the Commission pursuant to a financing order.[22]

The Commission may adopt a financing order only if it finds that the total amount of revenues to be collected under the financing order is less than the revenue requirement that would be recovered using conventional financing methods and that the financing order is consistent with the standards of PURA § 39.301. The Commission must ensure that the net proceeds of transition bonds may be used only for the purpose of reducing the amount of recoverable costs through the refinancing or retirement of utility debt or equity. In addition, the Commission must ensure that (1) securitization provides tangible and quantifiable benefits to ratepayers greater than would have been achieved absent the issuance of the transition bonds, and (2) the structuring and pricing of the transition bonds result in the lowest transition bond charges consistent with market conditions and the terms of a financing order. Finally, the amount securitized may not exceed the present value of the revenue requirement over the life of the proposed transition bonds associated with the amounts sought to be securitized, and the present value calculation must use a discount rate equal to the proposed interest rate on the transition bonds. All of these statutory requirements go to ensure that securitization will provide real benefits to retail consumers.

[21] *See* PURA § 39.302(6).
[22] *See* PURA § 39.302(7).

The essential finding by the Commission that is needed to issue a financing order is that ratepayers will receive tangible and quantifiable benefits as a result of securitization. This finding can only be made upon a showing of economic benefits to ratepayers through an economic analysis. An economic analysis is necessary to recognize the time value of money in evaluating whether and the extent to which benefits accrue from securitization. Moreover, an economic analysis recognizes the concept that the timing of a payment can be as important as the magnitude of a payment in determining the value of the payment. Thus, an analysis showing an economic benefit is necessary to quantify a tangible benefit to ratepayers.

Economic benefits also depend upon a favorable financial market—one in which transition bonds may be sold at an interest rate lower than the carrying costs of the assets being securitized. The precise interest rate at which transition bonds can be sold in a future market, however, is not known today. Nevertheless, benefits can be calculated based upon certain known facts (*e.g.* the amount of assets to be securitized and the cost of the alternative to securitization) and assumptions (*e.g.* the interest rate of the transition bonds, the term of the transition bonds and the amount of other qualified costs). By analyzing the proposed securitization based upon those facts and assumptions, a determination can be made as to whether tangible and quantifiable benefits result. To ensure that benefits are realized, the securitization transaction must conform to the structure ordered by the Commission and an issuance advice letter must be presented to the Commission immediately prior to issuance of the bonds demonstrating that the actual structure and costs of the bonds will provide tangible and quantifiable benefits. The cost-benefit analysis contained in the issuance advice letter must reflect the actual structure of the bonds.

CenterPoint's financial analysis shows that securitizing the Securitizable Balance along with CenterPoint's other qualified costs in the manner provided by this Financing Order will produce an economic benefit to ratepayers of approximately $9 million on a present value basis.[23] This benefit will result if the bond market is unfavorable and

[23] *See* CenterPoint's Response to Order Requesting Additional Number Run at Schedule 1B (Sep. 6, 2007).

12 year transition bonds are issued at a weighted-average interest rate of 7.32%, which is the maximum weighted-average interest rate allowed by this Financing Order. Assuming that the transition bonds are, as CenterPoint projected in its updated number run, subject to a 5.68% weighted-average annual interest rate, the benefit will be approximately $57 million on a present-value basis.[24] The economic benefit to ratepayers will be larger if a more favorable market allows the transition bonds to be issued at a lower interest rate and will be smaller if the issuance of transition bonds is delayed.

To issue a financing order, PURA also requires that the Commission find that the total amount of revenues collected under the financing order will be less than would otherwise have been collected under conventional financing methods. The analysis in the updated number run demonstrates that revenues will be reduced by approximately $196,000 on a nominal basis under this Financing Order compared to the amount that would be recovered if the costs continue to be recovered through CTCs, assuming 12 year bonds are issued at a 7.32% weighted-average interest rate.[25] Under the expected scenario in which 12 year bonds are issued at a 5.68% weighted-average annual interest rate, securitization saves ratepayers approximately $71 million in nominal revenue.[26] If transition bonds are issued in a more favorable market, or bonds with a maximum expected life less than 12 years are issued, this reduction in revenues will be larger.

Before the transition bonds may be issued, CenterPoint must submit to the Commission an issuance advice letter in which it demonstrates, based upon the actual market conditions at the time of pricing, that the proposed structure and pricing of the transition bonds will provide real economic benefits to retail consumers and comply with the statutory financial tests and terms of this Financing Order. As part of this submission, CenterPoint must also certify to the Commission that the structure and pricing of the transition bonds results in the lowest transition bond charges consistent with market conditions at the time of pricing and the terms of this Financing Order. The form of certification that must be submitted by CenterPoint is set out in Appendix A to this

[24] *See id*. at Schedule 1A.
[25] *See* id. at Schedule 1B.
[26] *See id.* at Schedule 1A.

Financing Order. The Commission, by order, may stop the issuance of the transition bonds authorized by this Financing Order if CenterPoint fails to make this demonstration or certification.

PURA requires that transition charges be charged for the use or availability of electric services to recover all qualified costs.[27] Transition charges can be recovered over a period that does not exceed 15 years.[28] The Commission concludes that this prevents the collection of transition charges from retail consumers for services rendered after the 15-year period but does not prohibit recovery of transition charges for service rendered during the 15-year period but not actually collected until after the 15-year period.

Transition charges will be collected by an electric utility, its successors, an assignee, or other collection agents as provided for in this Financing Order.[29] The rights to impose, collect, and receive transition charges (including all other rights of an electric utility under the financing order) are only contract rights until they are first transferred to an assignee or pledged in connection with the issuance of transition bonds. Upon the transfer or pledge of those rights, they become transition property and, as such, are afforded certain statutory protections to ensure that the charges are available for bond retirement.[30]

This Financing Order contains terms, as permitted under PURA § 39.461, ensuring that the imposition and collection of transition charges authorized herein will be nonbypassable.[31] It also includes a mechanism requiring that transition charges be reviewed and adjusted at least annually, within 45 days of the anniversary date of the issuance of the transition bonds, to correct any overcollections or undercollections during the preceding 12 months and to ensure the expected recovery of amounts sufficient to timely provide all payments of debt service and other required amounts and charges in

[27] *See* PURA § 39.302(7).
[28] *See* PURA § 39.303(b).
[29] *See* PURA § 39.302(7).
[30] *See* PURA § 39.304(b).
[31] *See* PURA § 39.306.

connection with the transition bonds.[32] In addition to the required annual reviews, more frequent reviews are allowed to ensure that the amount of the transition charges matches the funding requirements approved in this Financing Order. These provisions will help to ensure that the amount of transition charges paid by retail consumers does not exceed the amount necessary to cover the costs of this securitization. To encourage utilities to undertake securitization financing, other benefits and assurances are provided.

The State of Texas has pledged, for the benefit and protection of financing parties and electric utilities, that it will not take or permit any action that would impair the value of transition property, or, except for the true-up expressly allowed by law, reduce, alter, or impair the transition charges to be imposed, collected and remitted to financing parties, until the principal, interest and premium, and any other charges incurred and contracts to be performed in connection with the related transition bonds have been paid and performed in full.[33]

Transition property constitutes a present property right for purposes of contracts concerning the sale or pledge of property and the property will continue to exist for the duration of the pledge of the State of Texas as described in the preceding paragraph.[34] In addition, the interests of an assignee or pledgee in transition property (as well as the revenues and collections arising from the property) are not subject to setoff, counterclaim, surcharge, or defense by the electric utility or any other person or in connection with the bankruptcy of the electric utility or any other entity.[35] Further, transactions involving the transfer and ownership of transition property and the receipt of transition charges are exempt from state and local income, sales, franchise, gross receipts, and other taxes or similar charges.[36] The creation, granting, perfection, and enforcement of liens and security interests in transition property are governed by PURA § 39.309 and not by the Texas Business and Commerce Code.[37]

[32] *See* PURA § 39.307.
[33] *See* PURA § 39.310.
[34] *See* PURA § 39.304(b).
[35] *See* PURA § 39.305.
[36] *See* PURA § 39.39.311.
[37] *See* PURA § 39.309(a).

The Commission may adopt a financing order providing for the retiring and refunding of transition bonds only upon making a finding that the future transition charges required to service the new transition bonds, including transaction costs, will be less than the future transition charges required to service the transition bonds being retired or refunded.[38] CenterPoint has not requested, and this Financing Order does not grant, any authority to refinance transition bonds authorized by this Financing Order. This Financing Order does not preclude CenterPoint from filing a request for a financing order to retire or refund the transition bonds approved in this Financing Order upon a showing that the statutory criteria in PURA § 39.303(g) are met.[39]

To facilitate compliance and consistency with applicable statutory provisions, this Financing Order adopts the definitions in PURA § 39.302.

II. Description of Proposed Transaction

A description of the transaction proposed by CenterPoint is contained in its application and the filing package submitted as part of the application. A brief summary of the proposed transaction is provided in this section. A more detailed description is included in the Findings of Fact, Section III.C, titled "Structure of the Proposed Securitization" and in the application and filing package submitted as part of the application.

To facilitate the proposed securitization, CenterPoint proposed that one or more special purpose entity transition bond companies be created to which will be transferred the rights to impose, collect, and receive transition charges along with the other rights arising pursuant to this Financing Order. The Commission determines that, because of the size of this proposed securitization, only one special purpose entity transition bond

[38] *See* PURA § 39.303(g).
[39] *See* PURA § 39.303(g).

company (BondCo) should be created. Upon transfer, these rights will become transition property as provided by PURA § 39.304. BondCo will issue transition bonds and will transfer the net proceeds from the sale of the transition bonds to CenterPoint in consideration for the transfer of the transition property. BondCo will be organized and managed in a manner designed to achieve the objective of maintaining BondCo as a bankruptcy-remote entity that would not be affected by the bankruptcy of CenterPoint or any other affiliates of CenterPoint or any of their respective successors. In addition, BondCo will have at least one independent manager whose approval will be required for certain major actions or organizational changes by BondCo.

The transition bonds will be issued pursuant to an indenture and administered by an indenture trustee. The transition bonds will be secured by and payable solely out of the transition property created pursuant to this Financing Order and other collateral described in CenterPoint's application. That collateral will be pledged to the indenture trustee for the benefit of the holders of the transition bonds and to secure payment of certain qualified costs.

The servicer of the transition bonds will collect the transition charges and remit those amounts to the indenture trustee on behalf of BondCo. The servicer will be responsible for filing any required or allowed true-ups of the transition charges. If the servicer defaults on its obligations under the servicing agreement, the indenture trustee may appoint a successor servicer. CenterPoint will act as the initial servicer for the transition bonds.

Retail electric providers (REPs) will be required to meet certain financial standards to collect transition charges under this Financing Order. If the REP qualifies to collect transition charges, the servicer will bill to and collect from the REP the transition charges attributable to the REP's customers. The REP in turn will bill to and collect from its retail customers the transition charges attributable to them. If any REP fails to qualify to collect transition charges or defaults in the remittance of those charges to the servicer of the transition bonds, another entity can assume responsibility for collection of the transition charges from the REP's retail customers.

Transition charges will be calculated to ensure the collection of an amount sufficient to service the principal, interest, and related charges for the transition bonds and in a manner that allocates this amount to the various classes of retail consumers as provided in PURA and Commission orders. The transition charges will be calculated pursuant to the method described in Schedule TC3, a pro forma copy of which is contained in Appendix B.[40] In addition to the annual true-up required by PURA § 39.307, periodic true-ups may be performed as necessary to ensure that the amount collected from transition charges is sufficient to service the transition bonds. In addition, an adjustment to the transition charge class allocations will be allowed under certain circumstances. The methodology for making true-ups and allocation adjustments and the circumstances under which each shall be made are described in pro-forma Schedule TC3, attached to this Financing Order as Appendix B.

The Commission determines that CenterPoint's proposed level transition charge structure should be utilized. This structure, which was used in each of CenterPoint's prior securitizations, is designed to produce essentially level residential rates over the recovery period if the actual year-to-year changes in customers' loads match the changes forecast at the time the transition bonds are structured and that annual loads and costs match those used to develop each transition charge true-up. If the transition bonds are issued in more than one series, the transition charges for each series must provide a level transition charge structure.

CenterPoint Witness Kilbride testified that all of the bonds issued in prior Texas securitizations have been issued with a fixed interest rate. A fixed interest rate is necessary to assure that consumers benefit from the securitization. CenterPoint Witness Kilbride noted that the benefits of fixed rates can be achieved through a combination of floating rate bonds and interest rate swaps. Use of swaps, however, creates additional risks related to the ability of the swap counterparty to perform for the full term of the bonds. While use of floating rate bonds and interest rate swaps were actively considered in prior transactions, no floating rate bonds have ever been issued in Texas. Mr. Kilbride

[40] If more than one series of transition bonds is issued, each series will have a separately numbered Schedule, but each will be in the form of Schedule TC3 with such changes as are necessary to reflect the fact that the transition bonds will be issued in more than one series.

testified that while there are some potential purchasers of transition bonds that are primarily interested in holding floating rate obligations, it is not necessary to issue floating rate bonds to attract those purchasers. CenterPoint's own experience with its 2005 securitization was that it was more efficient to issue fixed rate bonds and allow the purchaser of the bonds to convert them to floating rates through swaps entered into by the purchaser outside the transaction. Such a conversion, in fact, was done by at least one large purchaser of bonds in the 2005 securitization. In our last two financing orders (*i.e.* AEP and Entergy) the Commission concluded that the possible benefit of floating rate bonds did not outweigh the cost of preparing for and executing swaps and the potential risks swaps would impose on consumers.[41] As a result the financing orders in those proceedings prohibited use of swaps and thus, effectively, issuance of floating rate bonds. We reach the same conclusion in this proceeding and will prohibit CenterPoint from issuing floating rate bonds and employing related swaps.

CenterPoint witness Kilbride also testified that in the 2005 CenterPoint securitization substantial costs were incurred to facilitate issuance of bonds denominated in foreign currency.[42] Ultimately, CenterPoint and the Commission's financial advisor concluded that CenterPoint should not issue any transition bonds denominated in foreign currencies. Denominating bonds in foreign currency would create currency risks for consumers. While those risks can be reduced through use of derivatives, as is the case with swaps, the derivatives will themselves create risk for consumers. Interest rate hedges can also be used to lock in interest rates or limit the variability of interest rates prior to issuance of the bonds; however, such hedges constitute a bet on the direction of future market changes, which is neither necessary nor appropriate. Hedges also create additional costs and risks if, for any reason, the transition bonds are not issued or the amount issued is different from the principal amount hedged. As a result, this financing order prohibits CenterPoint from issuing bonds denominated in foreign currencies and from entering into interest rate hedges.

[41] *Application of AEP Texas Central Company for a Financing Order*, Docket No. 32475 Financing Order at 14-15 (Jun. 21, 2006); *Application of Entergy Gulf States, Inc. for a Financing Order*, Docket No. 33586 Financing Order at 2 (Apr. 2, 2007).

[42] Direct Testimony of Marc Kilbride (Kilbride Direct) at 4.

CenterPoint requested approval of transition charges sufficient to recover the principal and interest on the transition bonds plus ongoing qualified costs as described in this Financing Order and Appendix C attached hereto. CenterPoint requests that the transition charges be recovered from REPs and through them from retail consumers and that the amount of the transition charges be calculated based upon the allocation methodology and billing determinants specified in Schedule TC3. CenterPoint also requests that certain standards related to the billing and collection of transition charges be applied to REPs, as specified in Schedule TC3. To implement the transition charges and billing and collection requirements, CenterPoint requests approval of Schedule TC3.

CenterPoint requested authority to securitize and to cause the issuance of transition bonds in an aggregate principal amount not to exceed the sum of (1) the Securitizable Balance at the date of issuance of the transition bonds plus (2) its actual up-front qualified costs of issuing, supporting and servicing the transition bonds. CenterPoint's estimated balance to be securitized and its amounts for up-front qualified costs were based on an assumed issuance date of September 30, 2007. CenterPoint proposed that these amounts be updated in the issuance advice letter to reflect the actual issuance date of the transition bonds, and other relevant current information as permitted by this Financing Order and that CenterPoint be authorized to securitize the updated aggregate principal balance and up-front qualified costs as reflected in the issuance advice letter.

CenterPoint requested in its application that its up-front or ongoing costs of issuing and maintaining the transition bonds be recovered respectively through the transition bonds and transition charges approved in this proceeding. CenterPoint estimated that its up-front costs would total approximately $6.1 million, while its ongoing costs of servicing the transition bonds would total approximately $632,000 per year for each year of the term of the bonds.[43] The estimates are based on assumptions regarding a number of variables that will directly affect the level of up-front and ongoing qualified costs including (1) the total Securitizable Balance will be $551,268,100; (2) only one series of transition bonds will be issued; (3) the financing order proceeding will not be contested; and (4) the Commission will not use an outside advisor to assist it in this transaction.

[43] *See* Settlement Agreement, Exhibit A, Schedule 6; Brian Direct, Figures JSB-1, Schedule 6.

The Commission's analysis of CenterPoint's request begins with the finding that certain of the company's up-front qualified costs that are permitted to be securitized, as well as certain of the ongoing costs that the company proposes to recover directly through transition charges, should be capped. This finding accords with CenterPoint's prior securitizations, and other securitization proceedings in this state. CenterPoint's case does not present sufficient distinctions to merit deviating from this practice.

The Commission finds that CenterPoint should be permitted to securitize its up-front costs of issuance in accordance with the terms of this Financing Order. As set forth in this Financing Order, up-front qualified costs shall be capped at $5,715,000. In capping CenterPoint's up-front qualified costs, the Commission is mindful of the fact that several of the components of these total cost balances will vary depending upon the size of the final issuance of the transition bonds. For instance, the Commission realizes that the SEC registration fee, rating agency fees, and underwriters' fees are proportional to the amount of qualified costs actually securitized. In addition, the SEC formula for calculating registration fees changes from time to time. Although the aggregate up-front qualified costs are capped at $5,715,000, in the issuance advice letter CenterPoint should update the SEC registration fee, rating agency fees, and underwriters' fees proportionately to reflect the actual qualified costs securitized.

CenterPoint is authorized to recover its actual ongoing costs of servicing and administration directly through the transition charges subject to a cap on servicing fees equal to 0.05% of the initial principal amount of transition bonds issued pursuant to this and a $100,000 cap on administrative fees, which will apply as long as CenterPoint continues to serve as the servicer or administrator, respectively. Ongoing qualified costs, other than the servicer and administrative fees charged by CenterPoint when it is the servicer and administrator, are not capped. They are, however, estimated on Appendix C. The estimated ongoing qualified costs should be updated in the issuance advice letter to reflect more current information then available to CenterPoint. In accordance with the terms of this Financing Order and subject to the approval of the indenture trustee, the Commission will permit a successor servicer to CenterPoint to recover a higher servicer fee if CenterPoint ceases to service the transition property.

III. Findings of Fact

A. Identification and Procedure

1. Identification of Applicant and Application

1. CenterPoint is a transmission and distribution utility which owns and operates for compensation an extensive transmission and distribution network to provide electric service in the portion of this state which is included in ERCOT. CenterPoint is an indirect wholly-owned subsidiary of CenterPoint Energy, Inc. (CenterPoint Energy).
2. On March 31, 2004, in Docket No. 29526, CenterPoint, Texas Genco, LP and Reliant Energy Retail Services, LLC (RERS) jointly filed an application to determine the true-up balance CenterPoint is entitled to recover in connection with the transition from a regulated to a competitive electricity market in ERCOT as required under PURA § 39.262. After contested hearings, in an order issued on November 23, 2004, the Commission determined that CenterPoint was entitled to recover an aggregate balance of $2,300,888,665 plus the excess mitigation credits provided and interest accrued after August 31, 2004.
3. On March 16, 2005, the Commission issued a financing order in Docket No. 30485 authorizing CenterPoint to securitize a portion of the balance determined in Docket No. 29526. CenterPoint completed that securitization on December 16, 2006.
4. On July 14, 2005, the Commission issued its final order on Docket No. 30706 authorizing CenterPoint to implement CTCs to recover the portion of the Docket No. 29526 balance that was not securitized. CenterPoint implemented the CTC effective August 1, 2005.

2. Procedural History

5. On June 28, 2007, CenterPoint filed its application for a financing order under Subchapter G of Chapter 39 of PURA to permit securitization of (1) the Securitizable Balance as of the date of issuance of the transition bonds plus (2) up-front qualified costs. The application includes exhibits, schedules, attachments, and testimony.

6. The following parties intervened in this proceeding and were granted party status: the Office of Public Utility Counsel (OPC); Air Products and Chemicals, Inc. (Air Products); Alliance for Retail Markets (ARM); City of Houston and Coalition of Cities (COH/COC); Direct Energy, LP (Direct); Gulf Coast Coalition of Cities (GCCC); RERS; and Texas Industrial Energy Consumers (TIEC).

7. On July 23 and 24, 2007, CenterPoint submitted the Settlement Agreement, to which the following parties were signatories: CenterPoint and Commission Staff.

8. The Settlement Agreement includes the following agreements.

   A. The signatories agreed that the expected final maturity of the last tranche of transition bonds will not exceed 12 years (although the legal final maturity of the transition bonds may extend to 15 years), which approximates the remaining life of CenterPoint's current Rider CTC.

   B. The signatories agreed that the $6.37 million aggregate cap on up-front qualified costs proposed in the Application will be decreased by $1.2 million (*i.e.* to $5.17 million). The Settlement Agreement states that this reduction in the aggregate cap is attributable to a $1 million reduction of estimated legal fees (to a level slightly below the levels reported in the issuance advice letter submitted by Entergy Gulf States, Inc. in Docket No. 33586) and a $200,000 reduction in other up-front cost categories (to amounts closer to the levels reported by Entergy in Docket No. 33586), and is conditioned upon a transaction that is consistent with the Entergy transaction. The Settlement Agreement provides that this reduction to the

aggregate cap on up-front qualified costs is expressly conditioned upon there being (a) no floating-rate notes or interest-rate swaps; (b) no bonds denominated in a foreign currency; (c) only one series of transition bonds; and (d) no outside financial advisor engaged by the Commission for this transaction. The Settlement Agreement further provides that, in the event any of the conditions are not satisfied, CenterPoint may seek to recover any actual costs in excess of the capped amount, including legal fees, through a surcharge to CenterPoint's rates for transmission and distribution service, consistent with the treatment of such costs in CenterPoint's financing order in Docket No. 30485.

C. Because the Securitizable Balance includes variable amounts that could significantly increase the principal amount of transition bonds, the signatories agreed that it is reasonable and in the public that interest underwriters' fees, SEC filing fees and rating agency fees not be included in the aggregate cap on up-front qualified costs because those fees are directly related to the size of the transaction. The Settlement Agreement provided that although this proposed treatment of such costs is a departure from Entergy Gulf States, Inc.'s financing order in Docket No. 33586, it is consistent with the prior CenterPoint and AEP financing orders.

D. The signatories agreed to jointly request and support prompt issuance of a financing order in the form attached as Exhibit B to the Settlement Agreement authorizing the issuance of transition bonds in the principal amount equal to the Securitizable Balance plus up-front qualified costs as set forth therein.

E. The signatories agreed that the above agreements resolve all matters in this case.

9. In filing the Settlement Agreement, CenterPoint indicated that the following parties did not oppose the Settlement Agreement: Air Products; COH/COC; Direct; GCCC; OPC; RERS; and State. No party filed an opposition to the Settlement Agreement.

10. At its August 16, 2007 Open Meeting, the Commission approved the Settlement Agreement, as modified by this Financing Order.

11. On August 21, 2007, the Commission issued an order requiring CenterPoint to conduct a number run on the amount approved by the Commission for securitization; CenterPoint filed a response to the Commission's order on August 23, 2007.

12. On September 4, 2007, the Commission issued an order requiring CenterPoint to conduct an additional number run as the response provided by CenterPoint on August 23, 2007 was not sufficient to enable the Commission to make certain statutory findings. CenterPoint filed a response to the Commission's order requiring additional number run on September 6, 2007.

3. Notice of Application

13. Notice of CenterPoint's application was provided through publication once a week for two consecutive weeks in newspapers having general circulation in CenterPoint's service area, beginning shortly after the filing of the application. In addition, CenterPoint provided individual notice to the governing bodies of all Texas incorporated municipalities that have retained original jurisdiction over CenterPoint and to each retail electric provider listed on the Commission website. Notice was also provided to all parties in Docket Nos. 29526, 30485, 30706, 33823 and 34031. Proof of publication was submitted in the form of publishers' affidavits and verification of the mailing of individual notices and of the provision of notice to the municipalities.

B. Qualified Costs and Amount to be Securitized

1. Identification and Amounts

14. Qualified costs are defined in PURA to include 100% of an electric utility's regulatory assets and 75% of its recoverable costs determined by the Commission under PURA § 39.201 and any remaining amounts determined under PURA § 39.262 together with the costs of issuing, supporting, and servicing transition bonds and any costs of retiring and refunding the electric utility's existing debt and equity securities in connection with the issuance of transition bonds. Qualified costs also include the costs to the Commission of acquiring professional services for the purpose of evaluating proposed securitization transactions.[44]

15. Other qualified costs include the costs of issuing, supporting, and servicing the transition bonds and any transaction costs associated with retiring and refunding existing debt and equity securities with the proceeds from the transition bonds; provided, however, to the extent that the proceeds of transition bonds are used to retire or refund any debt owed by CenterPoint to an affiliate or any equity held by an affiliate, any transaction costs associated with retiring or refunding such affiliate-held debt or equity shall not be included in other qualified costs. The actual costs of issuing and supporting the transition bonds will not be known until the transition bonds are issued, and certain ongoing costs relating to the transition bonds may not be known until such costs are incurred. However, to satisfy its statutory obligations to ensure quantifiable and tangible benefits to ratepayers, it is appropriate to limit the amount of certain up-front qualified costs that may be included in the principal amount of the transition bonds so that the sum of those up-front qualified costs does not exceed $5.715 million, as shown in Appendix C. The amount of the costs identified in Appendix C to this Financing Order must be updated in the issuance advice letter to the extent they deviate from this estimate to ensure compliance with all statutory requirements.

[44] *See* PURA § 39.302(4).

2. Balance to be Securitized

16. CenterPoint should be authorized to cause transition bonds to be issued in an aggregate principal amount equal to (1) the Securitizable Balance at the time of issuance plus up-front qualified costs subject to the aggregate cap on up-front costs of $5.715 million. The Securitizable Balance to be securitized, assuming that the transition bonds are issued on September 30, 2007, is estimated to be $506,268,100. In the issuance advice letter, CenterPoint should update the amounts to reflect the Securitizable Balance on the date of issuance and the actual up-front qualified costs, subject to the cap on up-front costs provided in this Financing Order. It is appropriate to recover the annual ongoing servicing fees and the annual fixed operating costs directly through transition charges. It is also appropriate to impose additional limits to ensure that the ongoing servicing fees incurred when CenterPoint serves as servicer do not exceed 0.05% of the initial principal balance of the transition bonds and that administrative fees incurred when CenterPoint is the administrator do not exceed $100,000 per year as shown in Appendix C. Ongoing costs other than the servicer and administrative fees charged by CenterPoint when it serves as servicer and administrator will not be capped but are estimated in Appendix C to this Financing Order.

17. The $12.5 million (plus interest) settled adjustment to the fuel over-recovery balance approved in Docket No. 34031 shall be used to offset the $45 million refund for unspent environmental retrofit funds approved in Docket No. 33823. The remaining balance of the refund for unspent environmental retrofit funds, which is approximately $27.3 million, shall be deducted from CenterPoint's remaining CTC balance to form the Securitizable Balance referred to in finding of fact 16.

18. The proposed recovery of the sum described in findings of fact 16 and 17 through issuance of transition bonds as provided in this Financing Order should be approved because ratepayers will receive tangible and quantifiable benefits as a result of the securitization.

3. Issuance Advice Letter

19. Because the actual structure and pricing of the transition bonds and the precise amounts to be securitized will not be known at the time this Financing Order is issued, following determination of the final terms of the transition bonds and prior to issuance of the transition bonds, CenterPoint will file with the Commission for each series of transition bonds issued, and no later than 24 hours after the pricing date for that series of transition bonds, an issuance advice letter. The issuance advice letter will include CenterPoint's best estimate of total up-front qualified costs for such issuance. The estimated total up-front qualified costs in the issuance advice letter may be included in the principal amount securitized, subject to the cap on up-front qualified costs set forth in this Financing Order. Within 60 days of issuance of the transition bonds, CenterPoint shall submit to the Commission a final accounting of the total up-front qualified costs. If the actual up-front qualified costs are less than the up-front qualified costs included in the principal amount securitized, the periodic billing requirement for the first annual true-up adjustment shall be reduced by the amount of such unused funds (together with interest earned thereon through investment by the trustee in eligible investments) and such unused funds (together with interest earned thereon through investment by the trustee in eligible investments) shall be available for payment of debt service on the bond payment date next succeeding such true-up adjustment. If the actual up-front qualified costs are more than the up-front qualified costs included in the principal amount securitized, CenterPoint may request recovery of the remaining up-front qualified costs through a surcharge to CenterPoint's rates for transmission and distribution service, provided, however, that the recoverable aggregate costs (including amounts that were securitized) for those up-front qualified costs shall not exceed the cap on up-front qualified costs set forth in this Financing Order. In seeking to recover such costs, CenterPoint should be required to prove that the costs were prudently incurred, and reasonable and necessary. The excess or deficiency shall bear interest from the date of issuance of the transition bonds through the date the amounts are refunded or recovered, at the interest rate(s) applicable to refunds under the Commission's

rules. The issuance advice letter will report the actual dollar amount of the initial transition charges and other information specific to the transition bonds to be issued. CenterPoint's issuance advice letter shall update the benefit analysis to verify that the final amount securitized satisfies the statutory financial tests. All amounts that require computation will be computed using the mathematical formulas contained in the form of the issuance advice letter in Appendix A to this Financing Order and Schedule TC3. The initial transition charges and the final terms of the transition bonds set forth in the issuance advice letter shall become effective on the date of issuance of the transition bonds unless prior to noon on the fourth business day after pricing the Commission issues an order finding that the proposed issuance does not comply with the requirements of PURA and this Financing Order.

20. CenterPoint will submit a draft issuance advice letter to the Commission Staff for review not later than two weeks prior to the expected date of commencement of marketing the transition bonds. Within one week after receipt of the draft issuance advice letter, Commission Staff will provide CenterPoint comments and recommendations regarding the adequacy of the information provided.

21. The issuance advice letter shall be submitted to the Commission within 24 hours after the pricing of the transition bonds. Commission Staff may request such revisions of the issuance advice letter as may be necessary to assure the accuracy of the calculations and that the requirements of PURA and of this Financing Order have been met. The initial transition charges and the final terms of the transition bonds set forth in the issuance advice letter shall become effective on the date of issuance of the transition bonds (which shall not occur prior to the fifth business day after pricing) unless prior to noon on the fourth business day after pricing the Commission issues an order finding that the proposed issuance does not comply with the requirements of PURA and the Financing Order.

22. The completion and filing of an issuance advice letter in the form of the issuance advice letter attached as Appendix A, including the certification from CenterPoint

discussed in findings of fact 23 and 101 is necessary to ensure that any securitization actually undertaken by CenterPoint complies with the terms of this Financing Order.

23. The certification statement contained in CenterPoint's certification letter shall be worded precisely as the statement in the form of the issuance advice letter approved by the Commission. Other aspects of the certification letter may be modified to describe the particulars of the transition bonds' facts and the actions that were taken during the transaction.

4. Tangible and Quantifiable Benefit

24. The statutory requirement in PURA § 39.301 that directs the Commission to ensure that securitization provides tangible and quantifiable benefits to ratepayers greater than would be achieved absent the issuance of transition bonds can only be determined using an economic analysis to account for the time value of money. An analysis that compares in the aggregate over the expected life of the transition bonds the present value of the revenue requirement associated with recovery of the Securitizable Balance through application of competition transition charges, which is the method that would be used to recover any portion of the balance not securitized and is reflective of conventional utility financing, with the present value of the revenue required under securitization is an appropriate economic analysis to demonstrate whether securitization provides economic benefits to ratepayers.

25. The financial analysis presented by CenterPoint in the Settlement Agreement and in response to the Commission's orders requiring number runs indicates that securitization of the Securitizable Balance and other qualified costs as requested by CenterPoint is expected to result in approximately $9 million of tangible and quantifiable economic benefits to ratepayers on a present-value basis if the transition bonds are issued at the maximum weighted-average interest rate of 7.32% allowed by this Financing Order and with a 12-year expected life. Using the projected weighted-average interest rate of 5.68% and a 12-year expected life,

the benefits of securitization would be approximately $57 million. These estimates assume the transition bonds will be issued September 30, 2007, and that actual up-front and ongoing qualified costs will be as shown on Appendix C to this Financing Order, subject to the cap of $5,715,000 for up-front qualified costs. The benefits for consumers set forth in CenterPoint's evidence are fully indicative of the benefits consumers will realize from the securitization approved in this Financing Order; however, the actual benefit to ratepayers will depend upon the date of issuance of the transition bonds, market conditions at such time the actual scheduled maturity of the bonds and the amount actually securitized. CenterPoint will be required to provide an updated tangible and quantifiable benefit analysis in its issuance advice letter to verify that this statutory test is met.

5. Present Value Cap

26. The amount securitized may not exceed the present value of the revenue requirement over the life of the proposed transition bonds associated with conventional (*i.e.*, non-securitized) recovery of the authorized amounts where the present value analysis uses a discount rate equal to the proposed interest rate on the transition bonds.[45] The analysis presented by CenterPoint in the Settlement Agreement and in response to the Commission's orders requiring number runs to calculate economic benefits also demonstrates that the amount CenterPoint seeks to securitize does not exceed the present value of the revenue requirement associated with the securitized amount over the expected life of the transition bonds. The present value of the CTC revenue requirement (calculated using a weighted-average rate of 7.32% and an expected life of 12 years which is approximately equal to the expected remaining life of the CTC at the time the transition bonds are issued) is approximately $526 million. Using the projected weighted-average interest rate of 5.68%, the benefits of securitization would be even larger. Using a 5.68% weighted-average interest rate, the present value of the CTC revenue requirements would be approximately $575 million. In

[45] *See* PURA § 39.301.

comparison, the amount securitized would be approximately $506 million. These estimates assume the transition bonds will be issued September 30, 2007 with maximum expected lives of 12 years and that actual up-front and ongoing qualified costs will be as estimated on Appendix C to this Financing Order, subject to the cap of $5,715,000 for up-front qualified costs. The benefits for consumers set forth in CenterPoint's evidence are fully indicative of the benefits consumers will realize from the securitization approved in this Financing Order; however, CenterPoint will be required to provide an updated present value analysis in its issuance advice letter to verify that this statutory test is met.

27. The amount of qualified costs to be securitized does not exceed the present value of the revenue requirement over the maximum expected life of the transition bonds associated with the amount approved to be securitized in this Financing Order. The present value analysis uses a discount rate equal to the maximum allowed weighted average interest rate on the transition bonds on an annual basis.

6. Total Amount of Revenue to be Recovered

28. The Commission is required to find that the total amount of revenues to be collected under this Financing Order will be less than the revenue requirement that would be recovered over the remaining life of the amounts that are securitized under this Financing Order, using conventional financing methods.[46] The appropriate conventional financing method with which to make this comparison is the recovery of the amount through continued collection of the CTCs. If 12-year transition bonds are issued at a 7.32% weighted-average interest rate, CenterPoint's financial analysis indicates that the total amount of revenues to be collected under this Financing Order is expected to be approximately $196,000 less than the revenue requirement that would be recovered using conventional utility financing methods over the period under which they would be recovered through CTCs. Using the projected weighted-average interest rate of 5.68%, the benefits of securitization would be approximately $71 million. These estimates

[46] *See* PURA § 39.303(a).

assume the transition bonds will be issued September 30, 2007, with a maximum expected life of 12 years, and that actual up-front and ongoing qualified costs will be as estimated on Appendix C to this Financing Order, subject to the cap of $5,715,000 for up-front qualified costs. The benefits for consumers set forth in CenterPoint's evidence are fully indicative of the benefits consumers will realize from the securitization approved in this Financing Order; however, CenterPoint will be required to provide an updated total revenue analysis in its issuance advice letter to verify that this statutory test is met.

C. Structure of the Proposed Securitization

1. BondCo

29. For purposes of this securitization, CenterPoint will create BondCo, a special purpose transition funding entity which will be a Delaware limited liability company with CenterPoint as its sole member. BondCo will be formed for the limited purpose of acquiring transition property, issuing transition bonds in one or more series and in one or more tranches for each series, and performing other activities relating thereto or otherwise authorized by this Financing Order. BondCo will not be permitted to engage in any other activities and will have no assets other than transition property and related assets to support its obligations under the transition bonds. Obligations relating to the transition bonds will be BondCo's only significant liabilities. These restrictions on the activities of BondCo and restrictions on the ability of CenterPoint to take action on BondCo's behalf are imposed to achieve the objective that BondCo will be bankruptcy remote and not affected by a bankruptcy of CenterPoint. BondCo will be managed by a board of managers with rights and duties similar to those of a board of directors of a corporation. As long as the transition bonds remain outstanding, BondCo will have at least one independent manager with no organizational affiliation with CenterPoint other than acting as an independent manager for one or more other bankruptcy-remote subsidiaries of CenterPoint or its affiliates.

BondCo will not be permitted to amend the provisions of the organizational documents that relate to bankruptcy-remoteness of BondCo without the consent of the independent manager. Similarly, BondCo will not be permitted to institute bankruptcy or insolvency proceedings or to consent to the institution of bankruptcy or insolvency proceedings against it, or to dissolve, liquidate, consolidate, convert, or merge without the consent of the independent manager. Other restrictions to facilitate bankruptcy-remoteness may also be included in the organizational documents of BondCo as required by the rating agencies.

30. The initial capital of BondCo is expected to be not less than 0.5% of the original principal amount of each series of transition bonds issued by BondCo. Funding of BondCo at this level is intended to protect the bankruptcy remoteness of BondCo. A sufficient level of capital is necessary to minimize this risk and, therefore, assist in achieving the lowest transition bond charges possible.

31. BondCo will issue transition bonds in one or more series, and in one or more tranches for each series, in an aggregate amount not to exceed the principal amount approved by this Financing Order and will pledge to the indenture trustee, as collateral for payment of the transition bonds, the transition property, including BondCo's right to receive the transition charges as and when collected, and certain other collateral described in CenterPoint's application.

32. Concurrent with the issuance of any of the transition bonds, CenterPoint will transfer to BondCo all of CenterPoint's rights under this Financing Order, including rights to impose, collect, and receive transition charges approved in this Financing Order. This transfer will be structured so that it will qualify as a true sale within the meaning of PURA § 39.308. By virtue of the transfer, BondCo will acquire all of the right, title, and interest of CenterPoint in the transition property arising under this Financing Order.

33. The use and proposed structure of BondCo and the limitations related to its organization and management are necessary to minimize risks related to the proposed securitization transactions and to minimize the transition charges. Therefore, the use and proposed structure of BondCo should be approved.

2. Credit Enhancement and Arrangements to Reduce Interest Rate Risk or Enhance Marketability

34. CenterPoint requested approval to use additional forms of credit enhancement (including letters of credit, reserve accounts, surety bonds, or guarantees) and other mechanisms designed to promote the credit quality and marketability of the transition bonds if the benefits of such arrangements exceeded their cost. CenterPoint also asked that the costs of any credit enhancements as well as the costs of arrangements to enhance marketability be included in the amount of qualified costs to be securitized. CenterPoint should be permitted to recover the up-front and ongoing costs of credit enhancements and arrangements to enhance marketability, provided that the Commission's designated representative and CenterPoint agree in advance that such enhancements and arrangements provide benefits greater than their tangible and intangible costs. If the use of original issue discount, credit enhancements, or other arrangements is proposed by CenterPoint, CenterPoint shall provide the Commission's designated representative copies of all cost/benefit analyses performed by or for CenterPoint that support the request to use such arrangements. This finding does not apply to the collection account or its subaccounts approved in this Financing Order.

35. CenterPoint's proposed use of credit enhancements and arrangements to enhance marketability is reasonable and should be approved, provided that CenterPoint certifies that the enhancements or arrangements provide benefits greater than their cost and that such certifications are agreed with by the Commission's designated representative.

36. In the prior financing orders issued to CenterPoint and its predecessors, the Commission authorized CenterPoint to enter into floating rate notes, interest rate swaps and hedges. None were issued.

37. In the Commission's two most recent financing orders,[47] the Commission determined that the costs and risks of swap transactions outweighed the expected benefits and prohibited the use of interest rate swaps.

38. The evidence submitted by CenterPoint in this proceeding established that use of floating rate notes, notes denominated in foreign currency, swaps or hedges would not be expected to result in the lowest transition bond charges, and would necessarily expose ratepayers to higher risks and greater uncertainty about future costs. Accordingly, the Commission has determined that CenterPoint should not be permitted to use floating rate notes, notes denominated in foreign currency, swaps or hedges in this transaction.

3. Transition Property

39. Under PURA § 39.304(a), the rights and interest of an electric utility or successor under a financing order, including the right to impose, collect, and receive the transition charges authorized in the order, are only contract rights until they are first transferred to an assignee or pledged in connection with the issuance of transition bonds, at which time they will become transition property.

40. The rights to impose, collect, and receive the transition charges approved in this Financing Order along with the other rights arising pursuant to this Financing Order will become transition property upon the transfer of such rights by CenterPoint to BondCo pursuant to PURA § 39.304.

41. Transition property and all other collateral will be held and administered by the indenture trustee pursuant to the indenture, as described in CenterPoint's application. This proposal will help ensure the lowest transition bond charges and should be approved.

[47] *Application of AEP Texas Central Company for a Financing Order*, Docket No. 32475, Financing Order at 14-15 (Jun. 21, 2006); *Application of Entergy Gulf States, Inc. for a Financing Order*, Docket No. 33586, Financing Order at 2 (Apr. 2, 2007).

42. Under PURA § 39.304(b), transition property constitutes a present property right for purposes of contracts concerning the sale or pledge of property, even though the imposition and collection of transition charges depends on further acts of the utility or others that have not yet occurred.

4. Servicer and the Servicing Agreement

43. CenterPoint will execute a servicing agreement with BondCo. The servicing agreement may be amended, renewed, or replaced by another servicing agreement. The entity responsible for carrying out the servicing obligations under any servicing agreement is the servicer. CenterPoint will be the initial servicer but may be succeeded as servicer by another entity under certain circumstances detailed in the servicing agreement and as authorized by the Commission. Pursuant to the servicing agreement, the servicer will be required, among other things, to impose and collect the applicable transition charges for the benefit and account of BondCo, to make the periodic true-up adjustments of transition charges required or allowed by this Financing Order, and to account for and remit the applicable transition charges to or for the account of BondCo in accordance with the remittance procedures contained in the servicing agreement without any charge, deduction or surcharge of any kind (other than the servicing fee specified in the servicing agreement). Under the terms of the servicing agreement, if any servicer fails to perform its servicing obligations in any material respect, the indenture trustee acting under the indenture to be entered into in connection with the issuance of the transition bonds, or the indenture trustee's designee, may, or, upon the instruction of the requisite percentage of holders of the outstanding amount of transition bonds, shall, appoint an alternate party to replace the defaulting servicer, in which case the replacement servicer will perform the obligations of the servicer under the servicing agreement. The obligations of the servicer under the servicing agreement and the circumstances under which an alternate servicer may be appointed will be more fully described in the servicing agreement. The rights of BondCo under the servicing agreement will be included in the collateral pledged to the indenture trustee under the indenture for the

benefit of holders of the transition bonds. CenterPoint currently serves as servicer of the transition charges related to the transition bonds issued by CenterPoint Energy Transition Bond Company, LLC in October 2001 pursuant to the financing order issued on June 1, 2000, in Docket No. 21665 and by CenterPoint Energy Transition Bond Company II, LLC in December 2005 pursuant to the financing order issued on March 16, 2005, in Docket No. 30485. Consequently, CenterPoint, as initial servicer of transition charges associated with transition bonds issued under this Financing Order will, and any successor servicer may, simultaneously be serving as servicer of separate transition charges associated with transition bonds for more than one issuer.

44. The Servicing Agreement for this securitization shall contain a recital clause that the Commission, or its attorney, will enforce the Servicing Agreement for the benefit of Texas ratepayers to the extent permitted by law.

45. The Servicing Agreement for this securitization shall include a provision that CenterPoint shall indemnify the Commission (for the benefit of consumers) in connection with any increase in servicing fees that become payable as a result of a default resulting from CenterPoint's willful misconduct, bad faith, or negligence in performance of its duties or observance of its covenants under the Servicing Agreement. The indemnity will be enforced by the Commission but will not be enforceable by any REP or consumer.

46. The obligations to continue to provide service and to collect and account for transition charges will be binding upon CenterPoint and any other entity that provides transmission and distribution services or direct wire services to a person that was a retail consumer located within the service area of CenterPoint's predecessor, Houston Lighting & Power Company (HL&P), as it existed on May 1, 1999, or that became a retail consumer for electric services within such area after May 1, 1999, and is still located within such area. Further, and to the extent REPs are responsible for imposing and billing transition charges on behalf of BondCo, billing and credit standards approved in this Financing Order will be

binding on all REPs that bill and collect transition charges from such retail consumers, together with their successors and assigns. The Commission will enforce the obligations imposed by this Financing Order, its applicable substantive rules, and statutory provisions.

47. To the extent that any interest in the transition property created by this Financing Order is assigned, sold, or transferred to an assignee,[48] CenterPoint will enter into a contract with that assignee that will require CenterPoint to continue to operate its transmission and distribution system in order to provide electric services to CenterPoint's customers. This provision does not prohibit CenterPoint from selling, assigning or otherwise divesting its transmission and distribution system or any part thereof so long as the entity acquiring such facilities agrees to continue operating the facilities to provide electric services to CenterPoint's customers.

48. The proposals described in findings of fact 43 through 47 are reasonable, will reduce risk associated with the proposed securitization and will, therefore, result in lower transition bond charges and greater benefits to ratepayers and should be approved.

5. Retail Electric Providers

49. The servicer will bill the transition charges to each retail consumer's REP and the REP will collect the transition charges from its retail customers.

50. Schedule TC3 sets forth minimum billing and collection standards to apply to REPs that collect transition charges approved by this Financing Order from retail electric consumers. The Commission finds that the REP standards set forth in Schedule TC3 are appropriate and should be adopted.

51. The REP standards set forth in Schedule TC3 relate only to the billing and collection of transition charges authorized under this Financing Order, and do not

[48] The term "assignee" means "any individual, corporation, or other legally recognized entity to which an interest in transition property is transferred, other than as security, including any assignee of that party." PURA § 39.302(1).

apply to collection of any other nonbypassable charges or other charges. The standards apply to all REPs other than REPs that have contracted with CenterPoint to have CenterPoint bill and collect transition charges from the REP's retail consumers. REPs may contract with parties other than CenterPoint to bill and collect transition charges from retail consumers, but such parties shall remain subject to these standards. Upon adoption of any amendment to P.U.C. SUBST. R. 25.108, Commission Staff will open a proceeding to investigate the need to modify the standards in Schedule TC3 to conform to that rule, provided that such modifications may not be implemented absent prior written confirmation from each of the rating agencies that have rated the transition bonds that such modifications will not cause a suspension, withdrawal, or downgrade of the ratings on the transition bonds.

52. The REP standards are as follows:

(a) Rating, Deposit, and Related Requirements.

Each REP must (1) have a long-term, unsecured credit rating of not less than "BBB-" and "Baa3" (or the equivalent) from Standard & Poor's and Moody's Investors Service, respectively, or (2) provide (a) a deposit of two months' maximum expected transition charge collections in the form of cash, (b) an affiliate guarantee, surety bond, or letter of credit providing for payment of such amount of transition charge collections in the event that the REP defaults in its payment obligations, or (c) a combination of any of the foregoing. A REP that does not have or maintain the requisite long-term, unsecured credit rating may select which alternate form of deposit, credit support, or combination thereof it will utilize, in its sole discretion. The indenture trustee shall be a beneficiary of any affiliate guarantee, surety bond or letter of credit. The provider of any affiliate guarantee, surety bond, or letter of credit must have and maintain a long-term, unsecured credit rating of not less than "BBB-" and "Baa3" (or the equivalent) from Standard & Poor's and Moody's Investors Service, respectively.

(b) Loss of Rating.

If the long-term, unsecured credit rating from either Standard & Poor's or Moody's Investors Service of a REP that did not previously provide the alternate form of deposit, credit support, or combination thereof or of any provider of an affiliate guarantee, surety bond, or letter of credit is suspended, withdrawn, or downgraded below "BBB-" or "Baa3" (or the equivalent), the REP must provide the alternate form of deposit, credit support, or combination thereof, or new forms thereof, in each case from providers with the requisite ratings, within 10 business days following such suspension, withdrawal, or downgrade. A REP failing to make such provision must comply with the provisions set forth in Paragraph (e).

(c) Computation of Deposit, etc.

The computation of the size of a deposit required under Paragraph (a) shall be agreed upon by the servicer and the REP, and reviewed no more frequently than quarterly to ensure that the deposit accurately reflects two months' maximum expected transition charge collections. Within 10 business days following such review, (1) the REP shall remit to the indenture trustee the amount of any shortfall in such required deposit or (2) the servicer shall instruct the indenture trustee to remit to the REP any amount in excess of such required deposit. A REP failing to so remit any such shortfall must comply with the provisions set forth in Paragraph (e). REP cash deposits shall be held by the indenture trustee, maintained in a segregated account, and invested in short-term high quality investments, as permitted by the rating agencies rating the transition bonds. Investment earnings on REP cash deposits shall be considered part of such cash deposits so long as they remain on deposit with the indenture trustee. At the instruction of the servicer, cash deposits will be remitted with investment earnings to the REP at the end of the term of the transition bonds unless otherwise utilized for the payment of the REP's obligations for transition charges. Once the deposit is no longer required, the servicer shall promptly (but not later than 30 calendar days) instruct the indenture trustee to remit the amounts in the segregated accounts to the REP.

(d) Payment of Transition Charges.

Payments of transition charges are due 35 calendar days following each billing by the servicer to the REP, without regard to whether or when the REP receives payment from its retail customers. The servicer shall accept payment by electronic funds transfer, wire transfer, and/or check. Payment will be considered received the date the electronic funds transfer or wire transfer is received by the servicer, or the date the check clears. A 5% penalty is to be charged on amounts received after 35 calendar days; however, a 10 calendar-day grace period will be allowed before the REP is considered to be in default. A REP in default must comply with the provisions set forth in Paragraph (e). The 5% penalty will be a one-time assessment measured against the current amount overdue from the REP to the servicer. The "current amount" consists of the total unpaid transition charges existing on the 36th calendar day after billing by the servicer. Any and all such penalty payments will be made to the indenture trustee to be applied against transition charge obligations. A REP shall not be obligated to pay the overdue transition charges of another REP. If a REP agrees to assume the responsibility for the payment of overdue transition charges as a condition of receiving the customers of another REP that has decided to terminate service to those customers for any reason, the new REP shall not be assessed the 5% penalty upon such transition charges; however, the prior REP shall not be relieved of the previously-assessed penalties.

(e) Remedies upon Default.

After the 10 calendar-day grace period (the 45th calendar day after the billing date) referred to in Paragraph (d), the servicer shall have the option to seek recourse against any cash deposit, affiliate guarantee, surety bond, letter of credit, or combination thereof provided by the REP, and avail itself of such legal remedies as may be appropriate to collect any remaining unpaid transition charges and associated penalties due the servicer after the application of the REP's deposit or alternate form of credit support. In addition, a REP that is in default with respect to the requirements set forth in Paragraphs (b), (c), or (d) shall, subject to the limitations and requirements of applicable bankruptcy laws if the REP is a debtor in bankruptcy, select and implement one of the following options:

(1) Allow the Provider of Last Resort (POLR) or a qualified REP of the consumer's choosing to immediately assume the responsibility for the billing and collection of transition charges.

(2) Immediately implement other mutually suitable and agreeable arrangements with the servicer. It is expressly understood that the servicer's ability to agree to any other arrangements will be limited by the terms of the servicing agreement and requirements of each of the rating agencies that have rated the transition bonds necessary to avoid a suspension, withdrawal, or downgrade of the ratings on the transition bonds.

(3) Arrange that all amounts owed by retail consumers for services rendered be timely billed and immediately paid directly into a lock-box controlled by the servicer with such amounts to be applied first to pay transition charges before the remaining amounts are released to the REP. All costs associated with this mechanism will be borne solely by the REP.

If a REP that is in default fails to immediately select and implement one of the foregoing options or, after so selecting one of the foregoing options, fails to adequately meet its responsibilities thereunder, then the servicer shall immediately implement option (1), subject to the limitations and requirements of applicable bankruptcy laws if the REP is a debtor in bankruptcy. Upon re-establishment of compliance with the requirements set forth in Paragraphs (b), (c) and (d) and the payment of all past-due amounts and associated penalties, the REP will no longer be required to comply with this paragraph.

(f) Interest of REPs (Including the POLR) in Funds Held by Servicer.

Any interest that a REP (including the POLR) may have in any funds in the hands of the servicer shall be junior and subordinate to any and all rights of the indenture trustee or the issuer to such funds.

(g) Billing by Providers of Last Resort, etc.

The POLR appointed by the Commission must meet the minimum credit rating or deposit/credit support requirements described in Paragraph (a) in addition to any other

standards that may be adopted by the Commission. If the POLR defaults or is not eligible to provide such services, responsibility for billing and collection of transition charges will immediately be transferred to and assumed by the servicer until a new POLR can be named by the Commission or the consumer requests the services of a certified REP. Retail consumers may never be re-billed by the successor REP, the POLR, or the servicer for any amount of transition charges they have paid their REP (although future transition charges shall reflect REP and other system-wide charge-offs). Additionally, if the amount of the penalty detailed in Paragraph (d) is the sole remaining past-due amount after the 45th calendar day, the REP shall not be required to comply with clauses (1), (2), or (3) of Paragraph (e), unless the penalty is not paid within an additional 30 calendar days.

(h) Disputes.

In the event that a REP disputes any amount of billed transition charges, the REP shall pay the disputed amount under protest according to the timelines detailed in Paragraph (d). The REP and servicer shall first attempt to informally resolve the dispute, but if they fail to do so within 30 calendar days, either party may file a complaint with the Commission. If the REP is successful in the dispute process (informal or formal), the REP shall be entitled to interest on the disputed amount paid to the servicer at the Commission-approved interest rate. Disputes about the date of receipt of transition charge payments (and penalties arising thereon) or the size of a required REP deposit will be handled in a like manner. It is expressly intended that any interest paid by the servicer on disputed amounts shall not be recovered through transition charges if it is determined that the servicer's claim to the funds is clearly unfounded. No interest shall be paid by the servicer if it is determined that the servicer has received inaccurate metering data from another entity providing competitive metering services pursuant to PURA § 39.107.

(i) Metering Data.

If the servicer is providing the metering, metering data will be provided to the REP at the same time as the billing. If the servicer is not providing the metering, the entity providing the metering services will be responsible for complying with Commission rules and ensuring that the servicer and the REP receive timely and accurate metering data in order for the servicer to meet its obligations under the servicing agreement and this Financing Order with respect to billing and true ups.

(j) Charge-Off Allowance.

The REP will be allowed to hold back an allowance for charge-offs in its payments to the servicer. Such charge-off rate will be recalculated each year in connection with the annual true-up procedure. In the initial year, REPs will be allowed to remit payments based on the same charge-off percentage then being used by the REP to remit payments to the servicer in connection with the then most recently established transition charges related to (i) the transition bonds issued by CenterPoint Energy Transition Bond Company, LLC on October 24, 2001, or (ii) the transition bonds issued by CenterPoint Energy Transition Bond Company II, LLC on December 16, 2005. On an annual basis in connection with the true-up process, the REP and the servicer will be responsible for reconciling the amounts held back with amounts actually written off as uncollectible in accordance with the terms agreed to by the REP and the servicer, provided that:

(1) The REP's right to reconciliation for write-offs will be limited to customers whose service has been permanently terminated and whose entire accounts (*i.e.*, all amounts due the REP for its own account as well as the portion representing transition charges) have been written off.

(2) The REP's recourse will be limited to a credit against future transition charge payments unless the REP and the servicer agree to alternative arrangements, but in no event will the REP have recourse to the indenture trustee, BondCo or BondCo's funds for such payments.

(3) The REP shall provide information on a timely basis to the servicer so that the servicer can include the REP's default experience and any subsequent credits into its calculation of the adjusted transition-charge rates for the next transition-charge billing period and the REP's rights to credits will not take effect until after such adjusted transition charges have been implemented.

(k) Service Termination.

In the event that the servicer is billing consumers for transition charges, the servicer shall have the right to terminate transmission and distribution service to the end-use consumer for non-payment by the end-use consumer pursuant to applicable Commission rules. In the event that a REP or the POLR is billing consumers for transition charges, the REP or POLR shall have the right to transfer customers to the POLR (or to another certified REP) or to direct the servicer to terminate transmission and distribution service to the end-use consumer for non-payment in accordance with the applicable Commission rules.

53. The proposed billing and collection standards are the same as those adopted in Docket No. 21665 and Docket No. 30485 and currently applied by CenterPoint in its capacity as servicer under the transition bonds issued pursuant to the financing orders in those dockets.

54. The proposed billing and collection standards for REPs and the applicability of those standards are appropriate for the collection of transition charges resulting from this Financing Order, are reasonable and will lower risks associated with the collection of transition charges and will result in lower transition bond charges and greater benefits to ratepayers. In addition, adoption of these standards will provide uniformity of standards for the billing and collection of transition charges for which CenterPoint acts as servicer. Therefore, the proposed billing and collection standards for REPs and the applicability of those standards described in findings of fact 51 through 52 should be approved.

6. Transition Bonds

55. Transition bonds will be issued by BondCo in one or more series, and each series may be issued in one or more tranches. The legal final maturity date of any series of transition bonds will not exceed 15 years from the date of issuance of such series. The legal final maturity date of each series and tranche within a series and amounts in each series will be finally determined by CenterPoint and the Commission's designated representative, consistent with market conditions and

indications of the rating agencies, at the time the transition bonds are priced, but subject to ultimate Commission review through the issuance advice letter process. CenterPoint will retain sole discretion regarding whether or when to assign, sell, or otherwise transfer any rights concerning transition property arising under this Financing Order, or to cause the issuance of any transition bonds authorized in this Financing Order, subject to the right of the Commission to find that the proposed issuance does not comply with the requirements of PURA and this Financing Order. BondCo will issue the transition bonds on or after the fifth business day after pricing of the transition bonds unless, prior to noon on the fourth business day following pricing of the bonds, the Commission issues an order finding that the proposed issuance does not comply with the requirements of PURA and this Financing Order.

56. The Commission finds that the proposed structure, providing annual transition charges to residential customers that would be essentially level over the term of the transition bonds if the actual year-to-year changes in residential load match the changes forecast at the time the bonds are structured, is in the public interest and should be used. The approved structure is reasonable and should be approved, provided that the issuance advice letter demonstrates that all of the statutory financial requirements are met. This restriction is necessary to ensure that the stated economic benefits to ratepayers materialize.

7. Security for Transition Bonds

57. The payment of the transition bonds and related charges authorized by this Financing Order is to be secured by the transition property created by this Financing Order and by certain other collateral as described in the application. The transition bonds will be issued pursuant to an indenture administered by the indenture trustee. The indenture will include provisions for a collection account for each series and subaccounts for the collection and administration of the transition charges and payment or funding of the principal and interest on the transition bonds and other costs, including fees and expenses, in connection with

the transition bonds, as described in CenterPoint's application. Pursuant to the indenture, BondCo will establish a collection account as a trust account to be held by the indenture trustee as collateral to ensure the payment of the principal, interest, and other costs approved in this Financing Order related to the transition bonds in full and on a timely basis. The collection account will include the general subaccount, the capital subaccount, and the excess funds subaccount, and may include other subaccounts.

a. The General Subaccount

58. The indenture trustee will deposit the transition charge remittances that the servicer remits to the indenture trustee for the account of BondCo into the general subaccount. The indenture trustee will on a periodic basis allocate or use all amounts in this subaccount to pay expenses of BondCo, to pay principal and interest on the transition bonds, and to meet the funding requirements of the other subaccounts. The funds in the general subaccount will be invested by the indenture trustee in short-term high-quality investments, and such funds (including, to the extent necessary, investment earnings) will be applied by the indenture trustee to pay principal and interest on the transition bonds and all other components of the Periodic Payment Requirement (as defined in finding of fact 82), and otherwise in accordance with the terms of the indenture.

b. The Capital Subaccount

59. When a series of transition bonds is issued, CenterPoint will make a capital contribution to BondCo for that series, which BondCo will deposit into the capital subaccount. The amount of the capital contribution is expected to be not less than 0.5% of the original principal amount of each series of transition bonds, although the actual amount will depend on tax and rating agency requirements. The capital subaccount will serve as collateral to ensure timely payment of principal and interest on the transition bonds and all other components of the Periodic Payment Requirement. Any funds drawn from the capital account to pay these amounts due to a shortfall in the transition charge remittances will be replenished through

future transition charge remittances. The funds in this subaccount will be invested by the indenture trustee in short-term high-quality investments, and such funds (including investment earnings) will be used by the indenture trustee to pay principal and interest on the transition bonds and all other components of the Periodic Payment Requirement. Upon payment of the principal amount of all transition bonds and the discharge of all obligations that may be paid by use of transition charges, all amounts in the capital subaccount, including any investment earnings, will be released to BondCo for payment to CenterPoint. Investment earnings in this subaccount may be released earlier in accordance with the indenture.

60. The capital contribution to BondCo will be funded by CenterPoint. To ensure that ratepayers receive the appropriate benefit from the securitization approved in this Financing Order, the proceeds from the sale of the transition bonds should not be applied towards this capital contribution. Because CenterPoint funds the capital subaccount, CenterPoint should receive the investment earnings earned through the indenture trustee's investment of that capital from time to time and should receive return of that capital after all transition bonds have been paid.

c. The Excess Funds Subaccount

61. The excess funds subaccount will hold any transition charge remittances and investment earnings on the collection account (other than earnings attributable to the capital subaccount and released under the terms of the indenture) in excess of the amounts needed to pay current principal and interest on the transition bonds and to pay ongoing costs related to the transition bonds (including, but not limited to, replenishing the capital subaccount). Any balance in or allocated to the excess funds subaccount on a true-up adjustment date will be subtracted from the Periodic Payment Requirement for purposes of the true-up adjustment. The funds in this subaccount will be invested by the indenture trustee in short-term high-quality investments, and such funds (including investment earnings thereon) will be used by the indenture trustee to pay principal and interest on the transition bonds and other ongoing costs relating to the transition bonds.

d. Other Subaccounts

62. Other credit enhancements in the form of subaccounts may be utilized for the transaction provided that the Commission's designated representative and CenterPoint agree in advance that such enhancements provide benefits greater than their tangible and intangible costs. For example, CenterPoint does not propose use of an overcollateralization subaccount as was approved in Docket Nos. 21665 and 30485 in connection with CenterPoint's prior securitizations. As described in CenterPoint's application, under Rev. Proc. 2002-49, as clarified by Rev. Proc. 2005-61 and 2005-62 issued by the Internal Revenue Service (IRS), the use of an overcollateralization subaccount is no longer necessary for favorable tax treatment nor does it appear to be necessary to obtain AAA ratings for the proposed transition bonds. However, if the Commission's designated representative and CenterPoint subsequently agree that use of an overcollateralization subaccount or other subaccount is necessary to obtain AAA ratings or will otherwise increase the tangible and quantifiable benefits of the securitization, CenterPoint may implement such subaccounts in order to reduce transition charges.

8. General Provisions

63. The collection account and the subaccounts described above are intended to provide for full and timely payment of scheduled principal and interest on the transition bonds and all other components of the Periodic Payment Requirement. If the amount of transition charges remitted to the general subaccount is insufficient to make all scheduled payments of principal and interest on the transition bonds and to make payment on all of the other components of the Periodic Payment Requirement, the excess funds subaccount, and the capital subaccount will be drawn down, in that order, to make those payments. Any deficiency in the capital subaccount due to such withdrawals must be replenished on a periodic basis through the true-up process. In addition to the foregoing, there may be such additional accounts and subaccounts as are necessary to segregate

amounts received from various sources (*i.e.*, amounts received from REPs), or to be used for specified purposes. Such accounts will be administered and utilized as set forth in the servicing agreement and the indenture. Upon the maturity of the transition bonds and the discharge of all obligations in respect thereof, remaining amounts in the collection account, other than amounts that were in the capital subaccount, will be released to BondCo and equivalent amounts will be credited by CenterPoint to customers consistent with PURA § 39.262(g).

64. The use of a collection account and its subaccounts in the manner proposed by CenterPoint is reasonable, will lower risks associated with the securitization and thus lower the costs to ratepayers, and should, therefore, be approved.

9. Transition Charges—Imposition and Collection, Nonbypassability, and Self-Generation

65. CenterPoint seeks authorization to impose on and collect from REPs, and from other entities which are required to pay transition charges under this Financing Order or Schedule TC3, transition charges in an amount sufficient to provide for the timely recovery of its qualified costs approved in this Financing Order (including payment of principal and interest on the transition bonds and ongoing costs related to the transition bonds).

66. Transition charges will be separately identified on bills presented to REPs.

67. If a REP or other entity does not pay the full amount it has been billed, the amount paid by the REP or such other entity will first be apportioned between the transition charges and other fees and charges (including amounts billed and due in respect of transition charges associated with transition bonds issued under other financing orders), other than late fees, and second, any remaining portion of the payment will be allocated to late fees. This allocation will facilitate a proper balance between the competing claims to this source of revenue in an equitable manner.

68. The transition bonds will have a scheduled final maturity of not longer than 12 years. However, amounts may still need to be recovered after the scheduled final maturity. CenterPoint proposed that the transition charges related to a series of transition bonds will be recovered over a period of not more than 15 years from the date of issuance of that series of transition bonds but that amounts due at or before the end of that period for services rendered during the 15-year period may be collected after the conclusion of the 15-year period.

69. PURA § 39.303(b) prohibits the recovery of transition charges for a period of time that exceeds 15 years. Transition charges related to a series of transition bonds may not be collected after 15 years from the date of issuance of that series of bonds. This restriction does not, however, prevent the recovery of amounts due at the end of such 15-year period for services rendered during such 15-year period.

70. CenterPoint will collect transition charges from all REPs serving existing and future retail consumers located within HL&P's service area as it existed on May 1, 1999, and from all other entities which are required to pay transition charges under Schedule TC3, except as provided in finding of fact 71. In accordance with PURA § 39.252(c), a retail consumer within such area may not avoid transition charges by switching to another electric utility, electric cooperative or municipally-owned utility after May 1, 1999. However, a consumer in a multiply-certificated service area that requested to switch providers on or before May 1, 1999, or was not taking service from HL&P on May 1, 1999, and does not do so after that date, will not be responsible for paying transition charges.

71. Except as provided by PURA §§ 39.262(k) and 39.252, as implemented by P.U.C. SUBST. R. 25.345, a retail consumer may not avoid the payment of transition charges by switching to new on-site generation as defined in PURA § 39.252 (b). Pursuant to PURA § 39.252(b)(2), if a consumer commences taking energy from new on-site generation that materially reduces the consumer's use of energy delivered through CenterPoint's facilities, the consumer will pay an amount each

month computed by multiplying the output of the on-site generation utilized to meet the internal electrical requirements of the consumer by the applicable transition charges in effect for that month. Any reduction equivalent to more than 12.5% of the consumer's annual average use of energy delivered through CenterPoint's facilities will be considered material for this purpose. Payments of the transition charges owed by such consumers under PURA § 39.252(b)(2) will be made to the servicer and will be collected in addition to any other charges applicable to services provided to the consumer through CenterPoint's facilities and any other charges applicable to self-generation under PURA § 39.252.

72. CenterPoint's proposal related to imposition and collection of transition charges is reasonable and is necessary to ensure collection of transition charges sufficient to support recovery of the qualified costs approved in this Financing Order and should be approved. It is reasonable to approve the form of CenterPoint's Schedule TC3 in this Financing Order and require that these tariff provisions be filed before any transition bonds are issued pursuant to this Financing Order.

10. Allocation of Qualified Costs among Texas Retail Consumers

73. CenterPoint proposed to allocate the qualified costs to 15 transition charge classes. The transition charge classes contain the same billing classes and sub-classes that are charged under the existing Schedule CTC approved by the Commission in Docket No. 30706 and the existing Schedules TC and TC2 associated with its prior securitizations.

74. CenterPoint proposed that a single allocation percentage be developed for each transition charge class and that such percentage and the procedures for adjusting such percentage be set forth in Schedule TC3. The proposed single allocation percentage, referred to as the periodic billing requirement allocation factor (PBRAF), reflects a weighted average of separate allocation percentages for the different categories of qualified costs based on a Periodic Billing Requirement as defined in finding of fact 82.

75. Schedule TC3 contains a series of formulas to adjust the class allocation factors if load losses within a given class or group of classes exceed specified thresholds or if there are additional load losses attributable to eligible generation as defined in P.U.C. SUBST. R. 25.345(c)(2). Schedule TC3 contains procedures for further adjusting the allocation percentages if there is a change in the amount of statewide retail stranded costs in excess of $5 billion and the securitized amount includes stranded costs.

76. TNMP, a previous wholesale customer of CenterPoint, exited CenterPoint's system in 2001 before the start of retail competition. CenterPoint noted that the true-up balances allocable to TNMP were excluded from the amounts to be recovered through the CTC and from the environmental costs and final fuel costs and thus the portions of the Securitizable Balance attributable to those categories do not include any costs allocable to TNMP. However, other possible components of the Securitizable Balance might include amounts allocable to TNMP. CenterPoint will not include in the Securitizable Balance any qualified costs which are either directly applicable to TNMP or are allocable to TNMP based on the time period during which TNMP was CenterPoint's customer.

77. The methodology for allocating qualified costs and developing the initial PBRAFs as described above is reasonable and appropriate and should be approved. That methodology will not be changed except in the limited circumstance where on a statewide basis total retail stranded costs in excess of $5 billion changes. The methodology for adjusting the PBRAFs in such circumstances are described in Part D of Section 6 of Schedule TC3. CenterPoint noted that to the extent the Securitizable Balance includes stranded costs, the allocation factors will be subject to any adjustments required by the Commission's final order in Docket No. 32795 and the subsequent compliance order in Docket No. 32902. CenterPoint proposed to reflect the adjusted allocations as approved in Docket No. 32902 in the Schedule TC3 filed with its issuance advice letter. If the Commission has not issued a final order in Docket No. 32902 by the date the issuance advice letter is filed, CenterPoint will make adjustments required to implement the Docket No. 32902 allocations effective on the date of the next annual true-up adjustment.

78. The initial PBRAF for each transition charge class shall be as set out in the Schedule TC3 filed with CenterPoint's issuance advice letter.

79. New consumers will be assigned to the transition charge classes listed in Schedule TC3 based on the definitions and procedures described in Schedule TC3.

80. The initial PBRAFs will remain in effect throughout the life of the transition bonds unless a modification is required to comply with finding of fact 77 or is made pursuant to the allocation factor adjustment provisions in Section 6 of Schedule TC3.

81. The method of calculating and adjusting PBRAFs as set forth in CenterPoint's Application and Schedule TC3 comply with the requirements of PURA § 39.253 and should be approved.

11. True-Up of Transition Charges

82. Pursuant to PURA § 39.307, the servicer of the transition bonds will make annual adjustments to the transition charges to:

(a) correct any undercollections or overcollections, including without limitation any caused by REP defaults, during the preceding 12 months; and

(b) ensure the billing of transition charges necessary to generate the collection of amounts sufficient to timely provide all scheduled payments of principal and interest and any other amounts due in connection with the transition bonds (including ongoing fees and expenses and amounts required to be deposited in or allocated to any collection account or subaccount, trustee indemnities, payments due in connection with any expenses incurred by the indenture trustee or the servicer to enforce bondholder rights and all other payments that may be required pursuant to the waterfall of payments described in the application) during the period for which such adjusted transition charges are to be in effect.

Such amounts are referred to as the "Periodic Payment Requirement" and the amounts necessary to be billed to collect such Periodic Payment Requirement are

referred to as the "Periodic Billing Requirement." With respect to any series of transition bonds, the servicer will make true-up adjustment filings with the Commission at least annually, within 45 days of the anniversary of the date of the original issuance of the transition bonds of that series.

83. True-up filings will be based upon the cumulative differences, regardless of the reason, between the Periodic Payment Requirement (including scheduled principal and interest payments on the transition bonds) and the amount of transition charge remittances to the indenture trustee. True-up procedures are necessary to ensure full recovery of amounts sufficient to meet the Periodic Payment Requirements over the expected life of the transition bonds. In order to assure adequate transition charge revenues to fund the Periodic Payment Requirement and to avoid large overcollections and undercollections over time, the servicer will reconcile the transition charges using CenterPoint's most recent forecast of electricity deliveries (*i.e.*, forecasted billing units) and estimates of transaction-related expenses. The calculation of the transition charges will also reflect both a projection of uncollectible transition charges and a projection of payment lags between the billing and collection of transition charges based upon CenterPoint's and the REPs' most recent experience regarding collection of transition charges.

84. The servicer will make true-up adjustments in the manner described in Section 8 of Schedule TC3. For the residential consumer class it will:

(a) allocate the upcoming period's Periodic Billing Requirement, including any undercollection or overcollection, including, without limitation, any caused by REP defaults, from the preceding period, based on the PBRAFs determined in accordance with Schedule TC3 approved in this Financing Order; and

(b) divide the amount assigned to the residential consumer class in step (a) above by the appropriate forecasted billing units to determine the transition charge rate by class for the upcoming period.

For each of the Commercial and Industrial TC Groups as defined in Schedule TC3, an adjustment factor will be computed by dividing the sum of the existing

rates times the forecasted billing determinants for each class in the group by the amount assigned to the group in step (a) above. For each class in a group, the transition charge for the upcoming period will be the product of the existing transition charge times the adjustment factor for the group in which that class resides.

12. Interim True-Up

85. In addition to annual true-up adjustments, true-up adjustments may be made by the servicer more frequently at any time during the term of the transition bonds to correct any undercollection or overcollection, as provided for in this Financing Order, in order to assure timely payment of transition bonds based on rating agency and bondholder considerations. In addition to the foregoing, either of the following two conditions may result in an interim true-up adjustment:

(a) the servicer determines that expected collection of transition charges for the upcoming payment date would result in a difference that is greater than 5% in absolute value, between (i) the actual outstanding principal balances of the transition bonds plus amounts on deposit in the excess funds subaccount and (ii) the outstanding principal balances anticipated in the target amortization schedule; or

(b) to meet a rating agency requirement that any tranche of transition bonds be paid in full by its expected maturity date.

86. In the event an interim true-up is necessary, the interim true-up adjustment should be filed on the fifteenth day of the current month for implementation in the first billing cycle of the following month. In no event would such interim true-up adjustments occur more frequently than every three months if quarterly transition bond payments are required or every six months if semi-annual transition bond payments are required; provided, however, that interim true-up adjustments for any transition bonds remaining outstanding during the fourteenth and fifteenth year after the bonds are issued shall occur quarterly.

13. Adjustment to PBRAFs

87. Schedule TC3 contains detailed procedures for adjustment of PBRAFs to reflect load losses a transition charge class or group of transition charge classes may suffer and certain changes that may be ordered by the Commission.

88. A proceeding for the purpose of approving an allocation factor adjustment should be conducted in the following manner:

(a) Any allocation factor adjustment will be made in conjunction with a standard, annual true up. Any such adjustment will be filed with the Commission at least 90 days before the date the proposed adjustment will become effective. The filing will contain the proposed changes to the transition charge rates, justification for such changes as necessary to specifically address the cause(s) of the adjustment and a statement of the proposed adjustment date.

(b) Concurrently with the filing with the Commission, the servicer will notify all parties to this docket of the filing of the proposed adjustment.

(c) The servicer will issue appropriate notice and the Commission will conduct a contested case proceeding on the allocation adjustment pursuant to PURA § 39.003.

The scope of the proceeding will be limited to determining whether the proposed adjustment complies with this Financing Order. In any true-up proceeding that involves the adjustment of the PBRAFs, all parties in the proceeding shall have the right to challenge the reasonableness of the forecasts of billing determinants proposed as a basis for adjusting the PBRAFs. The Commission will issue a final order by the proposed adjustment date stated in the filing. In the event that the Commission cannot issue an order by that date, the servicer will be permitted to implement its proposed changes. Any modifications subsequently ordered by the Commission will be made by the servicer in the next true-up filing.

89. Schedule TC3 provides for an additional true-up provision and adjustment to PBRAFs for the Industrial TC group which resulted from the Stipulation Regarding Industrial Intra-Class Allocations approved in Docket No. 30485. Under this provision, the first 10% of load loss within an Industrial TC class is borne by that class, with the excess of load loss over 10% allocated to the remaining Industrial TC classes.

90. The allocation adjustment procedures contained in Schedule TC3 are necessary to avoid inequities, are reasonable, and should be adopted.

14. Additional True-Up Provisions

91. The true-up adjustment filing will set forth the servicer's calculation of the true-up adjustment to the transition charges. Except for the allocation adjustment described in findings of fact 87 through 89, the Commission will have 15 days after the date of a true-up adjustment filing in which to confirm the mathematical accuracy of the servicer's adjustment. Except for the allocation adjustment described above, any true-up adjustment filed with the Commission should be effective on its proposed effective date, which shall be not less than 15 days after filing. Any necessary corrections to the true-up adjustment, due to mathematical errors in the calculation of such adjustment or otherwise, will be made in future true-up adjustment filings.

92. The true-up procedures contained in Schedule TC3 are reasonable and will reduce risks related to the transition bonds, resulting in lower transition bond charges and greater benefits to ratepayers and should be approved.

93. The broad-base nature of the true-up mechanism and the pledge of the State of Texas, along with the bankruptcy remoteness of the special purpose entity and the collection account, will serve to minimize, if not effectively eliminate, for all practical purposes and circumstances, any credit risk.

15. Designated Representative

94. In order to ensure, as required by PURA § 39.301, that the structuring and pricing of the transition bonds result in the lowest transition bond charges consistent with market conditions and the terms of this Financing Order, the Commission finds that it is necessary for the Commission or its designated representative to have a

decision-making role co-equal with CenterPoint with respect to the structuring and pricing of the transition bonds and that all matters related to the structuring and pricing of the transition bonds shall be determined through a joint decision of CenterPoint and the Commission or its designated representative. The Commission's primary goal is to ensure that the structuring and pricing of the transition bonds result in the lowest transition bond charges consistent with market conditions and the terms of this Financing Order.

95. The Commission or its designated representative must have an opportunity to participate fully and in advance in all plans and decisions relating to the structuring, marketing, and pricing of the transition bonds and must be provided timely information as necessary to allow it to participate in a timely manner (including, but not limited to, information prepared for the benefit of rating agencies and information prepared for use in marketing the transition bonds to investors).

96. The Commission or its designated representative may require a certificate from the bookrunning underwriter(s) confirming that the structuring, marketing, and pricing of the transition bonds resulted in the lowest transition bond charges consistent with market conditions and the terms of this Financing Order.

97. CenterPoint stated that it expected the following transaction documents to be executed in connection with this securitization and that it expected the form of each document to be consistent with those used in its last securitization: Administration Agreement, Indenture, Amended and Restated Limited Liability Company Agreement, Transition Property Servicing Agreement and Transition Property Sale Agreement. The Commission's designated representative shall be afforded an opportunity to review and comment on these documents before they are finalized.

16. Lowest Transition Bond Charges

98. CenterPoint has proposed a transaction structure that is expected to include (but is not limited to):

(a) the use of BondCo as issuer of the transition bonds, limiting the risks to transition bond holders of any adverse impact resulting from a bankruptcy proceeding of its parent or any affiliate;

(b) the right to impose and collect transition charges that are nonbypassable and which must be trued-up at least annually, but may be trued-up more frequently under certain circumstances, in order to assure the timely payment of the debt service and other ongoing transaction costs;

(c) additional collateral in the form of a collection account which includes a capital subaccount funded in cash in an amount equal to not less than 0.5% of the original principal amount of the transition bonds and other subaccounts resulting in greater certainty of timely payment of interest and principal to investors and that are consistent with the IRS requirements that must be met to receive the desired federal income tax treatment for the transition bond transaction;

(d) protection of transition bondholders against potential defaults by a servicer or REPs that are responsible for billing and collecting the transition charges from existing or future retail consumers;

(e) specified federal income tax treatment including: (i) the transfer of the rights under this Financing Order to BondCo not resulting in gross income to CenterPoint Energy and the future revenues under the transition charges being included in CenterPoint Energy's gross income under its normal method of accounting, (ii) the issuance of the transition bonds and the transfer of the proceeds of the transition bonds to CenterPoint not resulting in gross income to CenterPoint Energy and (iii) the transition bonds constituting obligations of CenterPoint Energy;

(f) the transition bonds will be marketed using proven underwriting and marketing processes, through which market conditions and investors' preferences, with regard to the timing of the issuance, the terms and conditions, expected and legal final maturities, and other aspects of the structuring and pricing will be determined, evaluated and factored into the structuring and pricing of the transition bonds; and

(g) furnishing timely information to the Commission's designated representative, to allow the Commission through the issuance advice letter process to ensure that the structuring and pricing of the transition bonds result in the lowest transition bond changes consistent with market conditions and the terms of this Financing Order.

99. CenterPoint's proposed transaction structure is necessary to enable the transition bonds to obtain the highest possible bond credit rating, ensures that the structuring and pricing of the transition bonds will result in the lowest transition bond charges consistent with market conditions and the terms of this Financing Order, ensures the greatest benefit to ratepayers consistent with market conditions and the terms of this Financing Order, and protects the competitiveness of the retail electric market.

100. To ensure that ratepayers receive the tangible and quantifiable economic benefits due from the proposed securitization and so that the proposed transition bond transaction will be consistent with the standards set forth in PURA §§ 39.301 and 39.303, it is necessary that (i) the issuance advice letter demonstrates that the transaction is expected to provide benefits to customers on both the total revenue (*i.e*. nominal) and net present value bases when compared to collection of the Securitizable Balance through CTCs, (ii) the expected final maturity of the last tranche of transition bonds does not exceed 12 years (although the legal final maturity of the transition bonds may extend to 15 years), (iii) the amortization of the transition bonds is structured to produce level residential rates over the term of the bonds, and (iv) CenterPoint otherwise satisfies the requirements of this Financing Order.

101. To allow the Commission to fulfill its obligations under PURA related to the securitization approved in this Financing Order, it is necessary for CenterPoint, for each series of transition bonds issued, to certify to the Commission that the structure and pricing of that series results in the lowest transition bond charges consistent with market conditions at the time that the transition bonds are priced and the terms (including the specified amortization pattern) of this Financing Order and, if additional credit enhancements or arrangements to enhance marketability or reduce interest rate risks were used, to certify that they are expected to provide benefits in excess of their cost as required by findings of fact 34 through 35 of this Financing Order.

D. Use of Proceeds

102. Upon the issuance of transition bonds, BondCo will use the net proceeds from the sale of the transition bonds (after payment of transaction costs) to pay to CenterPoint the purchase price of the transition property.

103. The net proceeds from the sale of the transition property (after payment of transaction costs) will be applied to reduce the debt and/or common equity on the regulatory books of CenterPoint.

104. Through the steps described in findings of fact 102 through 103, the net proceeds from the sale of transition bonds will be used solely to retire existing debt and/or common equity of CenterPoint and will result in a reduction in CenterPoint's recoverable transition costs as determined in Docket No. 29526.

E. Waiver of P.U.C. PROC. R. 22.35(b)

105. Pursuant to P.U.C. PROC. R. 22.5(b), good cause existed to waive the requirements of P.U.C. PROC. R. 22.35(b), to permit consideration of this proceeding at the Commission's Open Meeting on August 16, 2007, so that consumers could obtain the earliest and greatest possible benefit from the proposed securitization of the competition transition charges.

IV. Conclusions of Law

1. CenterPoint is a public utility, as defined in PURA § 11.004, and an electric utility, as defined in PURA § 31.002(6).

2. CenterPoint is entitled to file an application for a financing order under PURA § 39.301.

3. The Commission has jurisdiction and authority over CenterPoint's application pursuant to PURA §§ 14.001, 32.001, 39.201 and 39.301-39.313.

4. The Commission has authority to approve this Financing Order under Subchapters E, F, and G of Chapter 39 of PURA.

5. Notice of CenterPoint's application was provided in compliance with the Administrative Procedure Act[49] and P.U.C. PROC. R. 22.54 and 22.55.

6. This application does not constitute a major rate proceeding as defined by P.U.C. PROC. R. 22.2.

7. The Settlement Agreement, as modified by this Financing Order, is in the public interest and complies with Commission rules.

8. Only the retail portion of regulatory assets may be recovered through a transition charge assessed against retail consumers.

9. Amended PURA § 39.301 allows a utility to securitize its regulatory assets and other amounts determined under Section 39.201 or 39.262.

10. Docket No. 34031, in which the $12.5 million adjustment to the fuel over-recovery balance was approved, was not a proceeding instituted under either PURA § 39.201 or 39.262; thus, securitization of the fuel over recovery balance is not permitted under § 39.301.

11. The $45 million balance of unexpended environmental retrofit CenterPoint is required to pursuant to the final order in Docket No. 33823 is an amount determined under PURA § 39.262; thus, securitization of this amount is permitted under § 39.301.

12. Offsetting the settled adjustment to the fuel over-recovery balance approved in Docket No. 34031 against the refund for the unspent environmental retrofit funds approved in Docket No. 33823 and deducting the remaining balance of the environmental refund from CenterPoint's CTC balance removes the adjustment to the fuel over-recovery balance from the securitization process, which results in a Securitized Balance that complies with description of those amounts that may be securitized amended PURA § 39.301.

[49] TEX. GOV'T CODE ANN. §§ 2001.001-2001.902 (Vernon 2000 & Supp. 2006).

13. BondCo will be an assignee as defined in PURA § 39.302(1) when an interest in transition property is transferred, other than as security, to BondCo.

14. The holders of the transition bonds and the indenture trustee will each be a financing party as defined in PURA § 39.302(3).

15. BondCo may issue transition bonds in accordance with this Financing Order.

16. The securitization approved in this Financing Order satisfies the requirement of PURA § 39.301 dictating that the proceeds of the transition bonds shall be used solely for the purposes of reducing the amount of recoverable regulatory assets and other amounts determined pursuant to PURA §§ 39.201 and 39.262 through the refinancing or retirement of utility debt and/or equity.

17. The securitization approved in this Financing Order satisfies the requirement of PURA § 39.301 mandating that the securitization provides tangible and quantifiable benefits to ratepayers greater than would have been achieved absent the issuance of transition bonds. Consistent with fundamental financial principles, this requirement in PURA § 39.301 can only be determined using an economic analysis to account for the time value of money. An analysis that compares in the aggregate over the expected life of the transition bonds the present value of the revenue requirement associated with continued use of CTCs (which is the method under which these costs would otherwise be recovered and reflects conventional utility financing) with the present value of the revenue required under securitization is an appropriate economic analysis to demonstrate whether securitization provides economic benefits to ratepayers.

18. BondCo's issuance of the transition bonds approved in this Financing Order in compliance with the criteria established by this Financing Order satisfies the requirement of PURA § 39.301 prescribing that the structuring and pricing of the transition bonds will result in the lowest transition bond charges consistent with market conditions and the terms of this Financing Order.

19. The amount approved in this Financing Order for securitization does not exceed the present value of the revenue requirement over the life of the transition bonds approved in this Financing Order that are associated with the costs sought to be securitized, as required by PURA § 39.301.

20. The securitization approved in this Financing Order satisfies the requirements of PURA § 39.303(a) directing that the total amount of revenues to be collected under this Financing Order be less than the revenue requirement that would be recovered using conventional financing methods (which, in the case of the balance at issue in this proceeding, is the CTC) and that this Financing Order be consistent with the standards of PURA § 39.301.

21. Under PURA §§ 39.301 and 39.303, the Commission has the ability to prohibit different financial options relating to the transition bonds if the evidence supports the finding that the financial option will not or is unlikely to result in the lowest transition bonds charges consistent with market conditions.

22. This Financing Order adequately details the amount to be recovered and the period over which CenterPoint will be permitted to recover nonbypassable transition charges in accordance with the requirements of PURA § 39.303(b). Transition charges related to a series of transition bonds may not be collected after 15 years from the date of issuance of that series of bonds. This provision does not preclude the servicer from recovering transition charges attributable to service rendered during the 15-year period but remaining unpaid at the end of the 15-year period.

23. The method approved in this Financing Order for collecting and allocating the transition charges satisfies the requirements of PURA §§ 39.303(c) and 39.253.

24. As provided in PURA § 39.303(d), this Financing Order, together with the transition charges authorized by this Financing Order, is irrevocable and not

subject to reduction, impairment, or adjustment by further act of the Commission, except for the true-up procedures approved in this Financing Order, as required by PURA § 39.307; provided, however, that such irrevocability shall not preclude the Commission from extending the deadline for issuance of transition bonds if requested to do so by CenterPoint.

25. As provided in PURA § 39.304(a), the rights and interests of CenterPoint or its successor under this Financing Order, including the right to impose, collect and receive the transition charges authorized in this Financing Order, are assignable and shall become transition property when they are first transferred to BondCo.

26. The rights, interests and property conveyed to BondCo in the Transition Property Sale Agreement and the related Bill of Sale, including the irrevocable right to impose, collect and receive transition charges and the revenues and collections from transition charges are "transition property" within the meaning of PURA §§ 39.302(8) and 39.304.

27. Transition property will constitute a present property right for purposes of contracts concerning the sale or pledge of property, even though the imposition and collection of the transition charges depend on further acts by CenterPoint or others that have not yet occurred, as provided by PURA § 39.304(b).

28. All revenues and collections resulting from the transition charges will constitute proceeds only of the transition property arising from this Financing Order, as provided by PURA § 39.304(c).

29. Upon the transfer by CenterPoint of the transition property to BondCo, BondCo will have all of the rights, title and interest of CenterPoint with respect to such transition property including the right to impose, collect and receive the transition charges authorized by the Financing Order.

30. The transition bonds issued pursuant to this Financing Order will be "transition bonds" within the meaning of PURA § 39.302(6) and the transition bonds and holders thereof are entitled to all of the protections provided under Subchapter G of Chapter 39 of PURA.

31. The transition charges paid by the REPs to the servicer as transition charges pursuant to this Financing Order are "transition charges" as defined in PURA § 39.302(7).

32. The amounts collected from retail consumers who purchase electricity from a REP are "transition charges" as defined in PURA § 39.302(7), to the extent that such amounts are attributable to transition charges billed to the REPs by the servicer, whether such charges are set out as a separate line-item on the retail consumer's bill or not.

33. Any payment of transition charges by a retail consumer to its REP or directly to the servicer will discharge the retail consumer's obligations in respect of that payment, but will not discharge the obligations of any REP to remit such payments to the servicer of the transition bonds on behalf of BondCo or an assignee or its obligations to pay amounts determined through subsequent true-up adjustments.

34. As provided in PURA § 39.305, the interests of an assignee, the holders of transition bonds, and the indenture trustee in transition property and in the revenues and collections arising from that property are not subject to setoff, counterclaim, surcharge, or defense by CenterPoint or any other person or in connection with the bankruptcy of CenterPoint or any other entity.

35. The methodology approved in this Financing Order to true-up the transition charges satisfies the requirements of PURA § 39.307.

36. If and when CenterPoint transfers to BondCo the right to impose, collect, and receive the transition charges and to issue the transition bonds, the servicer will be able to recover the transition charges associated with such transition property only for the benefit of BondCo and the holders of the transition bonds in accordance with the servicing agreement.

37. If and when CenterPoint transfers its rights under this Financing Order to BondCo under an agreement that expressly states that the transfer is a sale or other absolute transfer in accordance with the true-sale provisions of PURA § 39.308, then, pursuant to that statutory provision, that transfer will be a true sale of an interest in transition property and not a secured transaction or other financing arrangement and title, legal and equitable, to the transition property will pass to BondCo. As provided by PURA § 39.308, this true sale shall apply regardless of whether the purchaser has any recourse against the seller, or any other term of the parties' agreement, including the seller's retention of an equity interest in the transition property, CenterPoint's role as the collector of transition charges relating to the transition property, or the treatment of the transfer as a financing for tax, financial reporting, or other purposes.

38. As provided in PURA § 39.309(b), a valid and enforceable lien and security interest in the transition property in favor of the holders of the transition bonds or a trustee on their behalf will be created by this Financing Order and the execution and delivery of a security agreement with the holders of the transition bonds or a trustee on their behalf in connection with the issuance of the transition bonds. The lien and security interest will attach automatically from the time that value is received for the transition bonds and, on perfection through the filing of notice with the Secretary of State in accordance with the rules prescribed by the Secretary of State under PURA § 39.309(d), will be a continuously perfected lien and security interest in the transition property and all proceeds of the transition property, whether accrued or not, will have priority in the order of filing and will take precedence over any subsequent judicial or other lien creditor.

39. As provided in PURA § 39.309(c), the transfer of an interest in transition property to an assignee will be perfected against all third parties, including subsequent judicial or other lien creditors, when this Financing Order becomes effective, transfer documents have been delivered to that assignee, and a notice of that transfer has been filed in accordance with the rules prescribed by the Secretary of State under PURA § 39.309(d); provided, however, that if notice of the transfer

has not been filed in accordance with this process within 10 days after the delivery of transfer documentation, the transfer of the interest will not be perfected against third parties until the notice is filed. The transfer to BondCo of CenterPoint's rights under this Financing Order will be a transfer of an interest in transition property for purposes of PURA § 39.309(c).

40. As provided in PURA § 39.309(e), the priority of a lien and security interest perfected in accordance with PURA § 39.309 will not be impaired by any later change in the transition charges pursuant to PURA § 39.307 or by the commingling of funds arising from transition charges with other funds, and any other security interest that may apply to those funds will be terminated when they are transferred to a segregated account for an assignee or a financing party. To the extent that transition charges are not collected separately from other funds owed by REPs, the amounts to be remitted to such segregated account for an assignee or a financing party may be determined according to system-wide charge off percentages, collection curves or such other reasonable methods of estimation, as are set forth in the servicing agreement.

41. As provided in PURA § 39.309(e), if transition property is transferred to an assignee, any proceeds of the transition property will be treated as held in trust for the assignee.

42. As provided in PURA § 39.309(f), if a default or termination occurs under the transition bonds, the financing parties or their representatives may foreclose on or otherwise enforce their lien and security interest in any transition property as if they were secured parties under Chapter 9, Texas Business and Commerce Code, and, upon application by or on behalf of the financing parties, the Commission may order that amounts arising from the transition charges be transferred to a separate account for the financing parties' benefit, to which their lien and security interest may apply.

43. As provided in PURA § 39.309(f), if a default or termination occurs under the transition bonds, on application by or on behalf of the financing parties, a district court of Travis County, Texas shall order the sequestration and payment to those parties of revenues arising from the transition charges.

44. As provided by PURA § 39.310, the transition bonds authorized by this Financing Order are not a debt or obligation of the State of Texas and are not a charge on its full faith and credit or taxing power.

45. Pursuant to PURA § 39.310, the State of Texas has pledged for the benefit and protection of all financing parties and CenterPoint, that it will not take or permit any action that would impair the value of the transition property, or, except as permitted by PURA § 39.307, reduce, alter or impair the transition charges to be imposed, collected, and remitted to any financing parties, until the principal, interest and premium, and any other charges incurred and contracts to be performed in connection with the transition bonds have been paid and performed in full. BondCo, in issuing transition bonds, is authorized pursuant to PURA § 39.310 and this Financing Order to include this pledge in any documentation relating to the transition bonds.

46. As provided in PURA § 39.311, transactions involving the transfer and ownership of the transition property and the receipt of transition charges are exempt from state and local income, sales, franchise, gross receipts, and other taxes or similar charges.

47. This Financing Order will remain in full force and effect and unabated notwithstanding the bankruptcy of CenterPoint, its successors, or assignees.

48. CenterPoint retains sole discretion regarding whether or when to assign, sell or otherwise transfer the rights and interests created by this Financing Order or any interest therein, or to cause the issuance of any transition bonds authorized by this Financing Order, subject to the right of the Commission, acting through its designated representative to participate in the structuring, pricing, and marketing of the transition bonds, and the Commission's authority through the issuance advice letter process to find that the proposed issuance does not comply with the requirements of PURA and this Financing Order.

49. This Financing Order is final, is not subject to rehearing by this Commission, and is not subject to review or appeal except as expressly provided in PURA § 39.303(f). The finality of this Financing Order is not impaired in any manner by the participation of the Commission through its designated representative in any decisions related to issuance of the transition bonds or by the Commission's review of or issuance of an order related to the issuance advice letter required to be filed with the Commission by this Financing Order.

50. This Financing Order meets the requirements for a financing order under Subchapter G of Chapter 39 of PURA.

51. The true-up mechanism and all other obligations of the State of Texas and the Commission set forth in this Financing Order are direct, explicit, irrevocable and unconditional upon issuance of the transition bonds and are legally enforceable against the State of Texas and the Commission.

52. The securitization of the Securitizable Balance as approved in this Financing Order does not affect, and should not be construed to affect, either CenterPoint's or any other party's rights with respect to any unresolved issues in Docket Nos. 29526 or 30706, to the extent they have taken, or will take, the appropriate steps to preserve their rights as to these issues in other forums; provided that this Financing Order, together with the transition charges authorized hereby, is irrevocable and not subject to reduction, impairment or adjustment as provided in conclusion of law 24.

53. The requirements for informal disposition pursuant to P.U.C. PROC. R. 22.35 have been met in this proceeding except for subsection (b)(2) that requires the proposed order to be served on all parties no less than 20 days before the Commission is scheduled to consider the application in an open meeting. Under P.U.C. PROC. R. 22.5(b), good cause exists to waive the requirements of P.U.C. PROC.

R. 22.35(b), to permit consideration of this proceeding at the Commission's next regularly scheduled Open Meeting on August 16, 2007, so that consumers may obtain the earliest and greatest possible benefit from the proposed securitization of the competition transition charges.

V. Ordering Paragraphs

Based upon the record, the findings of fact and conclusions of law set forth herein, and for the reasons stated above, this Commission orders:

A. Approval

1. **Approval of Application.** The application of CenterPoint for the issuance of a financing order under PURA § 39.303, as modified by the Settlement Agreement is approved, as provided in this Financing Order.

2. **Authority to Securitize.** CenterPoint is authorized in accordance with this Financing Order to securitize and to cause the issuance of transition bonds with a principal amount equal to the sum of (a) the Securitizable Balance at the time the transition bonds are issued plus (b) up-front qualified costs, which are capped pursuant to this Financing Order at $5.715 million. The "Securitizable Balance" as of any given date is (1) the principal amount which remains to be collected through continued application of the CTC if the CTC were to remain in effect for its then remaining term, minus (2) the remaining balance of unexpended environmental retrofit funds CenterPoint is required to refund pursuant to the final order in Docket No. 33823 after deducting from such balance the amount of the settled adjustment to the fuel over-recovery balance approved by the final order in Docket No. 34031. If the actual up-front qualified costs are less than the up-front qualified costs included in the principal amount securitized, the periodic billing requirement for the first annual true-up adjustment shall be reduced by the amount of such unused funds (together with interest earned thereon through investment by the trustee in eligible investments) and such unused funds (together with interest

earned thereon through investment by the trustee in eligible investments) shall be available for payment of debt service on the bond payment date next succeeding such true-up adjustment. If the final up-front qualified costs are more than the up-front qualified costs included in the principal amount securitized, CenterPoint may request recovery of the remaining up-front qualified costs through a surcharge to CenterPoint's rates for transmission and distribution service, provided, however, CenterPoint may not request recovery of amounts that would cause the aggregate recoverable amounts for such costs to exceed the cap on up-front qualified costs set forth in this Financing Order.

3. **Recovery of Transition Charges.** CenterPoint shall impose on, and the servicer shall collect from, all REPs serving existing or future retail consumers located within HL&P's certificated service area as it existed on May 1, 1999, and other entities which, under the terms of this Financing Order or Schedule TC3 are required to pay or collect transition charges, as provided in this Financing Order, transition charges in an amount sufficient to provide for the timely recovery of its aggregate qualified costs detailed in this Financing Order (including payment of principal and interest on the transition bonds). REPs shall pay the transition charges billed to them whether or not they collect the transition charges from their retail consumers.

4. **Provision of Information.** CenterPoint shall take all necessary steps to ensure that the Commission or its designated representative is provided sufficient and timely information to allow the Commission or its designated representative to fully participate in and exercise its decision making authority over the proposed securitization as provided in this Financing Order.

5. **Issuance Advice Letter.** CenterPoint shall submit a draft issuance advice letter to the Commission Staff for review not later than two weeks prior to the expected date of marketing of the transition bonds. Within one week after receipt of the draft issuance advice letter, Commission Staff shall provide CenterPoint comments and recommendations regarding the adequacy of the information

provided. Within 24 hours after pricing of the transition bonds and prior to issuance of the transition bonds, CenterPoint, in consultation with the Commission acting through its designated representative, shall file with the Commission an issuance advice letter in substantially the form of the issuance advice letter attached as Appendix A to this Financing Order. As part of the issuance advice letter, an officer of CenterPoint shall provide a certification worded precisely as the statement in the form of issuance advice letter approved by the Commission. The issuance advice letter shall be completed, shall evidence the actual dollar amount of the initial transition charges and other information specific to the transition bonds to be issued, and shall certify to the Commission that the structure and pricing of that series results in the lowest transition bond charges consistent with market conditions at the time that the transition bonds are priced, and the terms set out in this Financing Order. In addition, if original issue discount, additional credit enhancements, or arrangements to reduce interest rate risks or enhance marketability are used, the issuance advice letter shall include certification that the original issue discount, additional credit enhancements, or other arrangements are reasonably expected to provide benefits as required by this Financing Order. All amounts that require computation shall be computed using the mathematical formulas contained in the form of the issuance advice letter in Appendix A to this Financing Order and Schedule TC3 approved in this Financing Order. Electronic spreadsheets with the formulas supporting the schedules contained in the issuance advice letter shall be included with such letter. The Commission's review of the issuance advice letter shall be limited to the arithmetic accuracy of the calculations and to compliance with PURA, this Financing Order, and the requirements that are contained in the issuance advice letter. The initial transition charges and the final terms of the transition bonds set forth in the issuance advice letter shall become effective on the date of issuance of the transition bonds (which shall not occur prior to the fifth business day after pricing) unless prior to noon on the fourth business day after pricing the Commission issues an order finding that the proposed issuance does not comply with PURA and this Financing Order.

6. **Approval of Tariff.** The form of the Schedule TC3 tariff attached as Appendix B to this order is approved. Prior to the issuance of any transition bonds under this Financing Order, CenterPoint shall file a tariff that conforms to the form of the Schedule TC3 tariff attached to this Financing Order.

B. Transition Charges

7. **Imposition and Collection.** CenterPoint is authorized to impose on, and the servicer is authorized to collect from, REPs serving all existing and future retail consumers located within HL&P's certificated service area as it existed on May 1, 1999, and other entities which, under terms of this Financing Order or Schedule TC3 are required to pay or collect transition charges, transition charges in an amount sufficient to provide for the timely recovery of the aggregate Periodic Payment Requirement (including payment of principal and interest on the transition bonds), as approved in this Financing Order. If there is a shortfall in payment of an amount billed, the amount paid shall first be apportioned between the transition charges and other fees and charges (including transition charges attributable to the transition bonds issued in October 2001 pursuant to the financing order in Docket No. 21665, and the transition bonds issued in December 2005 pursuant to the financing order in Docket No. 30485), other than late fees, and second, any remaining portion of the payment shall be allocated to late fees.

8. **BondCo's Rights and Remedies.** Upon the transfer by CenterPoint of the transition property to BondCo, BondCo shall have all of the rights, title and interest of CenterPoint with respect to such transition property, including, without limitation, the right to exercise any and all rights and remedies with respect thereto, including the right to authorize disconnection of electric service and to assess and collect any amounts payable by any retail consumer in respect of the transition property.

9. **Collector of Transition Charges.** CenterPoint or any subsequent servicer of the transition bonds shall bill a consumer's REP for the transition charges attributable

to that consumer and the REP shall pay to the servicer of the transition bonds the amount billed for transition charges less the applicable charge-off allowance as provided in findings of fact 52(j) whether or not the REP has collected the transition charges from its customers.

10. **Collection Period.** The transition charges related to a series of transition bonds shall be designed to be collected over the expected life of the transition bonds. However, to the extent that any amounts are not recovered at the end of this period, CenterPoint may continue to recover them over a period ending not more than 15 years from the date of issuance of that series of transition bonds. Amounts remaining unpaid after this 15-year period may be recovered but only to the extent that the charges are attributable to services rendered during the 15-year period.

11. **Allocation.** CenterPoint shall allocate the transition charges among consumer classes in the manner described in this Financing Order and Schedule TC3.

12. **Nonbypassability.** CenterPoint and any other entity providing electric transmission or distribution services and any REP providing services to any retail consumer within HL&P's certificated service area as it existed on May 1, 1999, are entitled to collect and must remit, consistent with this Financing Order, the transition charges from such retail consumers and, except as provided under PURA §§ 39.252(b) and 39.262(k), as implemented by P.U.C. SUBST. R. 25.345, from retail consumers that switch to new on-site generation, and such retail consumers are required to pay such transition charges. The Commission will ensure that such obligations are undertaken and performed by CenterPoint, any other entity providing electric transmission or distribution services within HL&P's certificated service area as of May 1, 1999, and any REP providing services to any retail consumer within such certificated service area.

13. **True-Ups.** True-ups of the transition charges, including any required adjustments to PBRAFs, shall be undertaken and conducted as described in Schedule TC3. The servicer shall file the true-up in a compliance docket and shall give notice of the filing to all parties in this docket.

14. **Ownership Notification.** Any entity that bills transition charges to retail consumers shall, at least annually, provide written notification to each retail consumer for which the entity bills transition charges that the transition charges are the property of BondCo and not of the entity issuing such bill. In addition, the entity that bills transition charges to retail consumers shall include on its invoices a statement that all or part of the receivable reflected on the invoice has been or may be assigned.

C. Transition Bonds

15. **Issuance.** BondCo is authorized to issue transition bonds as specified in this Financing Order. The ongoing qualified costs described in Appendix C may be recovered directly through the transition charges. The transition bonds shall be denominated in U.S. Dollars.

16. **Up-Front Qualified Costs.** CenterPoint may securitize up-front qualified costs in accordance with the terms of this Financing Order, which provide that the total amount for up-front qualified cost shall not exceed $5,715,000. In the issuance advice letter, CenterPoint will update the SEC registration fee, rating agency fees, and underwriters' fees. The cap on up-front qualified costs set forth in this Financing Order does not apply to costs associated with original issue discount or other credit enhancements as discussed in ordering paragraph 22.

17. **Ongoing Qualified Costs.** CenterPoint may recover its actual ongoing qualified costs through its transition charges subject to the cap on the servicing and administrative fees (which is applicable as long as CenterPoint serves as servicer and administrator) as set forth in finding of fact 16 and Appendix C to this Financing Order. Ongoing costs other than the servicing and administration fees of CenterPoint as servicer and administrator are not capped by this Financing

Order. The amount of ongoing qualified costs is subject to updating in the issuance advice letter to reflect a change in the size of the transition bond issuance and any decision to issue the bonds in more than one series and other information available at the time of submission of the issuance advice letter. As provided in ordering paragraph 28, a servicer other than CenterPoint may collect a higher servicing fee than that set forth in Appendix C to this Financing Order if such higher fee is approved by the Commission and the indenture trustee.

18. **Refinancing.** CenterPoint or any assignee may apply for one or more new financing orders pursuant to PURA § 39.303 (g).

19. **Collateral.** All transition property and other collateral shall be held and administered by the indenture trustee pursuant to the indenture as described in CenterPoint's application. BondCo shall establish a collection account with the indenture trustee as described in the application and findings of fact 57-62. Upon payment of the principal amount of all transition bonds issued pursuant to this Financing Order and the discharge of all obligations in respect thereof, all amounts in the collection account, other than amounts in the capital subaccount, (including investment earnings therein) and any amounts required to replenish the capital subaccount shall be released by the indenture trustee to the servicer. CenterPoint shall notify the Commission within 30 days after the date that these funds are eligible to be released of the amount of such funds available for crediting to the benefit of ratepayers.

20. **Distribution Following Repayment.** Following repayment of the transition bonds authorized in this Financing Order and release of the funds held by the indenture trustee, the servicer, on behalf of BondCo, shall distribute to REPs and other entities responsible for collection of transition charges from retail consumers, the final balance of the general, excess funds and all other subaccounts (except the capital subaccount), whether such balance is attributable to principal amounts deposited in such subaccounts or to interest thereon, remaining after all other qualified costs have been paid. The amounts shall be

distributed to each REP and other entity that paid Schedule TC3 transition charges during the last 12 months that the Schedule TC3 transition charges were in effect. The amount paid to each REP or other entity shall be determined by multiplying the total amount available for distribution by a fraction, the numerator of which is the total Schedule TC3 transition charges paid by the REP or other entity during the last 12 months Schedule TC3 charges were in effect and the denominator of which is the total Schedule TC3 transition charges paid by all REPs and other entities responsible for collection of transition charges from retail ratepayers during the last 12 months the Schedule TC3 transition charges were in effect.

21. **Funding of Capital Subaccount.** The capital contribution by CenterPoint to BondCo to be deposited into the capital subaccount shall, with respect to each series of transition bonds, be funded by CenterPoint and not from the proceeds of the sale of transition bonds. Upon payment of the principal amount of all transition bonds and the discharge of all obligations in respect thereof, all amounts in the capital subaccount, including investment earnings, shall be released to BondCo. Investment earnings in this subaccount may be released earlier in accordance with the indenture.

22. **Original Issue Discount and Credit Enhancement.** CenterPoint may provide original issue discount or provide for various forms of credit enhancement including letters of credit, reserve accounts, an overcollateralization account and surety bonds, and other mechanisms designed to promote the credit quality or marketability of the transition bonds to the extent not prohibited by this Financing Order. The decision to use such arrangements to enhance credit or promote marketability shall be made in conjunction with the Commission acting through its designated representative. CenterPoint may not enter into an interest-rate swap, currency hedge, or interest rate hedging arrangement. CenterPoint may include the costs of original issue discount, credit enhancements or other arrangements to promote credit quality or marketability as qualified costs only if CenterPoint certifies that such arrangements are reasonably expected to provide benefits greater than their cost and such certifications are agreed with by the

Commission's designated representative. CenterPoint shall not be required to enter any arrangements to promote credit quality or marketability unless all related costs and liabilities can be included in qualified costs. CenterPoint and the Commission's designated representative shall evaluate the relative benefits of the arrangements in the same way that benefits are quantified under the quantifiable benefits test. This ordering paragraph does not apply to the collection account or its subaccounts approved in this Financing Order.

23. **Annual Weighted Average Interest Rate of Bonds.** The effective annual weighted average interest rate of the transition bonds, excluding up-front and ongoing costs, shall not exceed 7.32% on an annual basis.

24. **Life of Bonds.** The expected final maturity of the transition bonds authorized by this Financing Order shall not exceed 12 years.

25. **Amortization Schedule.** The Commission approves, and the transition bonds shall be structured to provide, transition charges that are designed to produce essentially level residential rates over the period of recovery if the actual year-to-year changes in residential load match the changes forecast at the time the bonds are structured. If the transition bonds are issued in more than one series each series must meet the levelized charge requirement.

26. **Commission Participation in Bond Issuance.** The Commission, acting through its designated representative, shall participate directly with CenterPoint in negotiations regarding the structuring, marketing, and pricing, and shall have equal rights with CenterPoint to approve or disapprove the proposed pricing, marketing and structuring of the transition bonds. The Commission's designated representative shall have the right to participate fully and in advance regarding all aspects of the structuring, marketing, and pricing of the transition bonds (and all parties shall be notified of the designated representative's role) and shall be provided timely information that is necessary to fulfill its obligation to the Commission. The Commission expects its designated representative to advise the Commission of any proposal that does not comply in any material respect with the

criteria established in this Financing Order and to promptly inform CenterPoint and the Commission of any items that, in the designated representative's opinion, are not reasonable. Although this Financing Order is written in the context of an underwritten offering, nothing herein shall be construed to preclude issuance of the bonds through a competitive bid offering or private placement if CenterPoint and the Commission's designated representative agree that CenterPoint should do so. The Commission's designated representative shall notify CenterPoint and the Commission no later than 12:00 p.m. CST on the second business day after the Commission's receipt of the issuance advice letter for each series of transition bonds whether the structuring, marketing, and pricing of that series of transition bonds comply with the criteria established in this Financing Order.

27. **Use of BondCo.** CenterPoint shall use BondCo, a special purpose entity as proposed in its application, in conjunction with the issuance of any transition bonds authorized under this Financing Order. BondCo shall be funded with an amount of capital that is sufficient for BondCo to carry out its intended functions and to avoid the possibility that CenterPoint would have to extend funds to BondCo in a manner that could jeopardize the bankruptcy remoteness of BondCo. CenterPoint may create more than one BondCo in which event the rights, structure and restrictions described in this Financing Order with respect to BondCo would be applicable to each such purchaser of transition property to the extent of the transition property sold to it and the transition bonds issued by it.

D. Servicing

28. **Servicing Agreement.** The Commission authorizes CenterPoint to enter into a servicing agreement with BondCo and to perform the servicing duties approved in this Financing Order. Without limiting the foregoing, in its capacity as initial servicer of the transition property, CenterPoint is authorized to calculate, bill and collect for the account of BondCo, the transition charges initially authorized in this Financing Order, as adjusted from time to time to meet the Periodic Payment Requirements as provided in this Financing Order; and to make such filings and

take such other actions as are required or permitted by this Financing Order in connection with the periodic true-ups described in this Financing Order. The servicer shall be entitled to collect servicing fees in accordance with the provisions of the servicing agreement, provided that, as set forth in Appendix C, (i) the annual servicing fee payable to CenterPoint while it is serving as servicer (or to any other servicer affiliated with CenterPoint) shall not at any time exceed 0.05% of the original principal amount of the transition bonds. The annual servicing fee payable to any other servicer not affiliated with CenterPoint shall not at any time exceed 0.6% of the original principal amount of the transition bonds unless such higher rate is approved by the Commission pursuant to ordering paragraph 31.

29. **Administration Agreement.** The Commission authorizes CenterPoint to enter into an administration agreement with BondCo to provide the services covered by the administration agreements in CenterPoint's prior securitization transactions. The fee charged by CenterPoint as administrator under that agreement shall not exceed $100,000 per annum.

30. **Servicing and Administration Agreement Revenues.** The servicing and administrative fees collected by CenterPoint, or any affiliate of CenterPoint, acting as either servicer or administrator under the servicing agreement and the administration agreement, shall be included as a revenue credit and reduce revenue requirements in each CenterPoint base rate case. The expenses incurred by CenterPoint or such affiliate to perform obligations under the servicing agreement and administration agreement shall likewise be included as a cost of service in each CenterPoint base rate case.

31. **Replacement of CenterPoint as Servicer.** Upon the occurrence of an event of default under the servicing agreement relating to servicer's performance of its servicing functions with respect to the transition charges, the financing parties may replace CenterPoint as the servicer in accordance with the terms of the servicing agreement. If the servicing fee of the replacement servicer will exceed

the applicable maximum servicing fee specified in ordering paragraph 28, the replacement servicer shall not begin providing service until (i) the date the Commission approves the appointment of such replacement servicer or (ii) if the Commission does not act to either approve or disapprove the appointment, the date which is 45 days after notice of appointment of the replacement servicer is provided to the Commission. No entity may replace CenterPoint as the servicer in any of its servicing functions with respect to the transition charges and the transition property authorized by this Financing Order, if the replacement would cause any of the then current credit ratings of the transition bonds to be suspended, withdrawn or downgraded.

32. **Amendment of Agreements.** The parties to the servicing agreement, indenture, administration agreement, and sale agreement may amend the terms of such agreements; provided, however, that no amendment to any such agreement shall increase the ongoing qualified costs without the approval of the Commission. Any amendment that does not increase the ongoing qualified costs shall be effective without prior Commission authorization. Any amendment to any such agreement that may have the effect of increasing ongoing qualified costs shall be provided by BondCo to the Commission along with a statement as to the possible effect of the amendment on the ongoing qualified costs. The amendment shall become effective on the later of (i) the date proposed by the parties to the amendment or (ii) 31 days after such submission to the Commission unless the Commission issues an order disapproving the amendment within a 30-day period.

33. **Collection Terms.** The servicer shall remit collections of the transition charges to BondCo or the indenture trustee for BondCo's account in accordance with the terms of the servicing agreement.

34. **Contract to Provide Service.** To the extent that any interest in the transition property created by this Financing Order is assigned, sold, or transferred to an assignee, CenterPoint shall enter into a contract with that assignee that requires CenterPoint to continue to operate its transmission and distribution system in

order to provide electric services to CenterPoint's customers; provided, however, that this provision shall not prohibit CenterPoint from selling, assigning, or otherwise divesting its transmission and distribution systems or any part thereof so long as the entity or entities acquiring such system agree to continue operating the facilities to provide electric service to CenterPoint's customers.

35. **SEC Requirements.** Each REP or other entity responsible for collecting transition charges from retail consumers shall furnish to BondCo or CenterPoint or to any successor servicer information and documents necessary to enable BondCo or CenterPoint or any successor to comply with their respective disclosure and reporting requirements, if any, with respect to the transition bonds under federal securities laws.

E. Retail Electric Providers

36. **REP Billing and Credit Standards.** The Commission approves the REP standards detailed in findings of fact 50 through 52. These proposed REP standards relate only to the billing and collection of transition charges authorized under this Financing Order, and do not apply to collection of any other nonbypassable charges or other charges. The standards apply to all REPs other than REPs that have contracted with CenterPoint to have CenterPoint bill and collect transition charges from retail consumers. REPs may contract with parties other than CenterPoint to bill and collect transition charges from retail consumers, but such REPs shall remain subject to these standards. Upon adoption of any amendment to the rules governing REP standards as set out in P.U.C. SUBST. R. 25.108, Commission Staff shall initiate a proceeding to investigate the need to modify the standards adopted in this Financing Order to conform to that rule and to address whether each of the rating agencies that have rated the transition bonds will determine that such modifications will not cause a suspension, withdrawal or downgrade of the ratings on the transition bonds. Modifications to the REP standards adopted in this Financing Order may not be implemented absent prior written confirmation from each of the rating agencies that have rated the transition

bonds that such modifications will not cause a suspension, withdrawal or downgrade of the ratings on the transition bonds. The servicer of the transition bonds shall also comply with the provisions of the REP standards adopted by this Financing Order that are applicable to the servicer.

37. **Transition Charge Remittance Procedures.** Transition charges shall be billed and collected in accordance with the REP standards adopted by this Financing Order. REPs shall be subject to penalties as provided in these standards. A REP shall not be obligated to pay the overdue transition charges of another REP whose customers it agrees to serve.

38. **Remedies upon REP Default.** A servicer of transition bonds shall have the remedies provided in the REP standards adopted by this Financing Order. If a REP that is in default fails to immediately select and implement one of the options provided in the REP standards or, after making its selection, fails to adequately meet its responsibilities under the selected option, then, subject to the limitations and requirements of the bankruptcy code if the REP is a debtor in bankruptcy, the servicer shall immediately cause the POLR or a qualified REP to assume the responsibility for the billing and collection of transition charges in the manner and for the time provided in the REP standards.

39. **Billing by POLRs.** Every POLR appointed by the Commission shall comply with the minimum credit rating or deposit/credit support requirements described in the REP standards in addition to any other standard that may be adopted by the Commission. If the POLR defaults or is not eligible to provide billing and collection services, the servicer shall immediately assume responsibility for billing and collection of transition charges and continue to meet this obligation until a new POLR can be named by the Commission or the consumer requests the services of a REP in good standing. Retail consumers may never be directly re-billed by the successor REP, the POLR, or the servicer for any amount of transition charges the consumers have previously paid to their REP.

40. **Disputes.** Disputes between a REP and a servicer regarding any amount of billed transition charges shall be resolved in the manner provided by the REP standards adopted by this Financing Order.

41. **Metering Data.** If the servicer is providing metering services to a REP's retail consumers, then metering data shall be provided to the REP at the same time as the billing. If the servicer is not providing metering services, the entity providing metering services shall comply with Commission rules and ensure that the servicer and the REP receive timely and accurate metering data in order for the servicer to meet its obligations under the servicing agreement and this Financing Order.

42. **Charge-Off Allowance.** The REP may retain an allowance for charge-offs from its payments to the servicer as provided in the REP standards adopted by this Financing Order.

43. **Service Termination.** In the event that the servicer is billing consumers for transition charges, the servicer shall have the right to terminate transmission and distribution service to the end-use consumer for non-payment by the end-use consumer pursuant to applicable Commission rules. In the event that a REP or the POLR is billing consumers for transition charges, the REP or POLR shall have the right to transfer the consumer to the POLR or to another certified REP or to direct the servicer to terminate transmission and distribution service to the end-use consumer for non-payment by the end-use consumer to the extent permitted by and pursuant to terms and limitations of the applicable Commission rules.

F. Structure of the Securitization

44. **Structure.** CenterPoint shall structure the securitization as proposed in CenterPoint's application. This structure shall be consistent with findings of fact 94 through 97.

G. Use of Proceeds

45. **Use of Proceeds.** Upon the issuance of transition bonds, BondCo shall pay the net proceeds from the sale of the transition bonds (after payment of transaction costs) to CenterPoint for the purchase price of the transition property. CenterPoint will apply these net proceeds to reduce the debt and/or common equity on its regulatory books.

H. Miscellaneous Provisions

46. **Continuing Issuance Right.** CenterPoint has the continuing irrevocable right to cause the issuance of transition bonds in one or more series in accordance with this Financing Order for a period commencing with the date of this Financing Order and extending 24 months following the later of (i) the date on which this Financing Order becomes final and no longer subject to any appeal; or (ii) the date on which any other regulatory approvals necessary to issue the transition bonds are obtained and no longer subject to any appeal. If at any time during the effective period of this Financing Order there is a severe disruption in the financial markets of the United States, the effective period shall automatically be extended to a date which is not less than 90 days after the date such disruption ends.

47. **Internal Revenue Service Private Letter or Other Rulings.** CenterPoint is not required by this Financing Order to obtain a ruling from the IRS; however, if it elects to do so, then upon receipt, CenterPoint shall promptly deliver to the Commission a copy of each private letter or other ruling issued by the IRS with respect to the proposed transaction, the transition bonds or any other matter related thereto. CenterPoint shall also include a copy of every such ruling by the IRS it has received as an attachment to each issuance advice letter required to be filed by this Financing Order. CenterPoint may cause transition bonds to be issued without a private letter ruling if it obtains an opinion of tax counsel sufficient to support the issuance of the bonds.

48. **Binding on Successors.** This Financing Order, together with the transition charges authorized in it, shall be binding on CenterPoint and any successor to CenterPoint that provides transmission and distribution service directly to retail consumers in HL&P's certificated service area as of May 1, 1999, and any other entity that provides transmission or distribution services to retail consumers within that service area. This Financing Order is also binding on each REP, and any successor, that sells electric energy to retail consumers located within that service area, any other entity responsible for billing and collecting transition charges on behalf of BondCo, and any successor to the Commission. In this paragraph, a "successor" means any entity that succeeds by any means whatsoever to any interest or obligation of its predecessor, including by way of bankruptcy, reorganization or other insolvency proceeding, merger, consolidation, conversion, assignment, pledge or other security, by operation of law or otherwise.

49. **Flexibility.** Subject to compliance with the requirements of this Financing Order, CenterPoint and BondCo shall be afforded flexibility in establishing the terms and conditions of the transition bonds, including the final structure of BondCo, repayment schedules, term, payment dates, collateral, credit enhancement, required debt service, reserves, interest rates, use of original issue discount, and other financing costs and the ability of CenterPoint, at its option, to cause one or more series of transition bonds to be issued or to create more than one BondCo for purposes of issuing such transition bonds.

50. **Effectiveness of Order.** This Financing Order is effective upon issuance and is not subject to rehearing by the Commission. Notwithstanding the foregoing, no transition property shall be created hereunder, and CenterPoint shall not be authorized to impose, collect, and receive transition charges, until concurrently with the transfer of CenterPoint's rights hereunder to BondCo in conjunction with the issuance of the transition bonds.

51. **Regulatory Approvals.** All regulatory approvals within the jurisdiction of the Commission that are necessary for the securitization of the transition charges associated with the costs that are the subject of the application, and all related transactions contemplated in the application, are granted.

52. **Payment of Commission's Costs for Professional Services.** In accordance with PURA § 39.302(4), CenterPoint shall pay the costs to the Commission of acquiring professional services for the purpose of evaluating CenterPoint's proposed transaction, including, but not limited to, the Commission's outside attorneys' fees in the amounts specified in this Financing Order no later than 30 days after the issuance of any transition bonds. Such costs shall be included in the amount securitized, and shall not be counted against the cap on up-front qualified cost established in ordering paragraph 16.

53. **Compliance with PURA § 39.303(b).** If the balance securitized by CenterPoint includes an amount determined under § 39.262 that is subject to judicial review at the time of the securitization proceeding, CenterPoint shall adjust its rates, other than transition charges, or provide credits, other than credits to transition charges, in a manner that will refund over the remaining life of the transition bonds any overpayments resulting from securitization of amounts in excess of the amount resulting from a final determination after completion of all appellate reviews. The adjustment mechanism may not affect the stream of revenue available to service the transition bonds. An adjustment may not be made under this paragraph until all appellate reviews, including, if applicable, appellate reviews following a Commission decision on remand of its original orders, have been completed. A retail electric provider shall be required to appropriately refund or credit to its customers any reduction in rates or any credits received from the utility under this section.

54. **Effect.** This Financing Order constitutes a legal financing order for CenterPoint under Subchapter G of Chapter 39 of PURA. The Commission finds this Financing Order complies with the provisions of Subchapter G of Chapter 39 of

PURA. A financing order gives rise to rights, interests, obligations, and duties as expressed in Subchapter G of Chapter 39 of PURA. It is the Commission's express intent to give rise to those rights, interests, obligations, and duties by issuing this Financing Order. CenterPoint and the servicer are directed to take all actions as are required to effectuate the transactions approved in this Financing Order, subject to compliance with the criteria established in this Financing Order.

55. **Further Commission Action.** The Commission guarantees that it will act pursuant to this Financing Order as expressly authorized by PURA to ensure that expected transition charge revenues are sufficient to pay on a timely basis scheduled principal and interest on the transition bonds issued pursuant to this Financing Order and other costs, including fees and expenses, in connection with the transition bonds.

56. **All Other Motions Denied.** All motions, requests for entry of specific findings of fact and conclusions of law, and any other requests for general or specific relief not expressly granted herein, are denied for want of merit.

SIGNED AT AUSTIN, TEXAS on the 18th day of September 2007.

PUBLIC UTILITY COMMISSION OF TEXAS

/s/ Paul Hudson
PAUL HUDSON, CHAIRMAN

/s/ Julie Parsley
JULIE PARSLEY, COMMISSIONER

/s/ Barry T. Smitherman
BARRY T. SMITHERMAN, COMMISSIONER

EX-99.5 5 dex995.htm FINANCING ORDER DATED AUGUST 26, 2009

Exhibit 99.5

DOCKET NO. 37200

APPLICATION OF CENTERPOINT	**§**	**PUBLIC UTILITY COMMISSION**
ENERGY HOUSTON ELECTRIC, LLC	**§**	
FOR A FINANCING ORDER	**§**	**OF TEXAS**

TABLE OF CONTENTS

DOCKET NO. 37200

APPLICATION OF CENTERPOINT	**§**	**PUBLIC UTILITY COMMISSION**
ENERGY HOUSTON ELECTRIC, LLC	**§**	
FOR FINANCING ORDER	**§**	**OF TEXAS**

FINANCING ORDER

This Financing Order addresses the application of CenterPoint Energy Houston Electric, LLC (CenterPoint Houston) under Subchapter I of Chapter 36[1] and Subchapter G of Chapter 39 of the Public Utility Regulatory Act[2] (PURA): (1) to securitize the Securitizable Balance, defined below, and other up-front qualified costs, (2) for approval of the proposed securitization financing structure, (3) for approval of system restoration charges sufficient to recover principal and interest on the system restoration bonds plus ongoing qualified costs, and (4) for approval of a tariff to implement the system restoration charges.

On July 8, 2009, CenterPoint Houston submitted its application for a financing order to permit securitization of the distribution-related system restoration costs it incurred as a result of Hurricane Ike. On August 18, 2009, CenterPoint Houston submitted a settlement agreement in which the signatories agreed to resolve all issues in Docket No. 37200 (hereinafter, the Settlement Agreement). As discussed in this Financing Order, the Commission finds that the Settlement Agreement and CenterPoint Houston's application, as modified by the Settlement Agreement and this Financing Order, should be approved. The Commission also finds that the securitization approved in this Financing Order meets all applicable requirements of PURA. Accordingly, the Commission (1) approves the securitization of the Securitizable Balance, which consists of (a) the distribution-related system restoration costs as determined by the final order issued on August 14, 2009 in Docket No. 36918,[3] plus (b) carrying costs accruing at 11.075%, which is CenterPoint Houston's weighted average cost of capital as last approved by the

[1] Act of April 16, 2009, 81st Leg., R.S., S.B. 769, § 1 (to be codified at TEX. UTIL. CODE ANN. §§ 36.401-.406).

[2] Public Utility Regulatory Act, TEX. UTIL. CODE ANN. §§ 11.001-66.017 (Vernon 2007) (PURA), as amended.

[3] *Application of CenterPoint Energy Houston Electric LLC for Determination of Hurricane Restoration Costs*, Docket No. 36918 (Aug. 14, 2009)

Commission in a CenterPoint Houston general rate case,[4] minus (c) all insurance proceeds, government grants, or other sources of funding that compensate CenterPoint Houston for the distribution-related system restoration costs determined in Docket No. 36918; (2) authorizes, subject to the terms of this Financing Order, the issuance of system restoration bonds in one or more series in an aggregate amount not to exceed the Securitizable Balance, as of the date the system restoration bonds are issued, plus up-front qualified costs subject to the cap on up-front qualified costs set out in Ordering Paragraph 17; (3) approves the structure of the proposed securitization financing; (4) approves system restoration charges in an amount to be calculated as provided in this Financing Order; (5) approves the form of tariff, Schedule SRC, to implement those system restoration charges and the form of the ADFIT Credit tariff to implement the ADFIT Credit; and (6) finds that the potential benefits of (a) floating rate notes and interest rate swaps within the bond structure, (b) the issuance of system restoration bonds denominated in foreign currencies, and (c) the use of interest rate hedges will not outweigh the costs and the incremental risks to customers; therefore, the Commission concludes that floating rate notes and interest rate swaps should not occur within the system restoration bond structure and that CenterPoint Houston should not be authorized to issue bonds denominated in a foreign currency or use interest rate hedges.

In order to approve the securitization of the system restoration costs, the Commission must consider whether the proposed securitization meets the financial tests set out in PURA Chapter 36, Subchapter I and Chapter 39, Subchapter G. The three financial tests require that (1) the total revenues collected under the Financing Order are less than the revenues collected using conventional financing methods (total revenues test),[5] (2) the securitization of the system restoration costs provides greater tangible and quantifiable benefits to ratepayers than would have been achieved without the issuance of the system restoration bonds (tangible and quantifiable benefits test),[6] and (3) the amount securitized does not exceed the present value of the revenue requirement over the life of the proposed system restoration bonds associated with the system restoration costs sought to be securitized (present value test).[7]

[4] *Application of CenterPoint Energy Houston Electric, LLC, Reliant Energy Retail Services, LLC, and Texas Genco, LP to Determine Stranded Costs and Other True-Up Balances Under PURA § 39.262*, Docket No. 29526, Order On Remand at 94-95 (Dec. 17, 2004).

[5] PURA § 39.303(a).

[6] *Id.* §§ 39.301, 36.401(b)(2).

[7] *Id.* § 39.301.

CenterPoint Houston submitted evidence that the proposed securitization meets each of the financial tests set out in Subchapter I of Chapter 36 and Subchapter G of Chapter 39 of PURA. CenterPoint Houston updated that information to reflect the effects of the settlement approved by the Commission in Docket No. 36918 and the terms of the proposed settlement in this docket. Considering the magnitude of the benefits provided, the Commission declines to determine a particular number for each benefit conferred by the securitization. In quantifying the benefit to ratepayers as a result of this securitization, the Commission refers to the ranges of benefits calculated under CenterPoint Houston's expected case scenario, in which the system restoration bonds bear a 5.33% weighted average interest, and its sensitivity scenario, in which the bonds are subject to a 10.60% weighted average interest rate.

CenterPoint Houston's evidence showed that as a result of the securitization approved by this Financing Order, retail consumers served at distribution voltage in CenterPoint Houston's service area will realize benefits currently estimated to be approximately $241 million on a present value basis at the 5.33% weighted average interest rate, and $6 million if interest rates rise to 10.60%.[8] When compared to the amount that would have been collected under the conventional financing methods that would otherwise be used to recover the costs, the securitization will result in a $348 million reduction, on a nominal basis, at the 5.33% expected weighted average interest rate, and $11 million if interest rates rise to 10.60%[9] Finally, the total amount to be securitized does not exceed the present value of the revenue requirement under either the expected or sensitivity case.[10] The Commission concludes that the benefits for retail consumers set forth in CenterPoint Houston's evidence are fully indicative of the benefits

[8] *See* Affidavit of Walter L. Fitzgerald (August 19, 2009). The testimony submitted by CenterPoint Houston with its application using a higher Securitizable Balance and higher up-front qualified costs with the same interest rates and bond structure showed present value savings of $245 million (at 5.33%) and $5 million (at 10.60%). *See* Direct Testimony of Walter L. Fitzgerald at 11-13 (July 8, 2009).

[9] *See* Affidavit of Walter L. Fitzgerald (August 19, 2009). The testimony submitted by CenterPoint Houston with its application using a higher Securitizable Balance and higher up-front qualified costs with the same interest rates and bond structure showed nominal savings of $354 million (at 5.33%) and $11 million (at 10.60%). *See* Direct Testimony of Walter L. Fitzgerald at 9-11.

[10] *See* Affidavit of Walter L. Fitzgerald (August 19, 2009).

consumers will realize from the securitization approved in this Financing Order; however, in the issuance advice letter, CenterPoint Houston will be required to update the benefits analysis to verify that the final structure of the securitization satisfies the statutory financial tests.

CenterPoint Houston provided a general description of the proposed transaction structure in its application and in the testimony and exhibits submitted in support of its application. The proposed transaction structure does not contain every relevant detail and, in certain places, uses only approximations of certain costs and requirements. The final transaction structure will depend, in part, upon the requirements of the nationally-recognized credit rating agencies that will rate the system restoration bonds and, in part, upon the market conditions that exist at the time the system restoration bonds are taken to the market.

While the Commission recognizes the need for some degree of flexibility with regard to the final details of the securitization transaction approved in this Financing Order, its primary focus is on the statutory requirements—the most important of which is to ensure that securitization results in tangible and quantifiable benefits to ratepayers—that must be met prior to issuing a financing order.

In view of these obligations, the Commission has established certain criteria in this Financing Order that must be met in order for the approvals and authorizations granted in this Financing Order to become effective. This Financing Order grants authority to issue system restoration bonds and to impose, collect, and receive system restoration charges only if the final structure of the securitization transaction complies in all material respects with these criteria. The authority and approval granted in this Financing Order is effective only upon CenterPoint Houston filing with the Commission an issuance advice letter demonstrating compliance with the provisions of this Financing Order.

I. Discussion and Statutory Overview

The Texas Legislature amended PURA in 2009 to permit electric utilities to use securitization financing to recover costs of restoring service and infrastructure associated with electric power outages as a result of hurricanes and other weather-related events or natural

disasters that occurred in 2008 or occur in the future.[11] The Legislature provided this option for recovering qualified costs based on the conclusion that securitized financing will lower the carrying costs associated with recovery of these costs relative to the costs that would be incurred using conventional utility financing methods.[12] As a precondition to the use of securitization, the Legislature required that the Commission ensure that the securitization will provide greater tangible and quantifiable benefits to ratepayers than would have been achieved without issuance of the system restoration bonds.[13] Consequently, a basic purpose of securitization financing—the recovery of an electric utility's qualified costs—is conditioned upon the other basic purpose—providing economic benefits to consumers of electricity in this state. The provisions for securitization of system restoration costs were based on and incorporate relevant terms of the provisions for securitization of transition costs adopted by the Texas Legislature in 1999 and used by CenterPoint Houston and other electric utilities to reduce the costs of recovering costs associated with the transition to competition.[14]

Subchapter I of Chapter 36 permits Commission determination of the amount of system restoration costs eligible for recovery by the utility in a proceeding separate from the proceeding in which the electric utility seeks a financing order to securitize these costs.[15] On April 17, 2009, CenterPoint Houston filed an application in Docket No. 36918 for determination of the amount of system restoration costs eligible for recovery. On August 14, 2009, the Commission issued its order in Docket No. 36918 approving a settlement agreement in Docket No. 36918 determining that as of September 1, 2009, CenterPoint Houston is eligible to recover $662,816,820 of system restoration costs plus carrying costs accruing at 11.075% until the costs are recovered through securitization or otherwise. As provided in the settlement, the Commission determined that $642,789,384 of the system restoration costs are related to costs of restoring distribution-related facilities and $20,027,436 are related to costs of restoring the transmission-related facilities.

[11] PURA § 36.401(a).

[12] *Id.*

[13] *Id.* § 36.401(b)(2).

[14] *See Application of CenterPoint Energy Houston Electric, LLC for Financing Order*, Docket No. 30485, Financing Order (Mar. 16, 2005); *Application of AEP Texas Central Company for a Financing Order*, Docket No. 32475, Financing Order (June 21, 2006); *Application of Entergy Gulf States, Inc. for a Financing Order*, Docket No. 33586, Financing Order (Apr. 2, 2007); *Application of CenterPoint Energy Houston Electric, LLC for Financing Order*, Docket No. 34448, Financing Order (Sept. 18, 2007).

[15] PURA § 36.405.

Pursuant to Subchapter I of Chapter 36, the qualified costs eligible for securitization by CenterPoint Houston include: (1) the distribution-related system restoration costs as determined by the Commission in Docket No. 36918 (the proceeding to determine the amount of CenterPoint Houston's system restoration costs) net of any insurance proceeds, government grants, or other sources of funding that compensate CenterPoint Houston for system restoration costs, with carrying costs on the unrecovered balance at CenterPoint Houston's weighted average cost of capital as approved in its last rate case (*i.e.* 11.075%); (2) costs of issuing, supporting and servicing the system restoration bonds and any costs of retiring and refunding existing debt and equity securities in connection with issuance of the bonds; (3) costs to the Commission of acquiring professional services for the purposes of evaluating the proposed transaction; and (4) costs associated with ancillary agreements such as bond insurance policies, letters of credit, reserve accounts, surety bonds, swap arrangements, hedging arrangements, liquidity or credit support arrangements or other financial arrangements entered into in connection with the issuance or payment of the system restoration bonds.[16] The Commission determines that the ADFIT benefit should be calculated and distributed in the manner described in this Financing Order.

To securitize an electric utility's qualified costs, the Commission may authorize the issuance of securities known as system restoration bonds. System restoration bonds are evidences of indebtedness or ownership that are issued under a financing order, are limited to a term of not longer than 15 years, and are secured by or payable from transition property.[17] The net proceeds from the sale of the system restoration bonds must be used to reduce the amount of the electric utility's recoverable system restoration costs.[18] If system restoration bonds are approved and issued, retail electric consumers must pay the principal, interest, and related charges of the system restoration bonds through system restoration charges.[19] System restoration charges are nonbypassable charges that will be paid as a component of the monthly charge for electric service.[20] System restoration charges must be approved by the Commission pursuant to a financing order.[21]

[16] *Id.* § 36.403(d).

[17] *See* PURA § 39.302(6).

[18] *See id.* § 36.401(a).

[19] *See id.* § 36.403(f).

[20] *Id.*

[21] *See id.* § 39.302(7).

The Commission may adopt a financing order only if it finds that the total amount of revenues to be collected under the financing order is less than the revenue requirement that would be recovered using conventional financing methods and that the financing order is consistent with the standards of PURA §§ 36.401 and 39.301.[22] The Commission must ensure that the net proceeds of system restoration bonds may be used only for the purpose of reducing the amount of recoverable system restoration costs.[23] In addition, the Commission must ensure that (1) securitization provides tangible and quantifiable benefits to ratepayers greater than would have been achieved absent the issuance of the system restoration bonds,[24] and (2) the structuring and pricing of the system restoration bonds result in the lowest system restoration bond charges consistent with market conditions and the terms of the financing order.[25] Finally, the amount securitized may not exceed the present value of the revenue requirement over the life of the proposed system restoration bonds associated with the amounts sought to be securitized, and the present value calculation must use a discount rate equal to the proposed interest rate on the system restoration bonds.[26] These statutory requirements are designed to ensure that securitization will provide real benefits to retail consumers.

The essential finding by the Commission that is needed to issue a financing order is that ratepayers will receive tangible and quantifiable benefits as a result of securitization. This finding can only be made upon a showing of economic benefits to ratepayers through an economic analysis. An economic analysis is necessary to recognize the time value of money in evaluating whether and the extent to which benefits accrue from securitization. Moreover, an economic analysis recognizes the concept that the timing of a payment can be as important as the magnitude of a payment in determining the value of the payment. Thus, an analysis showing an economic benefit is necessary to quantify a tangible benefit to ratepayers.

[22] *Id.* §§ 36.402(a)-(c), 36.403(d).

[23] *See id.* § 36.401(a).

[24] *See id.* § 36.401(b)(2).

[25] *See* PURA § 39.301.

[26] *Id.* § 39.301.

Economic benefits also depend upon a favorable financial market—one in which system restoration bonds may be sold at an interest rate lower than the carrying costs of the assets being securitized. The precise interest rate at which system restoration bonds can be sold in a future market, however, is not known today. Nevertheless, benefits can be calculated based upon certain known facts (*e.g.* the amount of assets to be securitized and the cost of the alternative to securitization) and assumptions (*e.g.* the interest rate of the system restoration bonds, the term of the system restoration bonds, and the amount of other qualified costs). By analyzing the proposed securitization based upon those facts and assumptions, a determination can be made as to whether tangible and quantifiable benefits result. To ensure that benefits are realized, the securitization transaction must conform to the structure ordered by the Commission and an issuance advice letter must be presented to the Commission immediately prior to issuance of the system restoration bonds demonstrating that the actual structure and costs of the system restoration bonds will provide tangible and quantifiable benefits. The cost-benefit analysis contained in the issuance advice letter must reflect the actual structure of the system restoration bonds.

CenterPoint Houston's financial analysis shows that securitizing the Securitizable Balance along with CenterPoint Houston's other qualified costs in the manner provided by this Financing Order will produce an economic benefit to ratepayers of approximately $241 million on a present value basis using a 5.33% weighted average interest rate.[27] Its sensitivity analysis shows economic benefits even if the bond market is unfavorable and 14-year system restoration bonds are issued at a weighted average interest rate of 10.60%, which is the maximum weighted average interest rate allowed by this Financing Order. The economic benefit to ratepayers will be even larger if a more favorable market allows the system restoration bonds to be issued at a lower interest rate.

[27] *See* Affidavit of Walter L. Fitzgerald (August 19, 2009).

To issue a financing order, PURA also requires that the Commission find that the total amount of revenues collected under the financing order will be less than would otherwise have been collected under conventional financing methods.[28] CenterPoint Houston's financial analysis demonstrates that under the expected scenario in which 14-year bonds are issued at a 5.33% weighted average annual interest rate, securitization saves ratepayers approximately $348 million in nominal revenue.[29] Its sensitivity analysis shows that revenues would be reduced by approximately $11 million on a nominal basis under this Financing Order compared to the amount that would be recovered if the costs are recovered through conventional ratemaking, even if 14-year bonds are issued at a 10.60% weighted average interest rate.[30] If system restoration bonds are issued in a more favorable market, this reduction in revenues will be even larger.

Before the system restoration bonds may be issued, CenterPoint Houston must submit to the Commission an issuance advice letter in which it demonstrates, based upon the actual market conditions at the time of pricing, that the proposed structure and pricing of the system restoration bonds will provide real economic benefits to retail consumers and comply with the statutory financial tests and terms of this Financing Order. As part of this submission, CenterPoint Houston must also certify to the Commission that the structure and pricing of the system restoration bonds results in the lowest system restoration bond charges consistent with market conditions at the time of pricing and the terms of this Financing Order. The form of certification that must be submitted by CenterPoint Houston is set out in Appendix A to this Financing Order. The Commission, by order, may stop the issuance of the system restoration bonds authorized by this Financing Order if CenterPoint Houston fails to make this demonstration or certification.

PURA requires that system restoration charges to recover all qualified costs be charged for the use of electric services.[31] System restoration charges can be recovered over a period that does not exceed 15 years.[32] The Commission concludes that this prevents the collection of system restoration charges from retail electric consumers for services rendered after the 15-year period but does not prohibit recovery of system restoration charges for service rendered during the 15-year period but not actually collected until after the 15-year period.

[28] *See* PURA § 39.303(a).

[29] *See* Affidavit of Walter L. Fitzgerald (August 19, 2009).

[30] *Id.*

[31] PURA § 36.403(f).

[32] *Id.* § 39.303(b).

System restoration charges will be collected by an electric utility, its successors, an assignee, or other collection agents as provided for in this Financing Order.[33] The rights to impose, collect, and receive system restoration charges (including all other rights of an electric utility under the financing order) are only contract rights until they are first transferred to an assignee or pledged in connection with the issuance of system restoration bonds.[34] Upon the transfer or pledge of those rights, they become transition property and, as such, are afforded certain statutory protections to ensure that the charges are available for bond retirement.[35]

This Financing Order contains terms, as permitted under PURA §§ 36.404 and 39.306, ensuring that the imposition and collection of system restoration charges authorized herein will be nonbypassable.[36] It also includes a mechanism requiring that system restoration charges be reviewed and adjusted at least annually, within 45 days of the anniversary date of the issuance of the system restoration bonds, to correct any overcollections or undercollections during the preceding 12 months and to ensure the expected recovery of amounts sufficient to timely provide all payments of debt service and other required amounts and charges in connection with the system restoration bonds.[37] In addition to the required annual reviews, more frequent reviews are allowed to ensure that the amount of the system restoration charges matches the funding requirements approved in this Financing Order. These provisions will help to ensure that the amount of system restoration charges paid by retail consumers is equal to, but does not exceed, the amount necessary to cover the costs of this securitization.

The Financing Order also reflects other statutory benefits and assurances that are necessary for securitization.

The State of Texas has pledged, for the benefit and protection of financing parties and electric utilities, that it will not take or permit any action that would impair the value of transition property, or, except for the true-up expressly allowed by law, reduce, alter, or impair the system restoration charges to be imposed, collected and remitted to financing parties, until the principal, interest, and any other charges incurred and contracts to be performed in connection with the related system restoration bonds have been paid and performed in full.[38]

[33] *See id.* § 39.302(7).

[34] *Id.* § 39.304(a).

[35] *See id.* § 39.304.

[36] *See id.* §§ 36.404, 39.306.

[37] *See* PURA § 39.307.

[38] *See id.* § 39.310.

Transition property constitutes a present property right for purposes of contracts concerning the sale or pledge of property and the property will continue to exist for the duration of the pledge of the State of Texas as described in the preceding paragraph.[39] In addition, the interests of an assignee or pledgee in transition property (as well as the revenues and collections arising from the property) are not subject to setoff, counterclaim, surcharge, or defense by the electric utility or any other person or in connection with the bankruptcy of the electric utility or any other entity.[40] Further, transactions involving the transfer and ownership of transition property and the receipt of system restoration charges are exempt from state and local income, sales, franchise, gross receipts, and other taxes or similar charges.[41] The creation, granting, perfection, and enforcement of liens and security interests in transition property are governed by PURA § 39.309 and not by the Texas Business and Commerce Code.[42]

The Commission may, at the request of an electric utility, adopt a financing order providing for retiring and refunding system restoration bonds only upon making a finding that the future system restoration charges required to service the new system restoration bonds, including transaction costs, will be less than the future system restoration charges required to service the system restoration bonds being retired or refunded.[43] CenterPoint Houston has not requested, and this Financing Order does not grant, any authority to refinance system restoration bonds authorized by this Financing Order. This Financing Order does not preclude CenterPoint Houston from filing a request for a financing order to retire or refund the system restoration bonds approved in this Financing Order upon a showing that the statutory criteria in PURA § 39.303(g) are met.

To facilitate compliance and consistency with applicable statutory provisions, this Financing Order adopts the definitions in PURA §§ 36.403 and 39.302.

[39] *Id.* § 39.304(b).

[40] *Id.* § 39.305.

[41] *Id.* § 39.311.

[42] PURA § 39.309(a).

[43] *Id.* § 39.303(g).

II. Description of Proposed Transaction

A description of the transaction proposed by CenterPoint Houston is contained in its application and the filing package submitted as part of the application. A brief summary of the proposed transaction is provided in this section. A more detailed description is included in the Findings of Fact, Section III.C, titled "Structure of the Proposed Securitization" and in the application and filing package submitted as part of the application.

To facilitate the proposed securitization, CenterPoint Houston proposed that one or more special purpose entity system restoration bond companies (each referred to as "BondCo") be created to which will be transferred the rights to impose, collect, and receive system restoration charges along with the other rights arising pursuant to this Financing Order. Upon transfer, these rights will become transition property as provided by PURA § 39.304.[44] BondCo will issue system restoration bonds and will transfer the net proceeds from the sale of the system restoration bonds to CenterPoint Houston in consideration for the transfer of the transition property. BondCo will be organized and managed in a manner designed to achieve the objective of maintaining BondCo as a bankruptcy-remote entity that would not be affected by the bankruptcy of CenterPoint Houston or any other affiliates of CenterPoint Houston or any of their respective successors. In addition, BondCo will have at least one independent manager whose approval will be required for certain major actions or organizational changes by BondCo.

The system restoration bonds will be issued pursuant to an indenture and administered by an indenture trustee. The system restoration bonds will be secured by and payable solely out of the transition property created pursuant to this Financing Order and other collateral described in CenterPoint Houston's application. That collateral will be pledged to the indenture trustee for the benefit of the holders of the system restoration bonds and to secure payment of certain qualified costs.

The servicer of the system restoration bonds will collect the system restoration charges and remit those amounts to the indenture trustee on behalf of BondCo. The servicer will be responsible for filing any required or allowed true-ups of the system restoration charges. If the servicer defaults on its obligations under the servicing agreement, the indenture trustee may appoint a successor servicer. CenterPoint Houston will act as the initial servicer for the system restoration bonds.

[44] PURA § 39.304.

Retail electric providers (REPs) will be required to meet certain financial standards to collect system restoration charges under this Financing Order. These standards are identical to those applicable to REPs collecting transition charges under CenterPoint Houston's prior securitizations. If a REP qualifies to collect system restoration charges, the servicer will bill to and collect from the REP the system restoration charges attributable to the REP's customers. The REP in turn will bill to and collect from its retail customers the system restoration charges attributable to them. If any REP fails to qualify to collect system restoration charges or defaults in the remittance of those charges to the servicer of the system restoration bonds, another entity can assume responsibility for collection of the system restoration charges from the REP's customers.

System restoration charges will be calculated to ensure the collection of an amount sufficient to service the principal, interest, and related charges for the system restoration bonds. The costs will be functionalized and allocated in the same manner as corresponding facilities and related expenses are functionalized and allocated in CenterPoint Houston's current base rates.[45] The system restoration charges will be calculated pursuant to the method described in 6.1.1.2.4 Schedule SRC – System Restoration Charges (Schedule SRC), a pro forma copy of which is contained in Appendix B.[46] In addition to the annual true-up required by PURA § 39.307, periodic true-ups may be performed as necessary to ensure that the amount collected from system restoration charges is sufficient to service the system restoration bonds. In addition, an adjustment to the system restoration charge class allocations will be allowed under certain circumstances. The methodology for making true-ups and class allocation adjustments and the circumstances under which each shall be made are described in Schedule SRC.

The Commission determines that CenterPoint Houston's proposed system restoration charge structure should be utilized. This structure, which was used in each of CenterPoint Houston's prior securitizations, is designed to produce essentially level residential rates over the

[45] *See* PURA § 36.403(g).

[46] If more than one series of system restoration bonds is issued, each series will have a separately numbered Schedule, but each will be in the form of Schedule SRC with such changes as are necessary to reflect the fact that the system restoration bonds will be issued in more than one series.

recovery period if (1) the actual year-to-year changes in customers' loads match the changes forecasted at the time the system restoration bonds are structured and (2) annual loads and costs match those used to develop each system restoration charge true-up. If the system restoration bonds are issued in more than one series, the system restoration charges for each series must provide a level system restoration charge structure.

All of the bonds issued in prior Texas securitizations have been issued with a fixed interest rate.[47] A fixed interest rate is necessary to assure that consumers benefit from the securitization. CenterPoint Houston witness Kilbride noted that the benefits of fixed rates can be achieved through a combination of floating rate bonds and interest rate swaps.[48] Although use of floating rate bonds and interest rate swaps were actively considered in prior transactions, no floating rate bonds have ever been issued in Texas. Mr. Kilbride testified that while there are some potential purchasers of system restoration bonds that are primarily interested in holding floating rate obligations, it is not necessary to issue floating rate bonds to attract those purchasers.[49] CenterPoint Houston's own experience with its 2005 and 2008 securitizations was that it was more efficient to issue fixed rate bonds and allow the purchaser of the bonds to convert them to floating rates through swaps entered into by the purchaser outside the transaction. Such a conversion, in fact, was done by at least one large purchaser of bonds in each of those securitizations.[50]

In our last three financing orders (*i.e.*, AEP Texas Central, Entergy, and CenterPoint Houston), the Commission concluded that the possible benefit of floating rate bonds did not outweigh the cost of preparing for and executing swaps and the potential risks swaps would impose on retail consumers.[51] As a result, the financing orders in those proceedings prohibited use of swaps and thus, effectively, issuance of floating rate bonds. We reach the same conclusion in this proceeding and prohibit CenterPoint Houston from issuing floating rate bonds and employing related swaps.

[47] Direct Testimony of Marc Kilbride at 6-7 (July 8, 2009).

[48] *Id.*

[49] *Id.*

[50] *Id.*

[51] *Application of AEP Texas Central Company for a Financing Order*, Docket No. 32475, Financing Order at 14-15 (June 21, 2006); *Application of Entergy Gulf States, Inc. for a Financing Order*, Docket No. 33586, Financing Order at 2 (Apr. 2, 2007); *Application of CenterPoint Energy Houston Electric, LLC for Financing Order*, Docket No. 34448, Financing Order at 2 (Sept. 18, 2007).

CenterPoint Houston witness Kilbride also testified that, in the 2005 CenterPoint Houston securitization, costs were incurred to facilitate issuance of bonds denominated in foreign currencies.[52] Ultimately, CenterPoint Houston and the Commission's financial advisor concluded that CenterPoint Houston should not issue any transition bonds denominated in foreign currencies. Denominating bonds in foreign currencies would create currency risks for retail consumers. While those risks can be reduced through use of derivatives, the derivatives will themselves create risk for consumers.

Interest rate hedges can also be used to lock in interest rates or limit the variability of interest rates prior to issuance of the system restoration bonds; however, such hedges constitute a bet on the direction of future market changes, which is neither necessary nor appropriate. Hedges also create additional costs and risks if, for any reason, the system restoration bonds are not issued or the amount issued is different from the principal amount hedged. As a result, and consistent with CenterPoint Houston's 2007 financing order,[53] this Financing Order prohibits CenterPoint Houston from issuing bonds denominated in foreign currencies and from entering into interest rate hedges.

CenterPoint Houston requested approval of system restoration charges sufficient to recover the principal and interest on the system restoration bonds plus ongoing qualified costs as described in this Financing Order and Appendix C attached hereto. CenterPoint Houston requested that the system restoration charges be recovered from REPs, and through them from retail consumers, and that the amount of the system restoration charges be calculated based upon the allocation methodology and billing determinants specified in Schedule SRC. CenterPoint Houston also requested that certain standards related to the billing and collection of system restoration charges be applied to REPs, as specified in Schedule SRC. To implement the system restoration charges and billing and collection requirements, CenterPoint Houston requested approval of Schedule SRC.

[52] Direct Testimony of Marc Kilbride at 7.

[53] *Application of CenterPoint Energy Houston Electric, LLC for Financing Order*, Docket No. 34448, Financing Order at 16 (Sept. 18, 2007).

CenterPoint Houston requested authority to securitize and to cause the issuance of system restoration bonds in an aggregate principal amount not to exceed the sum of (1) the Securitizable Balance at the date of issuance of the system restoration bonds plus (2) its actual up-front qualified costs of issuing, supporting, and servicing the system restoration bonds. CenterPoint Houston provided an illustrative analysis of the costs and benefits of securitization using its estimate of the September 1, 2009, Securitizable Balance. CenterPoint Houston proposed that these amounts be updated in the issuance advice letter to reflect the actual issuance date of the system restoration bonds and other relevant current information as permitted by this Financing Order, and that CenterPoint Houston be authorized to securitize the updated Securitizable Balance and up-front qualified costs as reflected in the issuance advice letter.

CenterPoint Houston requested in the application that its up-front and ongoing costs of issuing and maintaining the system restoration bonds be recovered respectively through the system restoration bonds and system restoration charges approved in this Financing Order. CenterPoint Houston estimated that its up-front costs would total approximately $7 million, while its ongoing costs of servicing the system restoration bonds would total approximately $669,000 per year for each year of the term of the bonds. The estimates were based on assumptions regarding a number of variables that will directly affect the level of up-front and ongoing qualified costs including (1) the total Securitizable Balance will be $655 million; (2) only one series of system restoration bonds will be issued; (3) the financing order proceeding will not be contested; (4) the financing order will not permit use of interest rate or foreign currency hedges, floating rate bonds, or bonds denominated in foreign currencies; and (5) the Commission will not use an outside advisor to assist it in this transaction.

The Commission’s analysis of CenterPoint Houston’s request begins with the finding that the company’s up-front qualified costs that are permitted to be securitized, as well as certain of the ongoing costs that the company proposes to recover directly through system restoration charges should be capped. This finding accords with CenterPoint Houston’s prior securitizations and other securitization proceedings in this state.

The Commission finds that CenterPoint Houston should be permitted to securitize its up-front costs of issuance in accordance with the terms of this Financing Order. As set forth in Ordering Paragraph 17 of this Financing Order, up-front qualified costs shall be capped at

$6,117,956 plus (i) the cost of original issue discount, credit enhancements and other arrangements to enhance marketability as discussed in Ordering Paragraphs 6 and 23, (ii) the cost of the Commission's financial advisor, if any, and any additional costs incurred by CenterPoint Houston to comply with the requests and recommendations of the Commission's financial advisor, and (iii) any costs incurred by CenterPoint Houston if this Financing Order is appealed. No individual cap will apply to any component of up-front qualified costs included in the $6,117,956. In the issuance advice letter CenterPoint Houston should report the actual qualified costs securitized.

CenterPoint Houston is authorized to recover directly through the system restoration charges its actual ongoing costs of servicing the bonds and providing administrative services to BondCo, subject to a cap on servicing fees equal to 0.05% of the initial principal amount of system restoration bonds issued pursuant to this Financing Order and a cap on administrative fees of $100,000 for each BondCo plus reimbursable third party costs, which will apply as long as CenterPoint Houston continues to serve as the servicer or administrator, respectively. Ongoing qualified costs include a return at 11.075% on the amount, if any, of invested capital in excess of 0.5% of the principal amount of each series of bonds as discussed in finding of fact 60. Ongoing qualified costs, other than the servicer and administrative fees charged by CenterPoint Houston when it is the servicer and administrator, are not capped. They are, however, estimated in Appendix C. The estimated ongoing qualified costs should be updated in the issuance advice letter to reflect more current information then available to CenterPoint Houston. In accordance with the terms of this Financing Order and subject to the approval of the indenture trustee, the Commission will permit a successor servicer to CenterPoint Houston to recover a higher servicer fee if CenterPoint Houston ceases to service the transition property.

III. Findings of Fact

A. Identification and Procedure

1. Identification of Applicant

1. CenterPoint Houston is a transmission and distribution utility which owns and operates for compensation an extensive transmission and distribution network to provide electric service in the portion of this state which is included in ERCOT. CenterPoint Houston is an indirect wholly-owned subsidiary of CenterPoint Energy, Inc. (CenterPoint Energy).

2. Hurricane Ike struck CenterPoint Houston's service territory on September 13, 2008, causing extensive damage to CenterPoint Houston's system and widespread electric outages.

3. On April 17, 2009, CenterPoint Houston filed an application pursuant to PURA § 36.405 for determination of the amount of system restoration costs eligible for securitization or other recovery. That application was assigned Docket No. 36918.

4. On August 14, 2009, the Commission issued the order approving the settlement in Docket No. 36918 and determining that CenterPoint Houston's system restoration costs eligible for securitization or other recovery were $662,816,820 as of September 1, 2009 of which $642,789,384 was related to the distribution function and the remaining $20,027,436 was related to transmission. The order provides that CenterPoint Houston is entitled to recover carrying costs at 11.075% on the unrecovered balance of such costs.

2. Procedural History

5. On July 8, 2009, CenterPoint Houston filed an application for a financing order under Subchapter I of Chapter 36 and Subchapter G of Chapter 39 of PURA to permit securitization of (1) the Securitizable Balance as of the date of issuance of the system restoration bonds plus (2) up-front qualified costs. The application includes exhibits, schedules, attachments, and testimony.

6. The following parties intervened in this proceeding and were granted party status: the Office of Public Utility Counsel (OPC); State of Texas (State); City of Houston (COH); Gulf Coast Coalition of Cities (GCCC); Texas Coastal Utilities Coalition (TCUC); Reliant Energy Retail Services, LLC (Reliant); and Texas Industrial Energy Consumers (TIEC).

7. On August 18, 2009, CenterPoint Houston submitted an unopposed Settlement Agreement signed by the Parties except Reliant.

8. The Settlement Agreement includes the following agreements.

   A. The signatories agreed that CenterPoint Houston shall be authorized to securitize (1) the system restoration cost amount related to distribution operations as determined by the final order approving the Docket No. 36918 Settlement (which includes carrying costs through August 31, 2009); plus (2) carrying charges as provided for in PURA § 36.402 from September 1, 2009 through the date the costs are securitized. The balance of these amounts as of the date the system restoration bonds are issued is the "Securitizable Balance." In addition to the Securitizable Balance, CenterPoint Houston shall be authorized to securitize up-front qualified costs associated with the transaction as permitted by PURA § 36.403 subject to the cap on such costs as set out in Ordering Paragraph 17.

   B. The Settlement Agreement provided that CenterPoint Houston shall calculate and place into effect, on the same date that the system restoration charges become effective, a separate credit ("ADFIT Credit") calculated as set out in this paragraph. It further provided that the ADFIT Credit will be reflected in a tariff sheet, the form of which will be attached to the proposed financing order and approved as part of the Financing Order. The signatories agreed that the ADFIT Credit shall be a negative charge to provide customers subject to the system restoration charges an amount equal to (1) a return on the remaining balance of ADFIT related to the system restoration costs being securitized plus (2) a return of and on a principal amount of $6,500,000 over the life of the bonds at an interest rate of 11.075% with levelized payments. The signatories agreed that, subject to adjustment to reflect ADFIT related to any insurance proceeds, government grants or other sources of funding that compensate CenterPoint Houston for system restoration costs as discussed below, the beginning balance of the ADFIT related to the system restoration costs being securitized shall be $207,006,452 as of the date the securitization bonds are issued and that such balance shall be amortized over the life of the system restoration bonds at the same rate as the principal on the system restoration bonds is amortized. The signatories recognized that PURA requires and the Financing Order will provide that any insurance proceeds,

government grants or other sources of funding that compensate CenterPoint Houston for distribution-related system restoration charges be taken into account either through a reduction of the amount to be securitized (if received sufficiently prior to the securitization) or through adjustments to CenterPoint Houston's rates as described in the Docket No. 36918 Settlement Agreement (if received too late to be reflected as a reduction to the securitizable balance). The ADFIT balance has been calculated assuming that no such proceeds, grants or other compensation is received. The signatories recognized, however, that receipt of any such amounts would give rise to a reduction to the ADFIT balance used to compute the ADFIT Credit in an amount calculated by multiplying the amount of the proceeds, grants and other compensation by the then effective maximum federal income tax rate for corporations and further agreed that this reduction in the ADFIT balance shall be made effective as of the date the insurance proceeds, government grants or other sources of funding are received by CenterPoint Houston. The unamortized ADFIT balance shall accrue carrying costs at 11.075%. Calculation of the initial ADFIT Credit shall be provided to the Commission for approval at the same time the Issuance Advice Letter is submitted, prior to issuance of the system restoration bonds. The ADFIT Credit shall thereafter be adjusted on each date that the system restoration charges are adjusted to (1) correct any over-credit or under-credit of the amounts previously scheduled to be provided to customers, (2) reflect the amounts scheduled to be provided to customers during the period the adjusted ADFIT Credit is to be effective, and (3) account for the effects, if any, on ADFIT of any insurance proceeds, government grants or other source of funding that compensate CenterPoint Houston for system restoration costs incurred. The adjustment shall be made through a separate filing submitted by CenterPoint Houston at the same time as it submits the system restoration charge adjustment filing and using the same allocation factors and billing determinants as the system restoration charge adjustment filing. The signatories agreed that the ADFIT Credits are a full and complete settlement of all issues and all potential issues regarding treatment of the ADFIT associated with the system restoration costs being securitized. The signatories agreed that ADFIT benefits associated

with such system restoration costs shall not be applied to reduce the Securitizable Balance and that the ADFIT balance shall not be used to reduce rate base in future proceedings. The signatories further agreed that the ADFIT Credit and obligation to provide the ADFIT Credit shall not be transferred to the special purpose entity being created to issue the bonds, shall not be or become "transition property" as defined in PURA § 39.302(8) but shall be and remain a separate unsecuritized rate credit of CenterPoint Houston.

C. The signatories agreed to jointly request and support prompt issuance of a financing order authorizing the issuance of system restoration bonds in the principal amount equal to the Securitizable Balance plus up-front qualified costs.

D. The signatories agreed that the above agreements resolve all matters in this case.

9. In filing the Settlement Agreement, CenterPoint Houston indicated that none of the parties in Docket No. 37200 oppose the Settlement Agreement. No party filed an opposition to the Settlement Agreement.

10. CenterPoint Houston's application and accompanying testimony and schedules, proof of publication, and the Affidavit of Walter L. Fitzgerald in Support of Settlement should be incorporated into the record consistent with this Financing Order.

3. Notice of Application

11. Notice of CenterPoint Houston's application was provided through publication once a week for two consecutive weeks in newspapers having general circulation in CenterPoint Houston's service area, beginning shortly after the filing of the application. In addition, CenterPoint Houston provided individual notice to the governing bodies of all Texas incorporated municipalities that have retained original jurisdiction over CenterPoint Houston and to each retail electric provider listed on the Commission website. Notice was also provided to all parties in Docket No. 36918. Proof of publication was submitted in the form of publishers' affidavits and verification of the mailing of individual notices and of the provision of notice to the municipalities.

B. Qualified Costs and Amount to be Securitized

1. Identification and Amounts

12. Qualified costs are defined in PURA § 36.403(d) to include 100% of an electric utility's system restoration costs including carrying costs at the electric utility's weighted average cost of capital as last approved in the utility's general rate case, net of any insurance proceeds, government grants, or other sources of funding that compensate the utility for system restoration costs received by the utility at the time it files an application for a financing order, together with the costs of issuing, supporting, and servicing system restoration bonds and any costs of retiring and refunding the electric utility's existing debt and equity securities in connection with the issuance of system restoration bonds.[54] Qualified costs also include the costs to the Commission of acquiring professional services for the purpose of evaluating proposed securitization transactions and costs associated with ancillary agreements such as any bond insurance policy, letter of credit, reserve account, surety bond, swap arrangement, hedging arrangement, liquidity or credit support arrangement or other financial arrangement entered into in connection with the issuance or payment of the system restoration bonds.

13. The actual costs of issuing and supporting the system restoration bonds will not be known until the system restoration bonds are issued, and certain ongoing costs relating to the system restoration bonds may not be known until such costs are incurred. However, to satisfy the statutory obligation to ensure tangible and quantifiable benefits to ratepayers, it is appropriate to limit the amount of certain up-front qualified costs that may be included in the principal amount of the system restoration bonds so that the sum of those up-front qualified costs does not exceed $6,117,956 plus (i) original issue discount, credit enhancements and other arrangements to enhance marketability as discussed in Ordering Paragraphs 6 and 23, (ii) the cost of the Commission's financial advisor, if any, and any additional costs incurred by CenterPoint Houston to comply with the requests and recommendations of the Commission's financial advisor, and (iii) any costs incurred by CenterPoint Houston if this Financing Order is appealed. However, no component of up-front qualified costs will be subject to an individual cap. The amount of the up-front qualified costs shall be shown in the issuance advice letter to ensure compliance with all statutory requirements.

[54] PURA § 36.403(d).

2. Accumulated Deferred Federal Income Taxes

14. ADFIT associated with system restoration costs occurs because of the difference in the regulatory and tax treatment of the system restoration costs.

15. The Commission considered two approaches for recognizing the ADFIT benefit. Under the first approach, the ADFIT associated with the system restoration costs would be reflected by reducing the securitizable amount to reflect the benefits associated with ADFIT. Under the second approach, the ADFIT associated with the system restoration costs would be reflected by using the ADFIT balance in the same manner as other ADFIT amounts to reduce rate base in CenterPoint Houston's next rate case. The Settlement Agreement, described in finding of fact 8, has elements that provide the advantages of each of these approaches. It maximizes the amount of lower-cost financing that can be provided through securitization while assuring that the ADFIT benefits are immediately provided to customers.

16. The Commission finds that the method of providing the ADFIT benefit described in the Settlement Agreement provides benefits to ratepayers and is reasonable.

3. Balance to be Securitized

17. CenterPoint Houston should be authorized to cause system restoration bonds to be issued in an aggregate principal amount equal to the Securitizable Balance at the time of issuance plus up-front qualified costs subject to the aggregate cap on up-front costs as described in Ordering Paragraph 17. The Securitizable Balance to be securitized shall be equal to the balance of distribution-related system restoration costs as determined in Docket No. 36918 plus carrying costs accruing at 11.075% from September 1, 2009 through the date the system restoration bonds are issued and minus all insurance proceeds, government grants, and other sources of funding that compensate CenterPoint Houston for the distribution-related system restoration costs determined in Docket No. 36918. In the issuance advice letter, CenterPoint Houston shall update the amounts to

reflect the Securitizable Balance on the date of issuance and the actual up-front qualified costs, subject to the cap on up-front costs provided in this Financing Order. It is appropriate to recover the annual ongoing servicing fees and the annual fixed operating costs directly through system restoration charges. It is also appropriate to impose additional limits to ensure that the ongoing servicing fees incurred when CenterPoint Houston serves as servicer do not exceed 0.05% of the initial principal balance of the system restoration bonds and that administrative fees incurred when CenterPoint Houston is the administrator do not exceed $100,000 per year for each BondCo plus reimbursable third party costs as shown in Appendix C. The annual servicing fee payable to any other servicer not affiliated with CenterPoint Houston will not, as required by CenterPoint Houston's prior securitizations, exceed 0.6% of the original principal amount of the system restoration bonds unless such higher rate is approved by the Commission. Ongoing costs other than the servicer and administrative fees charged by CenterPoint Houston when it serves as servicer and administrator will not be capped but are estimated in Appendix C to this Financing Order. The servicing and administrative fees collected by CenterPoint Houston, or any affiliate of CenterPoint Houston, acting as either servicer or administrator under the servicing agreement or administration agreement, shall be included as a revenue credit and reduce revenue requirements in each subsequent CenterPoint Houston base rate case. The expenses incurred by CenterPoint Houston or such affiliate to perform obligations under the servicing agreement and administration agreement should be included as a cost of service in each CenterPoint Houston base rate case.

18. The proposed recovery of the sum described in finding of fact 17 as provided in this Financing Order should be approved because ratepayers will receive tangible and quantifiable benefits as a result of the securitization.

4. Issuance Advice Letter

19. Because the actual structure and pricing of the system restoration bonds and the precise amounts to be securitized will not be known at the time this Financing Order is issued, following determination of the final terms of the system restoration bonds and prior to issuance of the system restoration bonds, CenterPoint Houston will file with the

Commission for each series of system restoration bonds issued, and no later than the end of the first business day after the pricing date for that series of system restoration bonds, an issuance advice letter. The issuance advice letter will include CenterPoint Houston's best estimate of total up-front qualified costs for such issuance. The estimated total up-front qualified costs in the issuance advice letter may be included in the principal amount securitized, subject to the cap on up-front qualified costs as described in Ordering Paragraph 17 of this Financing Order. Within 60 days of issuance of the system restoration bonds, CenterPoint Houston shall submit to the Commission a final accounting of the total up-front qualified costs. The issuance advice letter will report the actual dollar amount of the initial system restoration charges and other information specific to the system restoration bonds to be issued. CenterPoint Houston's issuance advice letter shall update the benefits analysis to verify that the final amount securitized satisfies the statutory financial tests. All amounts that require computation will be computed using the mathematical formulas contained in the form of the issuance advice letter in Appendix A to this Financing Order and Schedule SRC. The initial system restoration charges and the final terms of the system restoration bonds set forth in the issuance advice letter shall become effective on the date of issuance of the system restoration bonds unless prior to noon on the fourth business day after pricing the Commission issues an order finding that the proposed issuance does not comply with the requirements of PURA and this Financing Order.

20. If the actual up-front qualified costs are less than the up-front qualified costs included in the principal amount securitized, the Periodic Billing Requirement, defined below, for the first annual true-up adjustment shall be reduced by the amount of such unused funds (together with interest, if any, earned on the investment of such funds) and such unused funds (together with such interest) shall be available for payment of debt service on the bond payment date next succeeding such true-up adjustment. If the actual up-front qualified costs are more than the up-front qualified costs included in the principal amount securitized, CenterPoint Houston may request recovery of the remaining up-front qualified costs through a surcharge to CenterPoint Houston's rates for distribution service, provided, however, that the recoverable aggregate costs (including amounts that were securitized) for those up-front qualified costs shall not exceed the cap on up-front qualified costs as described in Ordering Paragraph 17 of this Financing Order. In seeking to recover such costs, CenterPoint Houston should be required to prove that the costs were prudently incurred, and reasonable and necessary.

21. CenterPoint Houston will submit a draft issuance advice letter to the Commission Staff for review not later than two weeks prior to the expected date of commencement of marketing the system restoration bonds. Within one week after receipt of the draft issuance advice letter, Commission Staff will provide CenterPoint Houston comments and recommendations regarding the adequacy of the information provided.

22. The issuance advice letter shall be submitted to the Commission not later than the end of the first business day after the pricing of the system restoration bonds. Commission Staff may request such revisions of the issuance advice letter as may be necessary to assure the accuracy of the calculations and that the requirements of PURA and of this Financing Order have been met. The initial system restoration charges and the final terms of the system restoration bonds set forth in the issuance advice letter shall become effective on the date of issuance of the system restoration bonds (which shall not occur prior to the fifth business day after pricing) unless prior to noon on the fourth business day after pricing the Commission issues an order finding that the proposed issuance does not comply with the requirements of PURA and the Financing Order.

23. The completion and filing of an issuance advice letter in the form of the issuance advice letter attached as Appendix A, including the certification from CenterPoint Houston discussed in findings of fact 25 and 98 is necessary to ensure that any securitization actually undertaken by CenterPoint Houston complies with the terms of this Financing Order.

24. The certification statement contained in CenterPoint Houston's certification letter shall be worded precisely as the statement in the form of the issuance advice letter approved by the Commission. Other aspects of the certification letter may be modified to describe the particulars of the system restoration bonds and the actions that were taken during the transaction.

5. Tangible and Quantifiable Benefit

25. The statutory requirement in PURA §§ 36.401 and 39.301 that directs the Commission to ensure that securitization provides tangible and quantifiable benefits to ratepayers greater than would be achieved absent the issuance of system restoration bonds can only be determined using an economic analysis to account for the time value of money. An analysis that compares in the aggregate over the expected life of the system restoration bonds the present value of the revenue requirement associated with recovery of the Securitizable Balance through rates reflective of conventional utility financing, with the present value of the revenue required under securitization is an appropriate economic analysis to demonstrate whether securitization provides economic benefits to ratepayers.

26. The financial analysis presented by CenterPoint Houston indicates that securitization of the Securitizable Balance and other qualified costs as requested by CenterPoint Houston would result in approximately $6 million of tangible and quantifiable economic benefits to ratepayers on a present value basis if the system restoration bonds are issued at an average weighted average interest rate of 10.60% allowed by this Financing Order and with a 14-year expected life. Using the projected weighted average interest rate of 5.33% and a 14-year expected life, the benefits of securitization would be approximately $241 million. These estimates use CenterPoint Houston's Securitizable Balance as of September 1, 2009 ($643 million), as approved in the Docket No. 36918 settlement, and assume that actual up-front and ongoing qualified costs will be as shown on Appendix C to this Financing Order. The benefits for retail consumers set forth in CenterPoint Houston's evidence are fully indicative of the benefits consumers will realize from the securitization approved in this Financing Order; however, the actual benefit to ratepayers will depend upon market conditions on the date of issuance of the system restoration bonds, the actual scheduled maturity of the system restoration bonds, and the amount actually securitized. CenterPoint Houston will be required to provide an updated tangible and quantifiable benefits analysis in its issuance advice letter to verify that this statutory test is met.

6. Present Value Cap

27. The amount securitized may not exceed the present value of the revenue requirement over the life of the proposed system restoration bonds associated with conventional (*i.e.*, non-securitized) recovery of the authorized amounts where the present value analysis uses a discount rate equal to the proposed interest rate on the system restoration bonds.[55] The analysis presented by CenterPoint Houston demonstrates that the proposed securitization meets this requirement whether the system restoration bonds are assumed to bear interest at a weighted average interest rate of 10.60%, at the projected weighted average interest rate of 5.33%, or at other interest rates less than 10.60%. Using a 5.33% weighted average interest rate, the present value of the revenue requirements would be approximately $896 million. At the higher interest rate of 10.60%, the present value of the revenue requirements would be approximately $659 million. These estimates use CenterPoint Houston's Securitizable Balance as of September 1, 2009, as approved in the Docket No. 36918 settlement, a maximum expected life of 14 years, and assume that actual up-front and ongoing qualified costs will be as estimated on Appendix C to this Financing Order. The benefits for consumers set forth in CenterPoint Houston's evidence are fully indicative of the benefits consumers will realize from the securitization approved in this Financing Order; however, CenterPoint Houston will be required to provide an updated present value analysis in its issuance advice letter to verify that this statutory test is met.

7. Total Amount of Revenue to be Recovered

28. The Commission is required to find that the total amount of revenues to be collected under this Financing Order will be less than the revenue requirement that would be recovered over the life of the amounts that are securitized under this Financing Order, using conventional financing methods.[56] CenterPoint Houston's analysis assumed that under conventional financing methods, the costs would be recovered over the life of the system restoration bonds (for purposes of its analysis, 14 years) with carrying costs equal to CenterPoint Houston's weighted average cost of capital of 11.075%, as approved by

[55] *See* PURA § 39.301.
[56] *See* PURA § 39.303(a).

the Commission in CenterPoint Houston's last general rate case. The resulting total conventional revenues would be $1.3 billion. If 14-year system restoration bonds are issued at a 10.60% weighted average interest rate, CenterPoint Houston's financial analysis indicates that the total amount of revenues to be collected under this Financing Order is expected to be approximately $11 million less than the revenue requirement that would be recovered using conventional utility financing methods. Using the projected weighted average interest rate of 5.33%, the benefits of securitization would be approximately $348 million. These estimates use CenterPoint Houston's Securitizable Balance as of September 1, 2009, as approved in the Docket No. 36918 settlement, a maximum expected life of 14 years, and assume that actual up-front and ongoing qualified costs will be as estimated on Appendix C to this Financing Order. The benefits for retail consumers set forth in CenterPoint Houston's evidence are fully indicative of the benefits consumers will realize from the securitization approved in this Financing Order; however, CenterPoint Houston will be required to provide an updated total revenue analysis in its issuance advice letter to verify that this statutory test is met.

C. Structure of the Proposed Securitization

1. BondCo

29. For purposes of this securitization, CenterPoint Houston will create one or more special purpose entities (each referred to as "BondCo"), which will be Delaware limited liability companies with CenterPoint Houston as its sole member. BondCo will be formed for the limited purpose of acquiring transition property, issuing system restoration bonds in one or more series and in one or more tranches or classes[57] for each series, and performing other activities relating thereto or otherwise authorized by this Financing Order. BondCo will not be permitted to engage in any other activities and will have no assets other than transition property and related assets to support its obligations under the system restoration bonds. Obligations relating to the system restoration bonds will be BondCo's only significant liabilities. These restrictions on the activities of BondCo and restrictions

[57] Some prior Texas securitizations have used "tranches" while others have used "classes" to describe the bonds being issued. We use the terms interchangeably in this order.

on the ability of CenterPoint Houston to take action on BondCo's behalf are imposed to achieve the objective that BondCo will be bankruptcy-remote and not affected by a bankruptcy of CenterPoint Houston. BondCo will be managed by a board of managers with rights and duties similar to those of a board of directors of a corporation. As long as the system restoration bonds remain outstanding, BondCo will have at least one independent manager with no organizational affiliation with CenterPoint Houston other than acting as an independent manager for one or more other bankruptcy-remote subsidiaries of CenterPoint Houston or its affiliates. BondCo will not be permitted to amend the provisions of the organizational documents that relate to the bankruptcy-remoteness of BondCo without the consent of the independent manager. Similarly, BondCo will not be permitted to institute bankruptcy or insolvency proceedings or to consent to the institution of bankruptcy or insolvency proceedings against it, or to dissolve, liquidate, consolidate, convert, or merge without the consent of the independent manager. Other restrictions to facilitate bankruptcy-remoteness may also be included in the organizational documents of BondCo as required by the rating agencies.

30. The initial capital of BondCo is expected to be not less than 0.5% of the original principal amount of each series of system restoration bonds issued by BondCo. Funding of BondCo at this level is intended to protect the bankruptcy-remoteness of BondCo. A sufficient level of capital is necessary to minimize this risk and, therefore, assist in achieving the lowest system restoration bond charges possible. The United States Treasury Department has recently proposed sweeping changes to the regulation of financial markets including securitizations.[58] It is not known how any changes resulting from that proposal will affect the level of capital which must be invested in BondCo, or other costs of issuing, supporting, and servicing the system restoration bonds. If CenterPoint Houston is required to invest in BondCo more than 0.5% of the original principal amount of each series of bonds, it should be permitted to earn a return of 11.075% on such additional investment.

[58] *See* U.S. DEPT. OF TREASURY, FINANCIAL REGULATORY REFORM: A NEW FOUNDATION (2009).

31. BondCo will issue system restoration bonds in one or more series, and in one or more tranches for each series, in an aggregate amount not to exceed the principal amount approved by this Financing Order and will pledge to the indenture trustee, as collateral for payment of the system restoration bonds, the transition property, including BondCo's right to receive the system restoration charges as and when collected, and certain other collateral described in CenterPoint Houston's application.

32. Concurrent with the issuance of any of the system restoration bonds, CenterPoint Houston will transfer to BondCo all of CenterPoint Houston's rights under this Financing Order related to the amount of system restoration bonds BondCo is issuing, including rights to impose, collect, and receive system restoration charges approved in this Financing Order. This transfer will be structured so that it will qualify as a true sale within the meaning of PURA § 39.308. By virtue of the transfer, BondCo will acquire all of the right, title, and interest of CenterPoint Houston in the portion of the transition property arising under this Financing Order that is related to the amount of system restoration bonds BondCo is issuing.

33. The use and proposed structure of BondCo and the limitations related to its organization and management are necessary to minimize risks related to the proposed securitization transaction and to minimize the system restoration charges. Therefore, the use and proposed structure of BondCo should be approved.

2. Credit Enhancement and Arrangements to Reduce Interest Rate Risk or Enhance Marketability

34. CenterPoint Houston requested approval to use additional forms of credit enhancement (including letters of credit, reserve accounts, surety bonds, or guarantees) and other mechanisms designed to promote the credit quality and marketability of the system restoration bonds if the benefits of such arrangements exceed their cost. CenterPoint Houston also asked that the costs of any credit enhancements as well as the costs of arrangements to enhance marketability be included in the amount of qualified costs to be securitized. CenterPoint Houston should be permitted to recover the up-front and ongoing costs of credit enhancements and arrangements to enhance marketability,

provided that the Commission's designated representative and CenterPoint Houston agree in advance that such enhancements and arrangements provide benefits greater than their tangible and intangible costs. If the use of original issue discount, credit enhancements, or other arrangements is proposed by CenterPoint Houston, CenterPoint Houston shall provide the Commission's designated representative copies of all cost/benefit analyses performed by or for CenterPoint Houston that support the request to use such arrangements. This finding does not apply to the collection account or its subaccounts approved in this Financing Order.

35. CenterPoint Houston's proposed use of credit enhancements and arrangements to enhance marketability is reasonable and should be approved, provided that CenterPoint Houston certifies that the enhancements or arrangements provide benefits greater than their cost and that such certifications are agreed with by the Commission's designated representative.

36. In the first two financing orders issued to CenterPoint Houston and its predecessors, the Commission did not preclude CenterPoint Houston from entering into floating rate or foreign currency denominated notes, interest rate hedges, or foreign currency hedges. None were utilized.

37. In the Commission's three most recent financing orders,[59] the Commission determined that the costs and risks of swap transactions outweighed the expected benefits and prohibited the use of interest rate swaps.

38. The evidence submitted by CenterPoint Houston in this proceeding established that use of floating rate notes, notes denominated in foreign currencies, interest rate hedges, or foreign currency hedges would not be expected to result in the lowest system restoration bond charges, and would necessarily expose ratepayers to higher risks and greater uncertainty about future costs. Accordingly, the Commission has determined that CenterPoint Houston should not be permitted to use floating rate notes, notes denominated in foreign currencies, or hedges in this transaction.

[59] *Application of AEP Texas Central Company for a Financing Order*, Docket No. 32475, Financing Order (June 21, 2006); *Application of Entergy Gulf States, Inc. for a Financing Order*, Docket No. 33586, Financing Order (Apr. 2, 2007); *Application of CenterPoint Energy Houston Electric, LLC for Financing Order*, Docket No. 34448, Financing Order (Sept. 18, 2007).

3. Transition Property

39. Under PURA § 39.304(a), the rights and interests of an electric utility or successor under a financing order, including the right to impose, collect, and receive the system restoration charges authorized in the financing order, are only contract rights until they are first transferred to an assignee or pledged in connection with the issuance of system restoration bonds, at which time they will become transition property.

40. The rights to impose, collect, and receive the system restoration charges approved in this Financing Order along with the other rights arising pursuant to this Financing Order will become transition property upon the transfer of such rights by CenterPoint Houston to BondCo pursuant to PURA § 39.304.

41. Transition property and all other collateral will be held and administered by the indenture trustee pursuant to the indenture, as described in CenterPoint Houston's application. This proposal will help ensure the lowest system restoration bond charges and should be approved.

42. Under PURA § 39.304(b), transition property constitutes a present property right for purposes of contracts concerning the sale or pledge of property, even though the imposition and collection of system restoration charges depends on further acts of the utility or others that have not yet occurred.

4. Servicer and the Servicing Agreement

43. CenterPoint Houston will execute a servicing agreement with BondCo. The servicing agreement may be amended, renewed, or replaced by another agreement. The entity responsible for carrying out the servicing obligations under any servicing agreement is the servicer. CenterPoint Houston will be the initial servicer but may be succeeded as servicer by another entity under certain circumstances detailed in the servicing agreement and as authorized by the Commission. Pursuant to the servicing agreement, the servicer will be required, among other things, to impose and collect the applicable system

restoration charges for the benefit and account of BondCo, to make the periodic true-up adjustments of system restoration charges required or allowed by this Financing Order, and to account for and remit the applicable system restoration charges to or for the account of BondCo in accordance with the remittance procedures contained in the servicing agreement without any charge, deduction, or surcharge of any kind (other than the servicing fee specified in the servicing agreement). Under the terms of the servicing agreement, if any servicer fails to perform its servicing obligations in any material respect, the indenture trustee acting under the indenture to be entered into in connection with the issuance of the system restoration bonds, or the indenture trustee's designee, may, or, upon the instruction of the requisite percentage of holders of the outstanding amount of system restoration bonds, shall, appoint an alternate party to replace the defaulting servicer, in which case the replacement servicer will perform the obligations of the servicer under the servicing agreement. The obligations of the servicer under the servicing agreement and the circumstances under which an alternate servicer may be appointed will be more fully described in the servicing agreement. The rights of BondCo under the servicing agreement will be included in the collateral pledged to the indenture trustee under the indenture for the benefit of holders of the system restoration bonds. CenterPoint Houston currently serves as servicer of the transition charges related to the transition bonds issued by: (1) CenterPoint Energy Transition Bond Company, LLC in October 2001 pursuant to the financing order issued on June 1, 2000, in Docket No. 21665;[60] (2) CenterPoint Energy Transition Bond Company II, LLC in December 2005 pursuant to the financing order issued on March 16, 2005, in Docket No. 30485; and (3) CenterPoint Energy Transition Bond Company III, LLC in February 2008 pursuant to the financing order issued on September 18, 2007, in Docket No. 34448. Consequently, CenterPoint Houston, as initial servicer of system restoration charges associated with system restoration bonds issued under this Financing Order will, and any successor servicer may, simultaneously be serving as servicer of separate system restoration charges or transition charges associated with system restoration bonds or transition bonds for more than one issuer.

[60] *Application of Reliant Energy Incorporated for Financing Order to Securitize Regulatory Assets and Other Qualified Costs*, Docket No. 21665 (May 31, 2000).

44. The servicing agreement for this securitization shall contain a recital clause that the Commission, or its attorney, will enforce the servicing agreement for the benefit of Texas ratepayers to the extent permitted by law.

45. The servicing agreement for this securitization shall include a provision that CenterPoint Houston shall indemnify the Commission (for the benefit of retail consumers) in connection with any increase in servicing fees that become payable as a result of a default resulting from CenterPoint Houston's willful misconduct, bad faith, or negligence in performance of its duties or observance of its covenants under the servicing agreement. The indemnity will be enforced by the Commission but will not be enforceable by any REP or retail consumer.

46. The obligations to continue to provide service and to collect and account for system restoration charges will be binding upon CenterPoint Houston and any other entity that provides electric distribution services or direct wire services to a person that was a retail consumer taking service at distribution voltage within CenterPoint Houston's service area on the date of issuance of this Financing Order.

47. To the extent REPs are responsible for imposing and billing system restoration charges on behalf of BondCo, billing and credit standards approved in this Financing Order will be binding on all REPs that bill and collect system restoration charges from such retail consumers, together with their successors and assigns. The Commission will enforce the obligations imposed by this Financing Order, its applicable substantive rules, and statutory provisions.

48. To the extent that any interest in the transition property created by this Financing Order is assigned, sold, or transferred to an assignee,[61] CenterPoint Houston will enter into a contract with that assignee that will require CenterPoint Houston to continue to operate its transmission and distribution system in order to provide electric services to CenterPoint Houston's customers who receive service at distribution voltage. This

[61] The term "assignee" means "any individual, corporation, or other legally recognized entity to which an interest in transition property is transferred, other than as security, including any assignee of that party." PURA § 39.302(1).

provision does not prohibit CenterPoint Houston from selling, assigning or otherwise divesting its transmission and distribution system or any part thereof so long as the entity acquiring such facilities agrees to continue operating the facilities to provide electric services to CenterPoint Houston's customers who receive service at distribution voltage.

49. The proposals described in findings of fact 43 through 48 are reasonable, will reduce risk associated with the proposed securitization and will, therefore, result in lower system restoration bond charges and greater benefits to ratepayers and should be approved.

5. Retail Electric Providers

50. The servicer will bill the system restoration charges to the REP for each retail consumer that takes service at distribution voltage in CenterPoint Houston's certificated service area as it existed on the date of this Financing Order and the REP will collect the system restoration charges from its retail customers that are subject to the system restoration charges.

51. Schedule SRC sets forth minimum billing and collection standards to apply to REPs that collect from retail electric consumers system restoration charges approved by this Financing Order. The Commission finds that the REP standards set forth in Schedule SRC are appropriate and should be adopted.

52. The REP standards set forth in Schedule SRC relate only to the billing and collection of system restoration charges authorized under this Financing Order, and do not apply to collection of any other nonbypassable charges or other charges. The standards apply to all REPs other than REPs that have contracted with CenterPoint Houston to have CenterPoint Houston bill and collect system restoration charges from the REP's retail consumers. REPs may contract with parties other than CenterPoint Houston to bill and collect system restoration charges from retail consumers, but such parties shall remain subject to these REP standards set forth in Schedule SRC. Upon adoption of any amendment to P.U.C. SUBST. R. 25.108, Commission Staff will open a proceeding to investigate the need to modify the REP standards in Schedule SRC to conform to that rule, provided that such modifications may not be implemented absent prior written confirmation from each of the rating agencies that have rated the system restoration bonds that such modifications will not cause a suspension, withdrawal, or downgrade of the ratings on the system restoration bonds.

53. The REP standards are as follows:

(a) Rating, Deposit, and Related Requirements

Each REP must (1) have a long-term, unsecured credit rating of not less than "BBB-" and "Baa3" (or the equivalent) from Standard & Poor's and Moody's Investors Service, respectively, or (2) provide to the indenture trustee (a) a deposit of two months' maximum expected system restoration charge collections in the form of cash, (b) an affiliate guarantee, surety bond, or letter of credit providing for payment of such amount of system restoration charge collections in the event that the REP defaults in its payment obligations, or (c) a combination of any of the foregoing. A REP that does not have or maintain the requisite long-term, unsecured credit rating may select which alternate form of deposit, credit support, or combination thereof it will utilize, in its sole discretion. The indenture trustee shall be a beneficiary of any affiliate guarantee, surety bond, or letter of credit. The provider of any affiliate guarantee, surety bond, or letter of credit must have and maintain a long-term, unsecured credit rating of not less than "BBB-" and "Baa3" (or the equivalent) from Standard & Poor's and Moody's Investors Service, respectively.

(b) Loss of Rating

If the long-term, unsecured credit rating from either Standard & Poor's or Moody's Investors Service of a REP that did not previously provide the alternate form of deposit, credit support, or combination thereof or of any provider of an affiliate guarantee, surety bond, or letter of credit is suspended, withdrawn, or downgraded below "BBB-" or "Baa3" (or the equivalent), the REP must provide the alternate form of deposit, credit support, or combination thereof, or new forms thereof, in each case from providers with the requisite ratings, within 10 business days following such suspension, withdrawal, or downgrade. A REP failing to make such provision must comply with the provisions set forth in Paragraph (e).

(c) Computation of Deposit, etc.

The computation of the size of a deposit required under Paragraph (a) shall be agreed upon by the servicer and the REP, and reviewed no more frequently than quarterly to ensure that the deposit accurately reflects two months' maximum expected system restoration charge collections. Within 10 business days following such review, (1) the REP shall remit to the indenture trustee the amount of any shortfall in such required deposit or (2) the servicer shall instruct the indenture trustee to remit to the REP any amount in excess of such required deposit. A REP failing to so remit any such shortfall must comply with the provisions set forth in Paragraph (e). REP cash deposits shall be held by the indenture trustee, maintained in a segregated account, and invested in short-term high quality investments, as permitted by the rating agencies rating the system restoration bonds. Investment earnings on REP cash deposits shall be considered part of such cash deposits so long as they remain on deposit with the indenture trustee. At the instruction of the servicer, cash deposits will be remitted with investment earnings to the REP at the end of the term of the system restoration bonds unless otherwise utilized for the payment of the REP's obligations for system restoration charges. Once the deposit is no longer required, the servicer shall promptly (but not later than 30 calendar days) instruct the indenture trustee to remit the amounts in the segregated accounts to the REP.

(d) Payment of System Restoration Charges

Payments of system restoration charges are due 35 calendar days following each billing by the servicer to the REP, without regard to whether or when the REP receives payment from its retail customers. The servicer shall accept payment by electronic funds transfer, wire transfer, and/or check. Payment will be considered received the date the electronic funds transfer or wire transfer is received by the servicer, or the date the check clears. A 5% penalty is to be charged on amounts received after 35 calendar days; however, a 10 calendar-day grace period will be allowed before the REP is considered to be in default. A REP in default must comply with the provisions set forth in Paragraph (e). The 5% penalty will be a one-time assessment measured against the current amount overdue from the REP to the servicer. The "current amount" consists of the total unpaid system restoration charges existing on the 36th calendar day after billing by the servicer.

Any and all such penalty payments will be made to the servicer to be applied against system restoration charge obligations. A REP shall not be obligated to pay the overdue system restoration charges of another REP. If a REP agrees to assume the responsibility for the payment of overdue system restoration charges as a condition of receiving the customers of another REP that has decided to terminate service to those customers for any reason, the new REP shall not be assessed the 5% penalty upon such system restoration charges; however, the prior REP shall not be relieved of the previously-assessed penalties.

(e) Remedies upon Default

After the 10 calendar-day grace period (the 45th calendar day after the billing date) referred to in Paragraph (d), the servicer shall have the option to seek recourse against any cash deposit, affiliate guarantee, surety bond, letter of credit, or combination thereof provided by the REP, and avail itself of such legal remedies as may be appropriate to collect any remaining unpaid system restoration charges and associated penalties due the servicer after the application of the REP's deposit or alternate form of credit support. In addition, a REP that is in default with respect to the requirements set forth in Paragraphs (b), (c), or (d) shall, subject to the limitations and requirements of applicable bankruptcy laws if the REP is a debtor in bankruptcy, select and implement one of the following options:

(1) Allow the Provider of Last Resort (POLR) or a qualified REP of the consumer's choosing to immediately assume the responsibility for the billing and collection of system restoration charges;

(2) Immediately implement other mutually suitable and agreeable arrangements with the servicer. It is expressly understood that the servicer's ability to agree to any other arrangements will be limited by the terms of the servicing agreement and requirements of each of the rating agencies that have rated the system restoration bonds necessary to avoid a suspension, withdrawal, or downgrade of the ratings on the system restoration bonds; or

(3) Arrange that all amounts owed by retail consumers for services rendered be timely billed and immediately paid directly into a lock-box controlled by the servicer with such amounts to be applied first to pay system restoration charges before the remaining amounts are released to the REP. All costs associated with this mechanism will be borne solely by the REP.

If a REP that is in default fails to immediately select and implement one of the foregoing options or, after so selecting one of the foregoing options, fails to adequately meet its responsibilities thereunder, then the servicer shall immediately implement option (1), subject to the limitations and requirements of applicable bankruptcy laws if the REP is a debtor in bankruptcy. Upon re-establishment of compliance with the requirements set forth in Paragraphs (b), (c), and (d) and the payment of all past-due amounts and associated penalties, the REP will no longer be required to comply with this paragraph.

(f) Interest of REPs (Including the POLR) in Funds Held by Servicer

Any interest that a REP (including the POLR) may have in any funds in the hands of the servicer shall be junior and subordinate to any and all rights of the indenture trustee or the issuer to such funds.

(g) Billing by Providers of Last Resort, etc.

The POLR appointed by the Commission must meet the minimum credit rating or deposit/credit support requirements described in Paragraph (a) in addition to any other standards that may be adopted by the Commission. If the POLR defaults or is not eligible to provide such services, responsibility for billing and collection of system restoration charges will immediately be transferred to and assumed by the servicer until a new POLR can be named by the Commission or the consumer requests the services of a certified REP. Retail consumers may never be re-billed by the successor REP, the POLR, or the servicer for any amount of system restoration charges they have paid their REP (although future system restoration charges shall reflect REP and other system-wide charge-offs). Additionally, if the amount of the penalty detailed in Paragraph (d) is the sole remaining past-due amount after the 45th calendar day, the REP shall not be required to comply with clauses (1), (2), or (3) of Paragraph (e), unless the penalty is not paid within an additional 30 calendar days.

(h) Disputes

In the event that a REP disputes any amount of billed system restoration charges, the REP shall pay the disputed amount under protest according to the timelines detailed in Paragraph (d). The REP and servicer shall first attempt to informally resolve the dispute, but if they fail to do so within 30 calendar days, either party may file a complaint with the Commission. If the REP is successful in the dispute process (informal or formal), the REP shall be entitled to interest on the disputed amount paid to the servicer at the Commission-approved interest rate. Disputes about the date of receipt of system restoration charge payments (and penalties arising thereon) or the size of a required REP deposit will be handled in a like manner. It is expressly intended that any interest paid by the servicer on disputed amounts shall not be recovered through system restoration charges if it is determined that the servicer's claim to the funds is clearly unfounded. No interest shall be paid by the servicer if it is determined that the servicer has received inaccurate metering data from another entity providing competitive metering services pursuant to PURA § 39.107.

(i) Metering Data

If the servicer is providing the metering, metering data will be provided to the REP at the same time as the billing. If the servicer is not providing the metering, the entity providing the metering services will be responsible for complying with Commission rules and ensuring that the servicer and the REP receive timely and accurate metering data in order for the servicer to meet its obligations under the servicing agreement and this Financing Order with respect to billing and true-ups.

(j) Charge-Off Allowance

The REP will be allowed to hold back an allowance for charge-offs in its payments to the servicer. Such charge-off rate will be recalculated each year in connection with the annual true-up procedure. In the initial year, REPs will be allowed to remit payments based on the same charge-off percentage then being used by the REP to remit payments to the servicer in connection with the then most recently established transition charges

related to (i) the transition bonds issued by CenterPoint Energy Transition Bond Company, LLC on October 24, 2001, (ii) the transition bonds issued by CenterPoint Energy Transition Bond Company II, LLC on December 16, 2005, or (iii) the transition bonds issued by CenterPoint Energy Transition Bond Company III, LLC on February 12, 2008. On an annual basis in connection with the true-up process, the REP and the servicer will be responsible for reconciling the amounts held back with amounts actually written off as uncollectible in accordance with the terms agreed to by the REP and the servicer, provided that:

(1) The REP's right to reconciliation for write-offs will be limited to customers whose service has been permanently terminated and whose entire accounts (*e.g.*, all amounts due the REP for its own account as well as the portion representing system restoration charges) have been written off.

(2) The REP's recourse will be limited to a credit against future system restoration charge payments unless the REP and the servicer agree to alternative arrangements, but in no event will the REP have recourse to the indenture trustee, BondCo, or BondCo's funds for such payments.

(3) The REP shall provide information on a timely basis to the servicer so that the servicer can include the REP's default experience and any subsequent credits into its calculation of the adjusted system restoration charges for the next system restoration charge billing period and the REP's right to credits will not take effect until after such adjusted system restoration charges have been implemented.

(k) Service Termination

In the event that the servicer is billing retail consumers for system restoration charges, the servicer shall have the right to terminate transmission and distribution service to the end-use consumer for non-payment by the end-use consumer pursuant to applicable Commission rules. In the event that a REP or the POLR is billing consumers for system restoration charges, the REP or POLR shall have the right to transfer customers to the POLR (or to another certified REP) or to direct the servicer to terminate transmission and distribution service to the end-use consumer for non-payment in accordance with the applicable Commission rules.

54. The proposed billing and collection standards are the same as those adopted in Docket No. 21665, Docket No. 30485, and Docket No. 34448 and currently applied by CenterPoint Houston in its capacity as servicer under the transition bonds issued pursuant to the financing orders in those dockets.

55. The proposed billing and collection standards for REPs and the applicability of those standards are appropriate for the collection of system restoration charges resulting from this Financing Order, are reasonable, will lower risks associated with the collection of system restoration charges, and will result in lower system restoration bond charges and greater benefits to ratepayers. In addition, adoption of these standards will provide uniformity of standards for the billing and collection of system restoration charges for which CenterPoint Houston acts as servicer. Therefore, the proposed billing and collection standards for REPs and the applicability of those standards described in findings of fact 50 through 53 should be approved.

6. System Restoration Bonds

56. System restoration bonds will be issued by BondCo in one or more series, and each series may be issued in one or more tranches. The legal final maturity date of any series of system restoration bonds will not exceed 15 years from the date of issuance of such series. The legal final maturity date of each series and tranche within a series and amounts in each series will be finally determined by CenterPoint Houston and the Commission's designated representative, consistent with market conditions and indications of the rating agencies, at the time the system restoration bonds are priced, but subject to ultimate Commission review through the issuance advice letter process. CenterPoint Houston will retain sole discretion regarding whether or when to assign, sell, or otherwise transfer any rights concerning transition property arising under this Financing Order, or to cause the issuance of any system restoration bonds authorized in this Financing Order, subject to the right of the Commission to find that the proposed issuance does not comply with the requirements of PURA and this Financing Order.

BondCo will issue the system restoration bonds on or after the fifth business day after pricing of the system restoration bonds unless, prior to noon on the fourth business day following pricing of the bonds, the Commission issues an order finding that the proposed issuance does not comply with the requirements of PURA and this Financing Order.

57. The Commission finds that the proposed structure, providing system restoration charges to residential customers that would be essentially level over the term of the system restoration bonds if the actual year-to-year changes in residential load match the changes forecast at the time the bonds are structured, is in the public interest and should be used. The approved structure is reasonable and should be approved, provided that the issuance advice letter demonstrates that all of the statutory financial requirements are met. This restriction is necessary to ensure that the stated economic benefits to ratepayers materialize.

7. Security for System Restoration Bonds

58. The payment of the system restoration bonds and related charges authorized by this Financing Order is to be secured by the transition property created by this Financing Order and by certain other collateral as described in the application. The system restoration bonds will be issued pursuant to an indenture administered by the indenture trustee. The indenture will include provisions for a collection account for each series, subaccounts for the collection and administration of the system restoration charges, and payment or funding of the principal and interest on the system restoration bonds and other costs, including fees and expenses, in connection with the system restoration bonds, as described in CenterPoint Houston's application. Pursuant to the indenture, BondCo will establish a collection account as a trust account to be held by the indenture trustee as collateral to ensure the payment of the principal, interest, and other costs approved in this Financing Order related to the system restoration bonds, in full and on a timely basis. The collection account will include the general subaccount, the capital subaccount, and the excess funds subaccount, and may include other subaccounts.

a. The General Subaccount

59. The indenture trustee will deposit the system restoration charge remittances that the servicer remits to the indenture trustee for the account of BondCo into the general subaccount. The indenture trustee will allocate or use all amounts in this subaccount on a periodic basis to pay expenses of BondCo, to pay principal and interest on the system restoration bonds, and to meet the funding requirements of the other subaccounts. The funds in the general subaccount will be invested by the indenture trustee in short-term high-quality investments, and such funds (including, to the extent necessary, investment earnings) will be applied by the indenture trustee to pay principal and interest on the system restoration bonds and all other components of the Periodic Payment Requirement (as defined in finding of fact 80), and otherwise in accordance with the terms of the indenture.

b. The Capital Subaccount

60. When a series of system restoration bonds is issued, CenterPoint Houston will make a capital contribution to BondCo for that series, which BondCo will deposit into the capital subaccount. The amount of the capital contribution is expected to be not less than 0.5% of the original principal amount of each series of system restoration bonds, although the actual amount will depend on tax and rating agency requirements and possible regulatory changes resulting from the Treasury Department's recent proposal to reform financial regulation. The capital subaccount will serve as collateral to ensure timely payment of principal and interest on the system restoration bonds and all other components of the Periodic Payment Requirement. Any funds drawn from the capital subaccount to pay these amounts due to a shortfall in the system restoration charge remittances will be replenished through future system restoration charge remittances. The funds in this subaccount will be invested by the indenture trustee in short-term high-quality investments, and such funds (including investment earnings) will be used by the indenture trustee to pay principal and interest on the system restoration bonds and all other components of the Periodic Payment Requirement. If CenterPoint Houston is required to make a capital contribution in excess of 0.5% of the original principal amount of each series of bonds, CenterPoint Houston will be authorized to receive an aggregate

amount equal to the sum of (i) the actual amounts earned by the trustee from investment of the capital contribution (up to 0.5% of the original principal amount of each series) and (ii) 11.075% on the remainder of the capital contribution. The required revenue, if any, to provide the return of 11.075% on any such additional capital is an ongoing qualified cost. Upon payment of the principal amount of all system restoration bonds and the discharge of all obligations that may be paid by use of system restoration charges, all amounts in the capital subaccount, including any investment earnings, will be released to BondCo for payment to CenterPoint Houston. Investment earnings in this subaccount may be released earlier in accordance with the indenture.

61. The capital contribution to BondCo will be funded by CenterPoint Houston. To ensure that ratepayers receive the appropriate benefit from the securitization approved in this Financing Order, the proceeds from the sale of the system restoration bonds should not be applied towards this capital contribution. Because CenterPoint Houston funds the capital subaccount, CenterPoint Houston should receive the investment earnings on that capital from time to time and should receive return of that capital after all system restoration bonds have been paid.

c. The Excess Funds Subaccount

62. The excess funds subaccount will hold any system restoration charge remittances and investment earnings on the collection account (other than earnings attributable to the capital subaccount and released under the terms of the indenture) in excess of the amounts needed to pay current principal and interest on the system restoration bonds and to pay ongoing costs related to the system restoration bonds (including, but not limited to, replenishing the capital subaccount). Any balance in or allocated to the excess funds subaccount on a true-up adjustment date will be subtracted from the Periodic Payment Requirement for purposes of the true-up adjustment. The funds in this subaccount will be invested by the indenture trustee in short-term high-quality investments, and such funds (including investment earnings thereon) will be used by the indenture trustee to pay principal and interest on the system restoration bonds and other ongoing costs relating to the system restoration bonds.

d. Other Subaccounts

63. Other credit enhancements in the form of subaccounts may be utilized for the securitization transaction provided that the Commission's designated representative and CenterPoint Houston agree in advance that such enhancements provide benefits greater than their tangible and intangible costs. For example, CenterPoint Houston does not propose use of an overcollateralization subaccount as was approved in Docket Nos. 21665 and 30485 in connection with CenterPoint Houston's first two securitizations. Under Rev. Proc. 2002-49, as clarified by Rev. Proc. 2005-61 and 2005-62 issued by the Internal Revenue Service (IRS), the use of an overcollateralization subaccount is no longer necessary for favorable tax treatment nor does it appear to be necessary to obtain AAA ratings for the proposed system restoration bonds. However, if the Commission's designated representative and CenterPoint Houston subsequently agree that use of an overcollateralization subaccount or other subaccount is necessary to obtain the required tax treatment or AAA ratings or will otherwise increase the tangible and quantifiable benefits of the securitization, CenterPoint Houston may implement such subaccounts in order to reduce system restoration charges.

8. General Provisions

64. The collection account and the subaccounts described in findings of fact 58 through 63 are intended to provide for full and timely payment of scheduled principal and interest on the system restoration bonds and all other components of the Periodic Payment Requirement. If the amount of system restoration charges remitted to the general subaccount is insufficient to make all scheduled payments of principal and interest on the system restoration bonds and to make payment on all of the other components of the Periodic Payment Requirement, the excess funds subaccount and the capital subaccount will be drawn down, in that order, to make those payments. Any deficiency in the capital subaccount due to such withdrawals must be replenished on a periodic basis through the true-up process. In addition to the foregoing, there may be such additional accounts and subaccounts as are necessary to segregate amounts received from various sources (*i.e*. amounts received from REPs), or to be used for specified purposes. Such accounts will be administered and utilized as set forth in the servicing agreement and the indenture.

Upon the maturity of the system restoration bonds and the discharge of all obligations in respect thereof, remaining amounts in the collection account, other than amounts that were in the capital subaccount, will be released to BondCo and equivalent amounts will be credited by CenterPoint Houston to its customers consistent with PURA § 39.262(g). The servicer, on behalf of BondCo, will distribute to REPs and other entities responsible for collection of system restoration charges from retail consumers, the final balance of the general fund, excess funds subaccount, and all other subaccounts (except the capital subaccount), whether such balance is attributable to principal amounts deposited in such subaccounts or to interest thereon, remaining after all other qualified costs have been paid. The amounts will be distributed to each REP and other entity that paid Schedule SRC system restoration charges during the last 12 months that the Schedule SRC system restoration charges were in effect. The amount paid to each REP or other entity will be determined by multiplying the total amount available for distribution by a fraction, the numerator of which is the total Schedule SRC system restoration charges paid by the REP or other entity during the last 12 months Schedule SRC charges were in effect and the denominator of which is the total Schedule SRC system restoration charges paid by all REPs and other entities responsible for collection of system restoration charges from ratepayers during the last 12 months the Schedule SRC system restoration charges were in effect.

65. The use of a collection account and its subaccounts in the manner proposed by CenterPoint Houston is reasonable, will lower risks associated with the securitization and thus lower the costs to ratepayers, and should, therefore, be approved.

9. System Restoration Charges—Imposition and Collection, Nonbypassability, and Self-Generation

66. CenterPoint Houston seeks authorization to impose on and collect from REPs, and from other entities which are required to pay system restoration charges under this Financing Order or Schedule SRC, system restoration charges in an amount sufficient to provide for the timely recovery of its qualified costs approved in this Financing Order (including payment of principal and interest on the system restoration bonds and ongoing costs related to the system restoration bonds).

67. System restoration charges will be separately identified on bills presented to REPs.

68. If a REP or other entity does not pay the full amount it has been billed, the amount paid by the REP or such other entity will first be apportioned between the system restoration charges and other fees and charges (including amounts billed and due in respect of transition charges associated with transition bonds issued under other financing orders), other than late fees, and second, any remaining portion of the payment will be allocated to late fees. This allocation will facilitate a proper balance between the competing claims to this source of revenue in an equitable manner.

69. The system restoration bonds will have a scheduled final maturity of not longer than 14 years. However, amounts may still need to be recovered after the scheduled final maturity. CenterPoint Houston proposed that the system restoration charges related to a series of system restoration bonds will be recovered over a period of not more than 15 years from the date of issuance of that series of system restoration bonds but that amounts due at or before the end of that period for services rendered during the 15-year period may be collected after the conclusion of the 15-year period.

70. PURA § 39.303(b) prohibits the recovery of system restoration charges for a period of time that exceeds 15 years. System restoration charges related to a series of system restoration bonds may not be collected after 15 years from the date of issuance of that series of bonds. This restriction does not, however, prevent the recovery of amounts due at the end of such 15-year period for services rendered during such 15-year period.

71. CenterPoint Houston, acting as servicer, and any subsequent servicer, will collect system restoration charges from REPs serving retail customers located within CenterPoint Houston's certificated service area as it existed on the date this Financing Order is issued and from other entities which are required to bill, pay, or collect system restoration charges under this Financing Order or the tariffs approved hereby. A retail customer within such area may not avoid system restoration charges by switching to another electric utility, electric cooperative, or municipally-owned utility after the date this Financing Order is issued. However, a customer in a multiply-certificated service area who requests to switch providers on or before the date this Financing Order is issued, and does not do so after such date, will not be responsible for paying system restoration charges.

72. A retail consumer may not avoid the payment of system restoration charges by switching to new on-site generation. "New on-site generation" means electric generation capacity greater than 10 megawatts capable of being lawfully delivered to a site without use of utility distribution or transmission facilities and which was not, on or before the date this Financing Order is issued, either (A) a fully operational facility, or (B) a project supported by substantially complete filings for all necessary site-specific environmental permits under the rules of the Texas Commission on Environmental Quality.[62] If a consumer commences taking energy from new on-site generation that materially reduces the consumer's use of energy delivered through CenterPoint Houston's facilities, the consumer will pay an amount each month computed by multiplying the output of the on-site generation utilized to meet the internal electrical requirements of the consumer by the applicable system restoration charges in effect for that month.[63] Any reduction equivalent to more than 12.5% of the consumer's annual average use of energy delivered through CenterPoint Houston's facilities will be considered material for this purpose. Payments of the system restoration charges owed by such consumers will be made to the servicer and will be collected in addition to any other charges applicable to services provided to the consumer through CenterPoint Houston's facilities and any other charges applicable to self-generation.[64]

73. CenterPoint Houston's proposal related to imposition and collection of system restoration charges is reasonable and is necessary to ensure collection of system restoration charges sufficient to support recovery of the qualified costs approved in this Financing Order and should be approved. It is reasonable to approve the form of CenterPoint Houston's Schedule SRC in this Financing Order and require that these tariff provisions be filed before any system restoration bonds are issued pursuant to this Financing Order.

[62] PURA § 39.252(b)(1).

[63] *See* PURA § 39.252(b)(2).

[64] *Id.*

10. Allocation of Qualified Costs among Texas Retail Consumers

74. In Docket No. 36918, CenterPoint Houston's system restoration costs were functionalized and allocated in the same manner the corresponding facilities and related expenses are functionalized and allocated in the company's current base rates. Accordingly, CenterPoint Houston's proposal to allocate the Periodic Billing Requirement, defined below, to the five classes of customers receiving distribution service using the allocation factors approved in Docket No. 36918 results in functionalization and allocation of costs in the same manner as corresponding facilities and related expenses are allocated in CenterPoint Houston's current base rates. These allocation percentages are referred to as the periodic billing requirement allocation factor (PBRAF).

75. Section 6 of Schedule SRC contains a series of formulas to adjust the class allocation factors if load losses within a given class or group of classes exceed specified thresholds. The formulas are substantively identical to those in transition charge Schedules TC, TC2, and TC3 approved in CenterPoint Houston's prior securitizations.

76. The initial PBRAF for each system restoration charge class shall be set out in the Schedule SRC filed with CenterPoint Houston's issuance advice letter.

77. New retail consumers will be assigned to the system restoration charge classes listed in Schedule SRC based on the definitions and procedures described in the applicable schedules of CenterPoint Houston's Tariff.

78. The initial PBRAFs will remain in effect throughout the life of the system restoration bonds unless a modification is made pursuant to Section 6 of Schedule SRC.

79. The method of calculating and adjusting PBRAFs as set forth in CenterPoint Houston's Application and Schedule SRC comply with the requirements of PURA § 36.403(g) and should be approved.

11. True-Up of System Restoration Charges

80. Pursuant to PURA § 39.307, the servicer of the system restoration bonds will make annual adjustments to the system restoration charges to:

(a) correct any undercollection or overcollection of system restoration charges, including without limitation any caused by REP defaults, during the preceding 12 months; and

(b) ensure the billing of system restoration charges necessary to generate the collection of amounts sufficient to timely provide all scheduled payments of principal and interest and any other amounts due in connection with the system restoration bonds (including but not limited to ongoing fees and expenses, amounts required to be deposited in or allocated to any collection account or subaccount, indenture trustee indemnities, payments due in connection with any expenses incurred by the indenture trustee or the servicer to enforce bondholder rights and all other payments that may be required pursuant to the waterfall of payments described in the application) during the period for which such adjusted system restoration charges are to be in effect.

Such amounts are referred to as the "Periodic Payment Requirement" and the amounts necessary to be billed to collect such Periodic Payment Requirement are referred to as the "Periodic Billing Requirement." With respect to any series of system restoration bonds, the servicer will make true-up adjustment filings with the Commission at least annually, within 45 days of the anniversary date of the original issuance of the system restoration bonds of that series.

81. True-up filings will be based on the cumulative differences, regardless of the reason, between the Periodic Payment Requirement, defined above, and the amount of system restoration charge remittances to the indenture trustee. True-up procedures are necessary to ensure full recovery of amounts sufficient to meet the Periodic Payment Requirements over the expected life of the system restoration bonds. In order to assure adequate system restoration charge revenues to fund the Periodic Payment Requirement and to avoid large overcollections and undercollections over time, the servicer will reconcile the system restoration charges using CenterPoint Houston's most recent forecast of electricity deliveries (*i.e.*, forecasted billing units) and estimates of transaction-related expenses. The calculation of the system restoration charges will also reflect both a projection of uncollectible system restoration charges and a projection of payment lags between the billing and collection of system restoration charges based upon CenterPoint Houston's and the REPs' most recent experience regarding collection of system restoration charges.

82. The servicer will make true-up adjustments in the manner described in Section 8 of Schedule SRC. For the residential consumer class it will:

    (a) allocate the upcoming period's Periodic Billing Requirement, including any undercollection or overcollection of system restoration charges, including, without limitation, any caused by REP defaults, from the preceding period, based on the PBRAFs determined in accordance with Schedule SRC approved in this Financing Order; and

    (b) divide the amount assigned to the residential consumer class in step (a) above by the appropriate forecasted billing units to determine the system restoration charge rate for the residential consumer class for the upcoming period.

    For each Non-residential SRC Group as defined in Schedule SRC, an adjustment factor will be computed by dividing (1) the amount assigned to the group in step (a) above by (2) the sum of the existing rates times the forecasted billing determinants for each class in the group. For each class in the group, the system restoration charge for the upcoming period will be the product of the existing system restoration charge times the adjustment factor for the group in which that class resides.

12. Interim True-Up

83. In addition to annual true-up adjustments, true-up adjustments may be made by the servicer more frequently at any time during the term of the system restoration bonds to correct any undercollection or overcollection, as provided for in this Financing Order, in order to assure timely payment of system restoration bonds based on rating agency and bondholder considerations. In addition to the foregoing, either of the following two conditions may result in an interim true-up adjustment:

    (a) the servicer determines that expected collection of system restoration charges for the upcoming payment date would result in a difference that is greater than 5% in absolute value, between (i) the actual outstanding principal balances of the system restoration bonds plus amounts on deposit in the excess funds subaccount and (ii) the outstanding principal balances anticipated in the target amortization schedule; or

    (b) to meet a rating agency requirement that any tranche of system restoration bonds be paid in full by its scheduled final payment maturity date.

84. In the event an interim true-up is necessary, the interim true-up adjustment should be filed on the fifteenth day of the current month for implementation in the first billing cycle of the following month. In no event would such interim true-up adjustments occur more frequently than every three months if quarterly system restoration bond payments are required or every six months if semi-annual system restoration bond payments are required; provided, however, that interim true-up adjustments for any system restoration bonds remaining outstanding during the fourteenth and fifteenth year after the bonds are issued may occur quarterly.

13. Adjustment to PBRAFs

85. Schedule SRC contains detailed procedures for adjustment of PBRAFs to reflect load losses a system restoration charge class or group of system restoration charge classes may suffer.

86. A proceeding for the purpose of approving an allocation factor adjustment should be conducted in the following manner:

(a) Any allocation factor adjustment will be made in conjunction with a standard, annual true up. Any such adjustment will be filed with the Commission at least 90 days before the date the proposed adjustment will become effective. The filing will contain the proposed changes to the system restoration charge rates, justification for such changes as necessary to specifically address the cause(s) of the adjustment and a statement of the proposed adjustment date.

(b) Concurrently with the filing with the Commission, the servicer will notify all parties to this docket of the filing of the proposed adjustment.

(c) The servicer will issue appropriate notice and the Commission will conduct a contested case proceeding on the allocation adjustment pursuant to PURA § 39.003.

The scope of the proceeding will be limited to determining whether the proposed adjustment complies with this Financing Order. In any true-up proceeding that involves the adjustment of the PBRAFs, all parties in the proceeding shall have the right to challenge the reasonableness of the forecasts of billing determinants proposed as a basis for adjusting the PBRAFs. The Commission will issue a final order by the proposed adjustment date stated in the filing. In the event that the Commission cannot issue an order by that date, the servicer will be permitted to implement its proposed changes. Any modifications subsequently ordered by the Commission will be made by the servicer in the next true-up filing.

87. The allocation adjustment procedures contained in Schedule SRC are necessary to avoid inequities, are reasonable, and should be adopted.

14. Additional True-Up Provisions

88. The true-up adjustment filing will set forth the servicer's calculation of the true-up adjustment to the system restoration charges. Except for the allocation adjustment described in findings of fact 85 through 87, the Commission will have 15 days after the date of a true-up adjustment filing in which to confirm the mathematical accuracy of the servicer's adjustment. Except for the allocation adjustment described above, any true-up adjustment filed with the Commission should be effective on its proposed effective date, which shall be not less than 15 days after filing. Any necessary corrections to the true-up adjustment, due to mathematical errors in the calculation of such adjustment or otherwise, will be made in future true-up adjustment filings.

89. The true-up procedures contained in Schedule SRC are reasonable and will reduce risks related to the system restoration bonds, resulting in lower system restoration bond charges and greater benefits to ratepayers and should be approved.

90. The broad-base nature of the true-up mechanism and the pledge of the State of Texas, along with the bankruptcy-remoteness of the special purpose entity and the collection account, will serve to minimize, if not effectively eliminate, for all practical purposes and circumstances, any credit risk.

15. Designated Representative

91. In order to ensure, as required by PURA § 39.301, that the structuring and pricing of the system restoration bonds result in the lowest system restoration bond charges consistent with market conditions and the terms of this Financing Order, the Commission finds that it is necessary for the Commission or its designated representative to have a decision-making role co-equal with CenterPoint Houston with respect to the structuring and pricing of the system restoration bonds and that all matters related to the structuring and

pricing of the system restoration bonds shall be determined through a joint decision of CenterPoint Houston and the Commission or its designated representative. The Commission's primary goal is to ensure that the structuring and pricing of the system restoration bonds result in the lowest system restoration bond charges consistent with market conditions and the terms of this Financing Order.

92. The Commission or its designated representative must have an opportunity to participate fully and in advance in all plans and decisions relating to the structuring, marketing, and pricing of the system restoration bonds and must be provided timely information as necessary to allow it to participate in a timely manner (including, but not limited to, information prepared for the benefit of rating agencies and information prepared for use in marketing the system restoration bonds to investors).

93. The Commission or its designated representative shall require a certificate from the bookrunning underwriter(s) confirming that the structuring, marketing, and pricing of the system restoration bonds resulted in the lowest system restoration bond charges consistent with market conditions and the terms of this Financing Order.

94. CenterPoint Houston stated that it expected the following transaction documents to be executed in connection with this securitization and that it expected the form of each document to be consistent with those used in its last securitization: Servicing Agreement, Administration Agreement, Indenture, Amended and Restated Limited Liability Company Agreement, Transition Property Servicing Agreement, Transition Property Sale Agreement, and Bill of Sale. The Commission's designated representative shall be afforded an opportunity to review and comment on these documents before they are finalized. Consistent with the last securitization, CenterPoint Houston requested the right to amend the terms of these transaction documents; provided, however, that no amendment to any such agreement shall increase ongoing qualified costs without the approval of the Commission.

16. Lowest System Restoration Bond Charges

95. CenterPoint Houston has proposed a transaction structure that is expected to include (but is not limited to):

(a) the use of BondCo as issuer of the system restoration bonds, limiting the risks to system restoration bondholders of any adverse impact resulting from a bankruptcy proceeding of its parent or any affiliate;

(b) the right to impose and collect system restoration charges that are nonbypassable and which must be trued-up at least annually, but may be trued-up more frequently under certain circumstances, in order to assure the timely payment of the debt service and other ongoing transaction costs;

(c) additional collateral in the form of a collection account which includes a capital subaccount funded in cash in an amount not less than 0.5% of the original principal amount of the system restoration bonds and other subaccounts resulting in greater certainty of timely payment of principal and interest to investors and that are consistent with the IRS requirements that must be met to receive the desired federal income tax treatment for the system restoration bond transaction;

(d) protection of system restoration bondholders against potential defaults by a servicer or REPs that are responsible for billing and collecting the system restoration charges from existing or future retail consumers;

(e) specified federal income tax treatment including: (i) the transfer of the rights under this Financing Order to BondCo not resulting in gross income to CenterPoint Energy and the future revenues under the system restoration charges being included in CenterPoint Energy's gross income under its normal method of accounting; (ii) the issuance of the system restoration bonds and the transfer of the proceeds of the system restoration bonds to CenterPoint Houston not resulting in gross income to CenterPoint Energy; and (iii) the system restoration bonds constituting obligations of CenterPoint Energy;

(f) the system restoration bonds will be marketed using proven underwriting and marketing processes, through which market conditions and investors' preferences, with regard to the timing of the issuance, the terms and conditions, expected and legal final maturities, and other aspects of the structuring and pricing will be determined, evaluated, and factored into the structuring and pricing of the system restoration bonds; and

(g) furnishing timely information to the Commission's designated representative, to allow the Commission, through the issuance advice letter process, to ensure that the structuring and pricing of the system restoration bonds result in the lowest system restoration bond charges consistent with market conditions and the terms of this Financing Order.

96. CenterPoint Houston's proposed transaction structure is necessary to enable the system restoration bonds to obtain the highest possible bond credit rating, and ensures that the structuring and pricing of the system restoration bonds will result in the lowest system restoration bond charges consistent with market conditions and the terms of this Financing Order, ensures the greatest benefit to ratepayers consistent with market conditions and the terms of this Financing Order.

97. To ensure that ratepayers receive the tangible and quantifiable economic benefits due from the proposed securitization and so that the proposed system restoration bond transaction will be consistent with the financing standards set forth in PURA §§ 36.401, 36.403, 39.301 and 39.303, it is necessary that (i) the issuance advice letter demonstrate that the transaction is expected to provide benefits to customers on both the total revenue (*i.e.* nominal) and net present value bases when compared to collection of the Securitizable Balance through conventional, non-securitized rates, (ii) the expected final maturity of the last tranche of system restoration bonds does not exceed 14 years (although the legal final maturity of the system restoration bonds may extend to 15 years), (iii) the amortization of the system restoration bonds is structured to produce level residential rates over the term of the system restoration bonds, and (iv) CenterPoint Houston otherwise satisfies the requirements of this Financing Order.

98. To allow the Commission to fulfill its obligations under PURA related to the securitization approved in this Financing Order, it is necessary for CenterPoint Houston, for each series of system restoration bonds issued, to certify to the Commission that the structure and pricing of that series results in the lowest system restoration bond charges consistent with market conditions at the time that the system restoration bonds are priced and the terms (including the specified amortization pattern) of this Financing Order and, if additional credit enhancements or arrangements to enhance marketability or reduce interest rate risks were used, to certify that they are expected to provide benefits in excess of their cost as required by finding of fact 34 of this Financing Order.

D. Use of Proceeds

99. Upon the issuance of system restoration bonds, BondCo will use the net proceeds from the sale of the system restoration bonds (after payment of transaction costs) to pay to CenterPoint Houston the purchase price of the transition property.

100. The net proceeds from the sale of the transition property (after payment of transaction costs) will be applied by CenterPoint Houston to reduce its recoverable system restoration costs. The proposed accounting entries will result in removal of the regulatory asset representing the distribution portion of recoverable system restoration costs from CenterPoint Houston's books. The specific application of the proceeds will be determined by market conditions and the company's expected future expenditures at the time the proceeds are received. Although PURA § 36.401(a) authorizes the use of proceeds to refinance or retire utility debt or equity, specific application of the proceeds will depend on (1) the need to maintain a strong investment grade rating at CenterPoint Houston, (2) the need to remain in compliance with any financial covenants contained in CenterPoint Houston's financing agreements, and (3) the need to maintain a debt to total capitalization ratio that is no greater than what the Commission has found to be prudent for a Texas electric transmission and distribution utility to maintain. Because several factors will not be known until after the proceeds are received, it is not prudent for CenterPoint Houston to decide the particular usage for the proceeds at this time.

E. Waiver of P.U.C. PROC. R. 22.35(b)(2)

101. Pursuant to P.U.C. PROC. R. 22.5(b), good cause existed to waive the requirements of P.U.C. PROC. R. 22.35(b)(2) to permit consideration of this proceeding at the Commission's next regularly scheduled Open Meeting on August 26, 2009.

IV. Conclusions of Law

1. CenterPoint Houston is a public utility, as defined in PURA § 11.004, and an electric utility, as defined in PURA § 31.002 (6).
2. CenterPoint Houston is entitled to file an application for a financing order under PURA § 36.401.
3. The Commission has jurisdiction and authority over CenterPoint Houston's application pursuant to PURA §§ 14.001, 32.001, 36.401–36.406 and 39.301-39.313.

4. The Commission has authority to issue this Financing Order under Subchapter I of Chapter 36 and Subchapter G of Chapter 39 of PURA.
5. Notice of CenterPoint Houston's application was provided in compliance with the Administrative Procedure Act[65] and P.U.C. PROC. R. 22.54 and 22.55.
6. This application does not constitute a major rate proceeding as defined by P.U.C. PROC. R. 22.2.
7. The Settlement Agreement, as modified by this Financing Order, is in the public interest and complies with Commission rules.
8. Subchapter I of Chapter 36 of PURA allows an electric utility to securitize its system restoration costs as determined in separate proceedings under that Subchapter.
9. BondCo will be an assignee as defined in PURA § 39.302(1) when an interest in transition property is transferred, other than as security, to BondCo.
10. The holders of the system restoration bonds and the indenture trustee will each be a financing party as defined in PURA § 39.302(3).
11. BondCo may issue system restoration bonds in accordance with this Financing Order.
12. The securitization approved in this Financing Order results in the removal of the regulatory asset representing the distribution-related portion of system restoration costs from CenterPoint Houston's books and satisfies the requirement of PURA § 36.401(a) dictating that the proceeds of the system restoration bonds shall be used solely for the purposes of reducing the amount of recoverable system restoration costs, including the refinancing or retirement of utility debt or equity.
13. The securitization approved in this Financing Order satisfies the requirement of PURA § 36.401(b)(2) mandating that the securitization provides tangible and quantifiable benefits to ratepayers greater than would have been achieved absent the issuance of

[65] TEX. GOV'T CODE ANN. §§ 2001.001-.902 (Vernon 2008).

system restoration bonds. Consistent with fundamental financial principles, this requirement can only be determined using an economic analysis to account for the time value of money. An analysis that compares in the aggregate over the expected life of the system restoration bonds the present value of the revenue requirement associated with non-securitized rates reflecting conventional utility financing with the present value of the revenue required under securitization is an appropriate economic analysis to demonstrate whether securitization provides economic benefits to ratepayers.

14. PURA § 36.402(b) specifies that system restoration costs include carrying costs at the utility's weighted average cost of capital as last approved by the Commission in a general rate proceeding from the date the system restoration costs were incurred until they are recovered. As a result, for purposes of the present value, nominal revenue, and other financial tests, it is necessary to compute the revenue requirements associated with non-securitized rates reflecting conventional utility financing using a weighted average cost of capital of 11.075%, which is the weighted average cost of capital last approved in a CenterPoint Houston general rate proceeding.

15. BondCo's issuance of the system restoration bonds approved in this Financing Order in compliance with the criteria established by this Financing Order satisfies the requirement of PURA § 39.301 prescribing that the structuring and pricing of the system restoration bonds will result in the lowest system restoration bond charges consistent with market conditions and the terms of this Financing Order.

16. The amount approved in this Financing Order for securitization does not exceed the present value of the revenue requirement over the life of the proposed system restoration bonds approved in this Financing Order that are associated with the costs sought to be securitized, as required by PURA § 39.301.

17. The securitization approved in this Financing Order satisfies the requirements of PURA § 39.303(a) directing that the total amount of revenues to be collected under this Financing Order be less than the revenue requirement that would be recovered using conventional financing methods and that this Financing Order be consistent with the standards of PURA § 39.301.

18. Under PURA §§ 36.401, 36.403, 39.301 and 39.303, the Commission has the ability to prohibit different financial options relating to the system restoration bonds if the evidence supports the finding that the financial option will not or is unlikely to result in the lowest system restoration bonds charges consistent with market conditions.

19. This Financing Order adequately details the amount to be recovered and the period over which CenterPoint Houston will be permitted to recover nonbypassable system restoration charges in accordance with the requirements of PURA § 36.403. System restoration charges related to a series of system restoration bonds may not be collected after 15 years from the date of issuance of that series of bonds. This provision does not preclude the servicer from recovering system restoration charges attributable to service rendered during the 15-year period but remaining unpaid at the end of the 15-year period.

20. The method approved in this Financing Order for collecting and allocating the system restoration charges satisfies the requirement of PURA § 36.403(g), that the costs be functionalized and allocated to customers in the same manner as the corresponding facilities and related expense are functionalized and allocated in the utility's current base rates.

21. As provided in PURA § 39.303(d), this Financing Order, together with the system restoration charges authorized by this Financing Order, is irrevocable and not subject to reduction, impairment, or adjustment by further act of the Commission, except for the true-up procedures approved in this Financing Order, as required by PURA § 39.307; provided, however, that such irrevocability shall not preclude the Commission from extending the deadline for issuance of system restoration bonds if requested to do so by CenterPoint Houston.

22. As provided in PURA § 39.304(a), the rights and interests of CenterPoint Houston or its successor under this Financing Order, including the right to impose, collect, and receive the system restoration charges authorized in this Financing Order, are assignable and shall become transition property when they are first transferred to BondCo.

23. The rights, interests and property conveyed to BondCo in the Transition Property Sale Agreement and the related Bill of Sale, including the irrevocable right to impose, collect, and receive system restoration charges and the revenues and collections from system restoration charges will be "transition property" within the meaning of PURA §§ 39.302(8) and 39.304.

24. Transition property will constitute a present property right for purposes of contracts concerning the sale or pledge of property, even though the imposition and collection of the system restoration charges depend on further acts by CenterPoint Houston or others that have not yet occurred, as provided by PURA § 39.304(b).

25. All revenues and collections resulting from the system restoration charges will constitute proceeds only of the transition property arising from this Financing Order, as provided by PURA § 39.304(c).

26. The bond proceeds may be used only for the purposes of reducing the amount of recoverable system restoration costs. PURA § 36.401(a) further authorizes, but does not require, the use of bond proceeds to refinance or retire utility debt or equity.

27. Upon the transfer by CenterPoint Houston of the transition property to BondCo, BondCo will have all of the rights, title, and interest of CenterPoint Houston with respect to such transition property including the right to impose, collect, and receive the system restoration charges authorized by this Financing Order.

28. The system restoration bonds issued pursuant to this Financing Order will be "transition bonds" within the meaning of PURA § 36.403(e) and the system restoration bonds and holders thereof are entitled to all of the protections provided under Subchapter I of Chapter 36 and Subchapter G of Chapter 39 of PURA.

29. The system restoration charges paid by the REPs to the servicer as system restoration charges pursuant to this Financing Order are "transition charges" as defined in PURA §§ 36.403(f) and 39.302(7).

30. The amounts collected from retail consumers who purchase electricity from a REP are "transition charges" as defined in PURA §§ 36.403(f) and 39.302(7), to the extent that such amounts are attributable to system restoration charges billed to the REPs by the servicer, whether or not such charges are set out as a separate line-item on the retail consumer's bill.
31. Any payment of system restoration charges by a retail consumer to its REP or directly to the servicer will discharge the retail consumer's obligations in respect of that payment, but will not discharge the obligations of any REP to remit such payments to the servicer of the system restoration bonds on behalf of BondCo or an assignee or its obligations to pay amounts determined through subsequent true-up adjustments.
32. As provided in PURA § 39.305, the interests of an assignee, the holders of system restoration bonds, and the indenture trustee in transition property and in the revenues and collections arising from that property are not subject to setoff, counterclaim, surcharge, or defense by CenterPoint Houston or any other person or in connection with the bankruptcy of CenterPoint Houston or any other entity.
33. The methodology approved in this Financing Order to true-up the system restoration charges satisfies the requirements of PURA §§ 36.401 and 39.307.
34. If and when CenterPoint Houston transfers to BondCo the right to impose, collect, and receive the system restoration charges and to issue the system restoration bonds, the servicer will be able to recover the system restoration charges associated with such transition property only for the benefit of BondCo and the holders of the system restoration bonds in accordance with the servicing agreement.
35. If and when CenterPoint Houston transfers its rights under this Financing Order to BondCo under an agreement that expressly states that the transfer is a sale or other absolute transfer in accordance with the true-sale provisions of PURA § 39.308, then, pursuant to that statutory provision, that transfer will be a true sale of an interest in transition property and not a secured transaction or other financing arrangement and title, legal and equitable, to the transition property will pass to BondCo. As provided by

PURA § 39.308, this true sale shall apply regardless of whether the purchaser has any recourse against the seller, or any other term of the parties' agreement, including the seller's retention of an equity interest in the transition property, CenterPoint Houston's role as the collector of system restoration charges relating to the transition property, or the treatment of the transfer as a financing for tax, financial reporting, or other purposes.

36. As provided in PURA § 39.309(b), a valid and enforceable lien and security interest in the transition property in favor of the holders of the system restoration bonds or a trustee on their behalf will be created by this Financing Order and the execution and delivery of a security agreement with the holders of the system restoration bonds or a trustee on their behalf in connection with the issuance of the system restoration bonds. The lien and security interest will attach automatically from the time value is received for the system restoration bonds and, on perfection through the filing of notice with the Secretary of State in accordance with the rules prescribed by the Secretary of State under PURA § 39.309(d), will be a continuously perfected lien and security interest in the transition property and all proceeds of the transition property, whether accrued or not, will have priority in the order of filing and will take precedence over any subsequent judicial or other lien creditor.

37. As provided in PURA § 39.309(c), the transfer of an interest in transition property to an assignee will be perfected against all third parties, including subsequent judicial or other lien creditors, when this Financing Order becomes effective, transfer documents have been delivered to that assignee, and a notice of that transfer has been filed in accordance with the rules prescribed by the Secretary of State under PURA § 39.309(d); provided, however, that if notice of the transfer has not been filed in accordance with this process within 10 days after the delivery of transfer documentation, the transfer of the interest will not be perfected against third parties until the notice is filed. The transfer to BondCo of CenterPoint Houston's rights under this Financing Order will be a transfer of an interest in transition property for purposes of PURA § 39.309(c).

38. As provided in PURA § 39.309(e), the priority of a lien and security interest perfected in accordance with PURA § 39.309 will not be impaired by any later change in the system

restoration charges pursuant to PURA § 39.307 or by the commingling of funds arising from system restoration charges with other funds, and any other security interest that may apply to those funds will be terminated when they are transferred to a segregated account for an assignee or a financing party. To the extent that system restoration charges are not collected separately from other funds owed by REPs, the amounts to be remitted to such segregated account for an assignee or a financing party may be determined according to system-wide charge off percentages, collection curves or such other reasonable methods of estimation, as are set forth in the servicing agreement.

39. As provided in PURA § 39.309(e), if transition property is transferred to an assignee, any proceeds of the transition property will be treated as held in trust for the assignee.

40. As provided in PURA § 39.309(f), if a default or termination occurs under the system restoration bonds, the financing parties or their representatives may foreclose on or otherwise enforce their lien and security interest in any transition property as if they were secured parties under Chapter 9, Texas Business and Commerce Code, and, upon application by or on behalf of the financing parties, the Commission may order that amounts arising from the system restoration charges be transferred to a separate account for the financing parties' benefit, to which their lien and security interest may apply.

41. As provided in PURA § 39.309(f), if a default or termination occurs under the system restoration bonds, on application by or on behalf of the financing parties, a district court of Travis County, Texas shall order the sequestration and payment to those parties of revenues arising from the system restoration charges.

42. As provided by PURA § 39.310, the system restoration bonds authorized by this Financing Order are not a debt or obligation of the State of Texas and are not a charge on its full faith and credit or taxing power.

43. Pursuant to PURA § 39.310, the State of Texas has pledged for the benefit and protection of all financing parties and CenterPoint Houston, that it will not take or permit any action that would impair the value of the transition property, or, except as permitted by PURA § 39.307, reduce, alter, or impair the system restoration charges to be imposed, collected,

and remitted to any financing parties, until the principal, interest, and any other charges incurred and contracts to be performed in connection with the system restoration bonds have been paid and performed in full. BondCo, in issuing system restoration bonds, is authorized pursuant to PURA § 39.310 and this Financing Order to include this pledge in any documentation relating to the system restoration bonds.

44. As provided in PURA § 39.311, transactions involving the transfer and ownership of the transition property and the receipt of system restoration charges are exempt from state and local income, sales, franchise, gross receipts, and other taxes or similar charges.

45. This Financing Order will remain in full force and effect and unabated notwithstanding the bankruptcy of CenterPoint Houston, its successors, or assignees.

46. CenterPoint Houston retains sole discretion regarding whether or when to assign, sell, or otherwise transfer the rights and interests created by this Financing Order or any interest therein, or to cause the issuance of any system restoration bonds authorized by this Financing Order, subject to the right of the Commission or its designated representative to have a decision-making role co-equal with CenterPoint Houston to approve or disapprove the proposed pricing, marketing, and structuring of the system restoration bonds as set out in Ordering Paragraph 27, and subject to the Commission's authority through the issuance advice letter process to find that the proposed issuance does not comply with the requirements of PURA and this Financing Order.

47. This Financing Order is final, is not subject to rehearing by this Commission, and is not subject to review or appeal except as expressly provided in PURA §§ 36.405(g) and 39.303(f). The finality of this Financing Order is not impaired in any manner by the participation of the Commission through its designated representative in any decisions related to issuance of the system restoration bonds or by the Commission's review of or issuance of an order related to the issuance advice letter required to be filed with the Commission by this Financing Order.

48. This Financing Order meets the requirements for a financing order under Subchapter I of Chapter 36 and Subchapter G of Chapter 39 of PURA.

49. The true-up mechanism and all other obligations of the State of Texas and the Commission set forth in this Financing Order are direct, explicit, irrevocable, and unconditional upon issuance of the system restoration bonds and are legally enforceable against the State of Texas and the Commission.

50. The requirements for informal disposition pursuant to P.U.C. PROC. R. 22.35 have been met in this proceeding except for subsection (b)(2) that requires the proposed order to be served on all parties no less than 20 days before the Commission is scheduled to consider the application in an open meeting. Under P.U.C. PROC. R. 22.5(b), good cause exists to waive the requirements of P.U.C. PROC. R. 22.35(b)(2).

V. Ordering Paragraphs

Based upon the record, the findings of fact and conclusions of law set forth herein, and for the reasons stated above, this Commission orders:

A. Approval

1. **Approval of Application.** The Settlement Agreement and the application of CenterPoint Houston for the issuance of a financing order under PURA §§ 36.403 and 39.303, as modified by the Settlement Agreement are approved, as provided in this Financing Order. CenterPoint Houston's application and accompanying testimony and schedules, proof of publication, and Affidavit of Walter L. Fitzgerald in Support of Settlement are incorporated into the record pursuant to this Financing Order.

2. **Authority to Securitize.** CenterPoint Houston is authorized in accordance with this Financing Order to securitize and to cause the issuance of system restoration bonds with a principal amount equal to the sum of (a) the Securitizable Balance at the time the system restoration bonds are issued plus (b) up-front qualified costs, which are capped pursuant to this Financing Order at $6,117,956 plus (i) the cost of original issue discount, credit enhancements and other arrangements to enhance marketability as discussed in Ordering Paragraphs 6 and 23, (ii) the cost of the Commission's financial advisor, if any, and any additional costs incurred by CenterPoint Houston to comply with the requests and

recommendations of the Commission's financial advisor, and (iii) any costs incurred by CenterPoint Houston if this Financing Order is appealed. The "Securitizable Balance" as of any given date is equal to the balance of distribution-related system restoration costs as determined in Docket No. 36918 plus carrying costs accruing at 11.075% from August 31, 2009, through the date the system restoration bonds are issued and minus all insurance proceeds, government grants and other sources of funding that compensate CenterPoint Houston for the distribution-related system restoration costs determined in Docket No. 36918. If the actual up-front qualified costs are less than the up-front qualified costs included in the principal amount securitized, the Periodic Billing Requirement for the first annual true-up adjustment shall be reduced by the amount of such unused funds (together with interest, if any, earned from the investment of such funds) and such unused funds (together with such interest) shall be available for payment of debt service on the bond payment date next succeeding such true-up adjustment. If the final up-front qualified costs are more than the up-front qualified costs included in the principal amount securitized, CenterPoint Houston may request recovery of the remaining up-front qualified costs through a surcharge to CenterPoint Houston's rates for service at distribution voltage; provided, however, CenterPoint Houston may not request recovery of amounts that would cause the aggregate recoverable amounts for such costs to exceed the cap on up-front qualified costs set forth in this Financing Order.

3. **Accumulated Deferred Federal Income Tax.** CenterPoint Houston shall calculate and place into effect, on the same date that the system restoration charges become effective, the ADFIT Credit as described in finding of fact 8. Any adjustment to the ADFIT Credit, if any, shall be made through a separate filing submitted by CenterPoint Houston at the same time it submits the system restoration charge adjustment filing and using the same allocation factors and billing determinants as the system restoration charge adjustment filing. ADFIT benefits associated with such system restoration costs shall not be applied to reduce the Securitizable Balance or used to reduce rate base in future proceedings. The ADFIT Credit and obligation to provide the ADFIT Credit shall not be transferred to the special purpose entity being created to issue the bonds, shall not be or become "transition property" as defined in PURA § 39.302(8) but shall be and remain a separate unsecuritized rate credit of CenterPoint Houston.

4. **Recovery of System Restoration Charges.** CenterPoint Houston shall impose on, and the servicer shall collect from, all REPs serving existing or future retail electric consumers which are located within CenterPoint Houston's certificated service area as it exists on the date of this Financing Order and take service at distribution voltage and other entities which, under the terms of this Financing Order or Schedule SRC are required to pay or collect system restoration charges, as provided in this Financing Order, system restoration charges in an amount sufficient to provide for the timely recovery of its aggregate qualified costs detailed in this Financing Order (including payment of principal and interest on the system restoration bonds). REPs shall pay the system restoration charges billed to them whether or not they collect the system restoration charges from their customers.

5. **Provision of Information.** CenterPoint Houston shall take all necessary steps to ensure that the Commission or its designated representative is provided sufficient and timely information to allow the Commission or its designated representative to fully participate in and exercise its decision making authority over the proposed securitization as provided in this Financing Order.

6. **Issuance Advice Letter.** CenterPoint Houston shall submit a draft issuance advice letter to the Commission Staff for review not later than two weeks prior to the expected date of marketing of the system restoration bonds. Within one week after receipt of the draft issuance advice letter, Commission Staff shall provide CenterPoint Houston comments and recommendations regarding the adequacy of the information provided. Not later than the end of the first business day after pricing of the system restoration bonds and prior to issuance of the system restoration bonds, CenterPoint Houston, in consultation with the Commission acting through its designated representative, shall file with the Commission an issuance advice letter in substantially the form of the issuance advice letter attached as Appendix A to this Financing Order. As part of the issuance advice letter, an officer of CenterPoint Houston shall provide a certification worded precisely as the statement in the form of issuance advice letter approved by the Commission. The issuance advice letter shall be completed, shall evidence the actual dollar amount of the initial system restoration charges and other information specific to the system restoration bonds to be

issued, and shall certify to the Commission that the structure and pricing of that series results in the lowest system restoration bond charges consistent with market conditions at the time that the system restoration bonds are priced, and the terms set out in this Financing Order. At the time the issuance advice letter is filed, CenterPoint Houston shall submit a calculation of the ADFIT Credits using the form of tariff approved in this Financing Order pursuant to the Settlement Agreement and the terms of this Financing Order. In addition, if original issue discount, additional credit enhancements, or arrangements to reduce interest rate risks or enhance marketability are used, the issuance advice letter shall include certification that the original issue discount, additional credit enhancements, or other arrangements are reasonably expected to provide benefits as required by this Financing Order. All amounts that require computation shall be computed using the mathematical formulas contained in the form of the issuance advice letter in Appendix A to this Financing Order and Schedule SRC approved in this Financing Order. Electronic spreadsheets with the formulas supporting the schedules contained in the issuance advice letter shall be included with such letter. The Commission's review of the issuance advice letter shall be limited to the arithmetic accuracy of the calculations and to compliance with PURA, this Financing Order, and the requirements that are contained in the issuance advice letter. The initial system restoration charges and the final terms of the system restoration bonds set forth in the issuance advice letter shall become effective on the date of issuance of the system restoration bonds (which shall not occur prior to the fifth business day after pricing) unless prior to noon on the fourth business day after pricing the Commission issues an order finding that the proposed issuance does not comply with PURA and this Financing Order.

7. **Approval of Tariffs.** The form of the Schedule SRC tariff, attached as Appendix B to this order, and the ADFIT Credit tariff, attached as Appendix D to this order, are approved and will become effective on the date the system restoration bonds are issued. Prior to the issuance of any system restoration bonds under this Financing Order, CenterPoint Houston shall file tariffs that conform to the form of the Schedule SRC tariff and ADFIT Credit tariff attached to this Financing Order. CenterPoint Houston will begin billing the Schedule SRC system restoration charges and providing credits under

the ADFIT Credit tariff on the first meter reading day after the issuance of the system restoration bonds. For example, if the system restoration bonds are issued on a Wednesday, then the meters read on the next day, Thursday, will be billed for one day of system restoration charges; meters read two days later, Friday, will be billed for two days of system restoration charges, etc. This billing amount will be calculated by using the customer's billing determinant for that month (*i.e.* kVA or kWh) and multiplying it by the appropriate Schedule SRC system restoration charges and ADFIT credits. The resulting dollar amount will then be multiplied by a proration factor. The proration factor will be calculated by dividing the number of days the meter reading occurs past the restoration bond issuance date by the total number of days in the customer's billing cycle. For example, if the meter was read nine days after the restoration bond issuance date and the billing cycle was thirty days long, the proration factor would be 30% (9/30 = .30, or 30%). All system restoration charges and ADFIT credits will be prorated in this manner until all days in the billing cycle occur after the restoration bond issuance date, after which system restoration charges and ADFIT credits will apply to all usage. In a similar fashion, Schedule SRC and the ADFIT Credit will be prorated commensurate with any subsequent periodic adjustments or annual reconciliations.

B. System Restoration Charges

8. **Imposition and Collection.** CenterPoint Houston is authorized to impose on, and the servicer is authorized to collect from, REPs serving all existing and future retail consumers that are served at distribution voltage and are located within CenterPoint Houston's certificated service area as it existed on the date this Financing Order is issued, and other entities which, under the terms of this Financing Order or Schedule SRC are required to pay or collect system restoration charges, system restoration charges in an amount sufficient to provide for the timely recovery of the aggregate Periodic Payment Requirement (including payment of principal and interest on the system restoration bonds), as approved in this Financing Order. If there is a shortfall in payment of an amount billed, the amount paid shall first be apportioned between the system restoration charges and other fees and charges (including transition charges attributable to the transition bonds issued in October 2001 pursuant to the financing order in Docket

No. 21665, and the transition bonds issued in December 2005 pursuant to the financing order in Docket No. 30485 and the transition bonds issued in February 2008 pursuant to the financing order in Docket No. 34448), other than late fees, and second, any remaining portion of the payment shall be allocated to late fees.

9. **BondCo's Rights and Remedies.** Upon the transfer by CenterPoint Houston of the transition property to BondCo, BondCo shall have all of the rights, title, and interest of CenterPoint Houston with respect to such transition property, including, without limitation, the right to exercise any and all rights and remedies with respect thereto, including the right to authorize disconnection of electric service and to assess and collect any amounts payable by any retail consumer in respect of the transition property.

10. **Collector of System Restoration Charges.** CenterPoint Houston or any subsequent servicer of the system restoration bonds shall bill a consumer's REP for the system restoration charges attributable to that consumer and the REP shall pay to the servicer of the system restoration bonds the amount billed for system restoration charges less the applicable charge-off allowance as provided in finding of fact 53(j) whether or not the REP has collected the system restoration charges from its customers.

11. **Collection Period.** The system restoration charges related to a series of system restoration bonds shall be designed to be collected over the expected life of the system restoration bonds. However, to the extent that any amounts are not recovered at the end of this period, CenterPoint Houston may continue to recover them over a period ending not more than 15 years from the date of issuance of that series of system restoration bonds. Amounts remaining unpaid after this 15-year period may be recovered but only to the extent that the charges are attributable to electric services rendered during the 15-year period.

12. **Allocation.** CenterPoint Houston shall allocate the system restoration charges among retail consumer classes in the manner described in this Financing Order and Schedule SRC.

13. **Nonbypassability.** CenterPoint Houston and any other entity providing electric distribution services and any REP providing services to any retail consumer within CenterPoint Houston's certificated service area as it existed on the date this Financing Order is issued are entitled to collect and must remit, consistent with this Financing Order, the system restoration charges from such retail consumers including certain retail consumers that switch to certain new on-site generation as described in finding of fact 72, and such retail consumers are required to pay such system restoration charges. The Commission will ensure that such obligations are undertaken and performed by CenterPoint Houston, any other entity providing electric distribution services within CenterPoint Houston's certificated service area as it exists on the date this Financing Order is issued and any REP providing services to any retail consumer within such certificated service area.

14. **True-Ups.** True-ups of the system restoration charges, including any required adjustments to PBRAFs, shall be undertaken and conducted as described in Schedule SRC. The servicer shall file the true-up in a compliance docket and shall give notice of the filing to all parties in this docket.

15. **Ownership Notification.** Any entity that bills system restoration charges to retail consumers shall, at least annually, provide written notification to each retail consumer for which the entity bills system restoration charges that the system restoration charges are the property of BondCo and not of the entity issuing such bill. In addition, the entity that bills system restoration charges to retail consumers shall include on its invoices a statement that all or part of the receivable reflected on the invoice has been or may be assigned.

C. System Restoration Bonds

16. **Issuance.** BondCo is authorized to issue system restoration bonds as specified in this Financing Order. The ongoing qualified costs described in Appendix C may be recovered directly through the system restoration charges. The system restoration bonds shall be denominated in U.S. Dollars.

17. **Up-Front Qualified Costs.** CenterPoint Houston may securitize up-front qualified costs in accordance with the terms of this Financing Order, which provide that the total amount for up-front qualified cost shall not exceed $6,117,956 plus (i) the cost of original issue discount, credit enhancements and other arrangements to enhance marketability as discussed in Ordering Paragraphs 6 and 23, (ii) the cost of the Commission's financial advisor, if any, and any additional costs incurred by CenterPoint Houston to comply with the requests and recommendations of the Commission's financial advisor, and (iii) any costs incurred by CenterPoint Houston if this Financing Order is appealed. No individual cap will apply to any component of up-front qualified costs included in the $6,117,956.

18. **Ongoing Qualified Costs.** CenterPoint Houston may recover its actual ongoing qualified costs (including amounts required to provide a return on the portion, if any, of capital contributions in excess of 0.5% of the original principal amount of each series of bonds, as described in finding of fact 60) through its system restoration charges subject to the cap on the servicing and administrative fees (which is applicable as long as CenterPoint Houston serves as servicer and administrator) as set forth in Ordering Paragraphs 29 and 30 and Appendix C to this Financing Order. Ongoing costs other than the servicing and administration fees of CenterPoint Houston as servicer and administrator are not capped by this Financing Order. The amount of ongoing qualified costs is subject to updating in the issuance advice letter to reflect a change in the size of the system restoration bond issuance and any decision to issue the system restoration bonds in more than one series and other information available at the time of submission of the issuance advice letter. As provided in Ordering Paragraph 29, a servicer other than CenterPoint Houston may collect a higher servicing fee than that set forth in Appendix C to this Financing Order if such higher fee is approved by the Commission and the indenture trustee.

19. **Refinancing.** CenterPoint Houston or any assignee may apply for one or more new financing orders pursuant to PURA § 39.303(g).

20. **Collateral.** All transition property and other collateral shall be held and administered by the indenture trustee pursuant to the indenture as described in CenterPoint Houston's application. BondCo shall establish a collection account with the indenture trustee as described in the application and findings of fact 58 through 63. Upon payment of the principal amount of all system restoration bonds issued pursuant to this Financing Order and the discharge of all obligations in respect thereof, all amounts in the collection account, other than amounts in the capital subaccount (including investment earnings therein), and any amounts required to replenish the capital subaccount shall be released by the indenture trustee to the servicer. CenterPoint Houston shall notify the Commission within 30 days after the date that these funds are eligible to be released of the amount of such funds available for crediting to the benefit of ratepayers.

21. **Distribution Following Repayment.** Following repayment of the system restoration bonds authorized in this Financing Order and release of the funds held by the indenture trustee, the servicer, on behalf of BondCo, shall distribute to REPs and other entities responsible for collection of system restoration charges from retail consumers, the final balance of the general fund, excess funds subaccount, and all other subaccounts (except the capital subaccount), whether such balance is attributable to principal amounts deposited in such subaccounts or to interest thereon, remaining after all other qualified costs have been paid. The amounts shall be distributed to each REP and other entity that paid Schedule SRC system restoration charges during the last 12 months that the Schedule SRC system restoration charges were in effect. The amount paid to each REP or other entity shall be determined by multiplying the total amount available for distribution by a fraction, the numerator of which is the total Schedule SRC system restoration charges paid by the REP or other entity during the last 12 months Schedule SRC charges were in effect and the denominator of which is the total Schedule SRC system restoration charges paid by all REPs and other entities responsible for collection of system restoration charges from ratepayers during the last 12 months the Schedule SRC system restoration charges were in effect.

22. **Funding of Capital Subaccount.** The capital contribution by CenterPoint Houston to BondCo to be deposited into the capital subaccount shall, with respect to each series of system restoration bonds, be funded by CenterPoint Houston and not from the proceeds of the sale of system restoration bonds. Upon payment of the principal amount of all

system restoration bonds and the discharge of all obligations in respect thereof, all amounts in the capital subaccount, including investment earnings, shall be released to BondCo for payment to CenterPoint Houston. Investment earnings in this subaccount may be released earlier in accordance with the indenture.

23. **Original Issue Discount and Credit Enhancement.** CenterPoint Houston may provide original issue discount or provide for various forms of credit enhancement including letters of credit, reserve accounts, overcollateralization account, surety bonds, and other mechanisms designed to promote the credit quality or marketability of the system restoration bonds to the extent not prohibited by this Financing Order. The decision to use such arrangements to enhance credit or promote marketability shall be made in conjunction with the Commission acting through its designated representative. CenterPoint Houston may not enter into an interest-rate swap, currency hedge, or other hedging arrangement. CenterPoint Houston may include the costs of original issue discount, credit enhancements, or other arrangements to promote credit quality or marketability in qualified costs only if CenterPoint Houston certifies that such arrangements are reasonably expected to provide benefits greater than their cost and such certifications are agreed with by the Commission's designated representative. CenterPoint Houston shall not be required to enter into any arrangements to promote credit quality or marketability unless all related costs and liabilities can be included in qualified costs. CenterPoint Houston and the Commission's designated representative shall evaluate the relative benefits of the arrangements in the same way that benefits are quantified under the tangible and quantifiable benefits test. This Ordering Paragraph does not apply to the collection account or its subaccounts approved in this Financing Order.

24. **Annual Weighted Average Interest Rate of Bonds.** The effective annual weighted average interest rate of the system restoration bonds, excluding up-front and ongoing costs, shall not exceed 10.60% on an annual basis.

25. **Life of Bonds.** The expected final maturity of the system restoration bonds authorized by this Financing Order shall not exceed 14 years.

26. **Amortization Schedule.** The Commission approves, and the system restoration bonds shall be structured to provide, system restoration charges that are designed to produce essentially level residential rates over the period of recovery if the actual year-to-year changes in residential load match the changes forecast at the time the bonds are structured. If the system restoration bonds are issued in more than one series, each series must meet the levelized charge requirement.

27. **Commission Participation in Bond Issuance.** The Commission, acting through its designated representative, shall participate directly with CenterPoint Houston in negotiations regarding the structuring, marketing, and pricing of the system restoration bonds, and shall have equal rights with CenterPoint Houston to approve or disapprove the proposed pricing, marketing, and structuring of the system restoration bonds. The Commission's designated representative shall have the right to participate fully and in advance regarding all aspects of the structuring, marketing, and pricing of the system restoration bonds (and all parties shall be notified of the designated representative's role) and shall be provided timely information that is necessary to fulfill its obligation to the Commission. The Commission expects its designated representative to advise the Commission of any proposal that does not comply in any material respect with the criteria established in this Financing Order and to promptly inform CenterPoint Houston and the Commission of any items that, in the designated representative's opinion, are not reasonable. Although this Financing Order is written in the context of an underwritten offering, nothing herein shall be construed to preclude issuance of the system restoration bonds through a competitive bid offering or private placement if CenterPoint Houston and the Commission's designated representative agree that CenterPoint Houston should do so. The Commission's designated representative shall notify CenterPoint Houston and the Commission no later than 12:00 p.m. CST on the second business day after the Commission's receipt of the issuance advice letter for each series of system restoration bonds whether the structuring, marketing, and pricing of that series of system restoration bonds comply with the criteria established in this Financing Order.

28. **Use of BondCo.** CenterPoint Houston shall use BondCo, a special purpose entity as proposed in its application, in conjunction with the issuance of any system restoration bonds authorized under this Financing Order. BondCo shall be funded by CenterPoint Houston with an amount of capital that is sufficient for BondCo to carry out its intended functions and to avoid the possibility that CenterPoint Houston would have to extend funds to BondCo in a manner that could jeopardize the bankruptcy remoteness of BondCo. CenterPoint Houston may create more than one BondCo in which event the rights, structure, and restrictions described in this Financing Order with respect to BondCo would be applicable to each such purchaser of transition property to the extent of the transition property sold to it and the system restoration bonds issued by it.

D. Servicing

29. **Servicing Agreement.** The Commission authorizes CenterPoint Houston to enter into a servicing agreement with BondCo and to perform the servicing duties approved in this Financing Order. Without limiting the foregoing, in its capacity as initial servicer of the transition property, CenterPoint Houston is authorized to calculate, bill, and collect for the account of BondCo, the system restoration charges initially authorized in this Financing Order, as adjusted from time to time to meet the Periodic Payment Requirements as provided in this Financing Order; and to make such filings and take such other actions as are required or permitted by this Financing Order in connection with the annual and interim true-ups described in this Financing Order. The servicer shall be entitled to collect servicing fees in accordance with the provisions of the servicing agreement, provided that, as set forth in Appendix C, (i) the annual servicing fee payable to CenterPoint Houston while it is serving as servicer (or to any other servicer affiliated with CenterPoint Houston) shall not at any time exceed 0.05% of the original principal amount of the system restoration bonds. The annual servicing fee payable to any other servicer not affiliated with CenterPoint Houston shall not at any time exceed 0.6% of the original principal amount of the system restoration bonds unless such higher rate is approved by the Commission pursuant to Ordering Paragraph 32. The servicing agreement for this securitization shall contain a recital clause that the Commission, or its attorney, will enforce the servicing agreement for the benefit of Texas ratepayers to the extent permitted by law. The servicing agreement for this securitization shall also include a provision that CenterPoint Houston shall indemnify the Commission (for the

benefit of retail consumers) in connection with any increase in servicing fees that become payable as a result of a default resulting from CenterPoint Houston's willful misconduct, bad faith, or negligence in performance of its duties or observance of its covenants under the servicing agreement. The indemnity will be enforced by the Commission but will not be enforceable by any REP or retail consumer.

30. **Administration Agreement.** The Commission authorizes CenterPoint Houston to enter into an administration agreement with BondCo to provide the services covered by the administration agreements in CenterPoint Houston's prior securitization transactions. The fee charged by CenterPoint Houston as administrator under that agreement shall not exceed $100,000 per annum per BondCo plus reimbursable third party costs.

31. **Servicing and Administration Agreement Revenues.** The servicing and administrative fees collected by CenterPoint Houston, or any affiliate of CenterPoint Houston, acting as either servicer or administrator under the servicing agreement or administration agreement, shall be included as a revenue credit and reduce revenue requirements in each subsequent CenterPoint Houston base rate case. The expenses incurred by CenterPoint Houston or such affiliate to perform obligations under the servicing agreement and administration agreement shall likewise be included as a cost of service in each CenterPoint Houston base rate case.

32. **Replacement of CenterPoint Houston as Servicer.** Upon the occurrence of an event of default under the servicing agreement relating to CenterPoint Houston's performance of its servicing functions with respect to the system restoration charges, the financing parties may replace CenterPoint Houston as the servicer in accordance with the terms of the servicing agreement. If the servicing fee of the replacement servicer will exceed the applicable maximum servicing fee specified in Ordering Paragraph 29, the replacement servicer shall not begin providing service until (i) the date the Commission approves the appointment of such replacement servicer or (ii) if the Commission does not act to either approve or disapprove the appointment, the date which is 45 days after notice of appointment of the replacement servicer is provided to the Commission. No entity may replace CenterPoint Houston as the servicer in any of its servicing functions with respect to the system restoration charges and the transition property authorized by this Financing Order, if the replacement would cause any of the then current credit ratings of the system restoration bonds to be suspended, withdrawn or downgraded.

33. **Amendment of Agreements.** The parties to the Servicing Agreement, Indenture, Administration Agreement, and Transition Property Sale Agreement may amend the terms of such agreements; provided, however, that no amendment to any such agreement shall increase the ongoing qualified costs without the approval of the Commission. Any amendment that does not increase the ongoing qualified costs shall be effective without prior Commission approval. Any amendment to any such agreement that may have the effect of increasing ongoing qualified costs shall be provided by BondCo to the Commission along with a statement as to the possible effect of the amendment on the ongoing qualified costs. The amendment shall become effective on the later of (i) the date proposed by the parties to the amendment or (ii) 31 days after such submission to the Commission unless the Commission issues an order disapproving the amendment within a 30-day period.

34. **Collection Terms.** The servicer shall remit collections of the system restoration charges to BondCo or the indenture trustee for BondCo's account in accordance with the terms of the servicing agreement.

35. **Contract to Provide Service.** To the extent that any interest in the transition property created by this Financing Order is assigned, sold, or transferred to an assignee, CenterPoint Houston shall enter into a contract with that assignee that requires CenterPoint Houston to continue to operate its distribution system in order to provide electric services to CenterPoint Houston's customers; provided, however, that this provision shall not prohibit CenterPoint Houston from selling, assigning, or otherwise divesting its distribution system or any part thereof so long as the entity or entities acquiring such system agree to continue operating the facilities to provide electric service to CenterPoint Houston's customers.

36. **SEC Requirements.** Each REP or other entity responsible for collecting system restoration charges from retail consumers shall furnish to BondCo or CenterPoint Houston or to any successor servicer information and documents necessary to enable BondCo or CenterPoint Houston or any successor to comply with their respective disclosure and reporting requirements, if any, with respect to the system restoration bonds under federal securities laws.

E. Retail Electric Providers

37. **REP Billing and Credit Standards.** The Commission approves the REP standards detailed in findings of fact 50 through 53. These proposed REP standards relate only to the billing and collection of system restoration charges authorized under this Financing Order, and do not apply to collection of any other nonbypassable charges or other charges. The standards apply to all REPs other than REPs that have contracted with CenterPoint Houston to have CenterPoint Houston bill and collect system restoration charges from retail consumers. REPs may contract with parties other than CenterPoint Houston to bill and collect system restoration charges from retail consumers, but such REPs shall remain subject to these standards. Upon adoption of any amendment to the rules governing financial standards for REPs as set out in P.U.C. SUBST. R. 25.108, Commission Staff shall initiate a proceeding to investigate the need to modify the standards adopted in this Financing Order to conform to that rule and to address whether each of the rating agencies that have rated the system restoration bonds will determine that such modifications will not cause a suspension, withdrawal, or downgrade of the ratings on the system restoration bonds. Modifications to the REP standards adopted in this Financing Order may not be implemented absent prior written confirmation from each of the rating agencies that have rated the system restoration bonds that such modifications will not cause a suspension, withdrawal, or downgrade of the ratings on the system restoration bonds. The servicer of the system restoration bonds shall also comply with the provisions of the REP standards adopted by this Financing Order that are applicable to the servicer.

38. **System Restoration Charge Remittance Procedures.** System restoration charges shall be billed and collected in accordance with the REP standards set forth in Schedule SRC and adopted by this Financing Order. REPs shall be subject to penalties as provided in these standards. A REP shall not be obligated to pay the overdue system restoration charges of another REP whose customers it agrees to serve.

39. **Remedies upon REP Default.** A servicer of system restoration bonds shall have the remedies provided in the REP standards adopted by this Financing Order. If a REP that is in default fails to immediately select and implement one of the options provided in the REP standards or, after making its selection, fails to adequately meet its responsibilities under the selected option, then, subject to the limitations and requirements of the bankruptcy code if the REP is a debtor in bankruptcy, the REP shall allow the POLR or a qualified REP of the consumer's choosing to immediately assume the responsibility for the billing and collection of system restoration charges in the manner and for the time provided in the REP standards.

40. **Billing by POLRs.** Every POLR appointed by the Commission shall comply with the minimum credit rating or deposit/credit support requirements described in finding of fact 53(a) in addition to any other standard that may be adopted by the Commission. If the POLR defaults or is not eligible to provide billing and collection services, the servicer shall immediately assume responsibility for billing and collection of system restoration charges and continue to meet this obligation until a new POLR can be named by the Commission or the consumer requests the services of a certified REP. Retail consumers may never be directly re-billed by the successor REP, the POLR, or the servicer for any amount of system restoration charges the consumers have previously paid to their REP.

41. **Disputes.** Disputes between a REP and a servicer regarding any amount of billed system restoration charges shall be resolved in the manner provided by the REP standards adopted by this Financing Order.

42. **Metering Data.** If the servicer is providing metering services to a REP's retail consumers, then metering data shall be provided to the REP at the same time as the billing. If the servicer is not providing metering services, the entity providing metering services shall comply with Commission rules and ensure that the servicer and the REP receive timely and accurate metering data in order for the servicer to meet its obligations under the servicing agreement and this Financing Order.

43. **Charge-Off Allowance.** The REP may retain an allowance for charge-offs from its payments to the servicer as provided in the REP standards adopted by this Financing Order.

44. **Service Termination.** In the event that the servicer is billing retail consumers for system restoration charges, the servicer shall have the right to terminate distribution service to the end-use consumer for non-payment by the end-use consumer pursuant to applicable Commission rules. In the event that a REP or the POLR is billing retail consumers for system restoration charges, the REP or POLR shall have the right to transfer the consumer to the POLR or to another certified REP or to direct the servicer to terminate distribution service to the end-use consumer for non-payment by the end-use consumer to the extent permitted by and pursuant to terms and limitations of the applicable Commission rules.

F. Structure of the Securitization

45. **Structure.** CenterPoint Houston shall structure the securitization as proposed in CenterPoint Houston's application. This structure shall be consistent with findings of fact 95 through 98.

G. Use of Proceeds

46. **Use of Proceeds.** Upon the issuance of system restoration bonds, BondCo shall pay the net proceeds from the sale of the system restoration bonds (after payment of transaction costs) to CenterPoint Houston for the purchase price of the transition property. CenterPoint Houston will apply these net proceeds to reduce recoverable system restoration costs.

H. Miscellaneous Provisions

47. **Continuing Issuance Right.** CenterPoint Houston has the continuing irrevocable right to cause the issuance of system restoration bonds in one or more series in accordance with this Financing Order for a period commencing with the date of this Financing Order

and extending 24 months following the later of (i) the date on which this Financing Order becomes final and no longer subject to any appeal; or (ii) the date on which any other regulatory approvals necessary to issue the system restoration bonds are obtained and no longer subject to any appeal. If at any time during the effective period of this Financing Order there is a severe disruption in the financial markets of the United States, the effective period shall automatically be extended to a date which is not less than 90 days after the date such disruption ends.

48. **Internal Revenue Service Private Letter or Other Rulings.** CenterPoint Houston is not required by this Financing Order to obtain a ruling from the IRS; however, if it elects to do so, then upon receipt, CenterPoint Houston shall promptly deliver to the Commission a copy of each private letter or other ruling issued by the IRS with respect to the proposed transaction, the system restoration bonds, or any other matter related thereto. CenterPoint Houston shall also include a copy of every such ruling by the IRS it has received as an attachment to each issuance advice letter required to be filed by this Financing Order. CenterPoint Houston may cause system restoration bonds to be issued without a private letter ruling if it obtains an opinion of tax counsel sufficient to support the issuance of the system restoration bonds.

49. **Binding on Successors.** This Financing Order, together with the system restoration charges authorized in it, shall be binding on CenterPoint Houston and any successor to CenterPoint Houston that provides distribution service directly to retail consumers in CenterPoint Houston's certificated service area as it existed on the date of this Financing Order, and any other entity that provides distribution services to retail consumers within that service area. This Financing Order is also binding on each REP and any successor to any REP that sells electric energy to retail consumers located within CenterPoint Houston's certificated service area, any other entity responsible for billing and collecting system restoration charges on behalf of BondCo, and any successor to the Commission. In this paragraph, a "successor" means any entity that succeeds by any means whatsoever to any interest or obligation of its predecessor, including by way of bankruptcy, reorganization or other insolvency proceeding, merger, consolidation, conversion, assignment, pledge or other security, by operation of law or otherwise.

50. **Flexibility.** Subject to compliance with the requirements of this Financing Order, CenterPoint Houston and BondCo shall be afforded flexibility in establishing the terms and conditions of the system restoration bonds, including the final structure of BondCo, repayment schedules, term, payment dates, collateral, credit enhancement, required debt service, reserves, interest rates, use of original issue discount, other financing costs, and the ability of CenterPoint Houston, at its option, to cause one or more series of system restoration bonds to be issued or to create more than one BondCo for purposes of issuing such system restoration bonds.

51. **Effectiveness of Order.** This Financing Order is effective upon issuance and is not subject to rehearing by the Commission. Notwithstanding the foregoing, no transition property shall be created hereunder, and CenterPoint Houston shall not be authorized to impose, collect, and receive system restoration charges, until CenterPoint Houston's rights and interests under this Financing Order have been transferred to an assignee or pledged in connection with the issuance of the system restoration bonds.

52. **Regulatory Approvals.** All regulatory approvals within the jurisdiction of the Commission that are necessary for the securitization of the system restoration charges associated with the costs that are the subject of the application, and all related transactions contemplated in the application, are granted.

53. **Payment of Commission's Costs for Professional Services.** In accordance with PURA §§ 36.403(d)(1) and 39.302(4), CenterPoint Houston shall pay the costs to the Commission of acquiring professional services for the purpose of evaluating CenterPoint Houston's proposed transaction, including, but not limited to, the Commission's outside attorneys' fees in the amounts specified in this Financing Order no later than 30 days after the issuance of any system restoration bonds. Such costs shall be included in the amount securitized, and shall not be counted against the cap on up-front qualified cost established in Ordering Paragraph 17.

54. **Compliance with PURA § 36.402(c).** If CenterPoint Houston receives insurance proceeds, governmental grants, or any other source of funding not reflected in the Securitizable Balance to compensate it for system restoration costs or the Commission determines that the actual costs incurred are less than estimated costs, if any, included in the Securitizable Balance, the Commission will take such amounts into account as required by PURA § 36.402(c). Such amounts shall accrue interest as provided in PURA § 36.402(d). Any adjustment to reflect such amounts may not affect the stream of revenue available to service the system restoration bonds. A REP shall be required to appropriately refund or credit to its customers any reduction in rates or any credits received from the utility under this section.

55. **Effect of Appeal of Docket No. 36918.** If the recoverable distribution-related system restoration costs approved in Docket No. 36918 is subject to judicial review at the time of issuance of the system restoration bonds, CenterPoint Houston shall adjust its rates, other than system restoration charges, or provide credits, other than credits to system restoration charges, in a manner that will refund over the remaining life of the system restoration bonds any overpayments resulting from securitization of amounts in excess of the amount resulting from a final determination of the recoverable distribution-related system restoration costs. The adjustment mechanism may not affect the stream of revenue available to service the system restoration bonds. An adjustment may not be made under this paragraph until all appellate reviews, including, if applicable, appellate reviews following a Commission decision on remand of its original orders, have been completed. A REP shall be required to appropriately refund or credit to its customers any reduction in rates or any credits received from the utility under this section.

56. **Effect.** This Financing Order constitutes a legal financing order for CenterPoint Houston under Subchapter I of Chapter 36 and Subchapter G of Chapter 39 of PURA. The Commission finds this Financing Order complies with the provisions of Subchapter I of Chapter 36 and Subchapter G of Chapter 39 of PURA. A financing order gives rise to rights, interests, obligations, and duties as expressed in Subchapter G of Chapter 39 of PURA. It is the Commission's express intent to give rise to those rights, interests, obligations, and duties by issuing this Financing Order. CenterPoint Houston and the servicer are directed to take all actions as are required to effectuate the transactions approved in this Financing Order, subject to compliance with the criteria established in this Financing Order.

57. **Further Commission Action.** The Commission guarantees that it will act pursuant to this Financing Order as expressly authorized by PURA to ensure that expected system restoration charge revenues are sufficient to pay on a timely basis scheduled principal and interest on the system restoration bonds issued pursuant to this Financing Order and other costs, including fees and expenses, in connection with the system restoration bonds.

58. **All Other Motions Denied.** All motions, requests for entry of specific findings of fact and conclusions of law, and any other requests for general or specific relief not expressly granted herein, are denied for want of merit.

SIGNED AT AUSTIN, TEXAS on the 26th day of August 2009.

PUBLIC UTILITY COMMISSION OF TEXAS

/s/ BARRY T. SMITHERMAN
BARRY T. SMITHERMAN, CHAIRMAN

/s/ DONNA L. NELSON
DONNA L. NELSON, COMMISSIONER

/s/ KENNETH W. ANDERSON, JR.
KENNETH W. ANDERSON, JR., COMMISSIONER

EX-99.5 4 d249248dex995.htm FINANCING ORDER

Exhibit 99.5

PUC DOCKET NO. 39809

APPLICATION OF CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC FOR A FINANCING ORDER	**§ § §**	**PUBLIC UTILITY COMMISSION OF TEXAS**

TABLE OF CONTENTS

PUC DOCKET NO. 39809

APPLICATION OF CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC FOR FINANCING ORDER	**§ § §**	**PUBLIC UTILITY COMMISSION OF TEXAS**

FINANCING ORDER

This Financing Order addresses the application of CenterPoint Energy Houston Electric, LLC (CenterPoint) under Subchapter G of Chapter 39 of the Public Utility Regulatory Act[1] (PURA): (1) to securitize the Securitizable Balance (as that term is defined in Ordering Paragraph 2), (2) for approval of the proposed securitization financing structure, (3) for approval of transition charges sufficient to recover principal and interest on the transition bonds plus ongoing qualified costs, and (4) for approval of a tariff to implement the transition charges.

CenterPoint filed its original true-up application with the Commission in March 2004 requesting recovery of $3.7 billion, excluding interest. In December 2004, the Commission issued its true-up order allowing CenterPoint to recover a true-up balance of approximately $2.3 billion, which included interest through August 31, 2004, and provided for certain other adjustments. CenterPoint and a number of other parties appealed the Commission's decision to a district court in Travis County, Texas (the District Court), the Texas Third Court of Appeals (the Court of Appeals) and, ultimately, to the Texas Supreme Court (the Supreme Court).

On March 18, 2011, the Texas Supreme Court issued its ruling (the Opinion) on the appeal of the final order issued by the Commission in 2004. The Supreme Court affirmed in part and reversed in part the decision of the Commission and remanded the matter to the Commission for further proceedings.

On August 25, 2011, based on the final rulings of the Texas Supreme Court and the final, unappealable rulings of the Court of Appeals, CenterPoint filed a request in Docket No. 39504 seeking to recover an additional $2,040,148,139. On September 6, 2011, CenterPoint amended its application to seek recovery of $2,314,163,161. Various parties in Docket No. 39504 disputed CenterPoint's right to recover the full amount it sought on remand. On October 5, 2011, the parties submitted for Commission approval a stipulation (the Stipulation) resolving all issues in Docket No. 39504 and providing for CenterPoint to securitize $1,695,000,000 under a form of financing order attached to the Stipulation.

[1] TEX. UTIL. CODE ANN. §§ 11.001-66.017 (Vernon 2007), as amended.

On October 7, 2011, CenterPoint filed in this docket an application for a financing order under Subchapter G of Chapter 39 of PURA in which CenterPoint seeks to securitize the Securitizable Balance of $1,695,000,000. As discussed in this Financing Order, the Commission finds that CenterPoint's application, as modified by this Financing Order, should be approved. The Commission also finds that the securitization approved in this Financing Order meets all applicable requirements of PURA. Accordingly, the Commission (1) approves the securitization of the Securitizable Balance; (2) authorizes, subject to the terms of this Financing Order, the issuance of transition bonds in one or more series in an aggregate amount not to exceed the Securitizable Balance; (3) approves the structure of the proposed securitization financing; (4) approves transition charges in an amount to be calculated as provided in this Financing Order; (5) approves the form of tariff, as provided in this Financing Order, to implement those transition charges; and (6) finds that the potential benefits of (a) floating rate notes and interest rate swaps within the bond structure, (b) the issuance of transition bonds denominated in foreign currencies, and (c) the use of interest rate hedges will not outweigh the costs and the incremental risks to customers; therefore, the Commission concludes that floating-rate notes and interest-rate swaps should not be utilized within the transition bond structure and that CenterPoint should not be authorized to issue transition bonds denominated in a foreign currency or use interest rate hedges.

In order to approve the securitization of the regulatory assets and other true-up amounts, the Commission must consider whether the proposed securitization meets the financial tests set out in PURA Chapter 39, Subchapter G. The three financial tests require that (1) the total revenues collected under the financing order are less than the revenues collected using conventional financing methods (total revenues test),[2] (2) the securitization of the regulatory assets and other true-up amounts provides greater tangible and quantifiable benefits to ratepayers than would have been achieved without the issuance of the transition bonds (tangible and quantifiable benefits test),[3] and (3) the amount securitized does not exceed the present value of the revenue requirement over the life of the proposed transition bonds associated with the regulatory assets or other true-up amounts sought to be securitized (present value test).[4]

[2] PURA § 39.303.
[3] PURA § 39.301.
[4] PURA § 39.301.

CenterPoint submitted evidence that the proposed securitization meets each of the financial tests set out in Subchapter G of PURA. The calculations performed by CenterPoint demonstrated that the transaction would pass these tests. Additionally, by authorizing the Securitizable Balance now, the Commission minimizes the risk that incremental costs are imposed on ratepayers as a result of currently pending Securities and Exchange Commission (the SEC) regulations.

Considering the magnitude of the benefits provided, the Commission declines to determine a particular number for each benefit conferred by the securitization. Accordingly, in quantifying the benefit to ratepayers as a result of this securitization, the Commission refers to the ranges of benefits calculated under CenterPoint's expected case scenario, in which the transition bonds bear 2.50% weighted-average interest, and its sensitivity scenario, in which the transition bonds are subject to a 7.50% weighted-average interest rate.

CenterPoint's evidence showed that as a result of the securitization approved by this Financing Order, consumers in CenterPoint's service area will realize benefits currently estimated to be approximately $647.9 million on a present value basis, using the expected weighted average interest rate, and approximately $5.5 million if interest rates rise to 7.50%.[5] In addition, with interest rates increased to 7.50%, the securitization approved by this Financing Order will result in a reduction in the amount of revenues collected by CenterPoint of approximately $9.1 million, on a nominal basis, when compared to the amount that would have been collected under CTCs which reflects the conventional financing methods that would otherwise be used to recover the costs.[6] In the expected case, the securitization will result in a reduction in the amount of revenues collected by CenterPoint of approximately $775.6 million.[7]

[5] *See id.* at Schedule 1B.
[6] *See id.* at Schedule 1B.
[7] *See id.* at Schedule 1A.

The Commission concludes that the benefits for consumers set forth in CenterPoint's evidence are fully indicative of the benefits that consumers will realize from the securitization approved in this Financing Order; however, in the issuance advice letter, CenterPoint will be required to update the benefit analysis to verify that the final structure of the securitization satisfies the statutory financial tests.[8]

CenterPoint provided a general description of the proposed transaction structure in its application and in the testimony and exhibits submitted in support of its application. The proposed transaction structure does not contain every relevant detail and, in certain places, uses only approximations of certain costs and requirements. The final transaction structure will depend, in part, upon the requirements of the nationally-recognized credit rating agencies that are asked to rate the transition bonds and, in part, upon the market conditions that exist at the time the transition bonds are taken to the market.

While the Commission recognizes the need for some degree of flexibility with regard to the final details of the securitization transaction approved in this Financing Order, its primary focus is on the statutory requirements—the most important of which is to ensure that securitization results in tangible and quantifiable benefits to ratepayers—that must be met prior to issuing a financing order.

In view of these obligations, the Commission has established certain criteria in this Financing Order that must be met in order for the approvals and authorizations granted in this Financing Order to become effective. This Financing Order grants authority to issue transition bonds and to impose, collect, and receive transition charges only if the final structure of the securitization transaction complies in all material respects with these criteria. The authority and approval granted in this Financing Order is effective only upon CenterPoint filing with the Commission an issuance advice letter demonstrating compliance with the provisions of this Financing Order. If market conditions make it desirable to issue the transition bonds in more than one series, then the authority and approval granted in this Financing Order is effective as to each issuance upon, but only upon, CenterPoint filing with the Commission a separate issuance advice letter for that issuance demonstrating compliance of that issuance with the provisions of the Financing Order.

[8] The foregoing quantifications of economic benefits reflect a capital contribution in the amount of 0.5% of the original principal amount of the transition bonds, and assume that no risk retention by CenterPoint is mandated by currently pending SEC regulations when finalized. The authorizations included in CenterPoint's application and addressed herein do reflect the potential for a 5% investment by CenterPoint if so mandated by the SEC pursuant to regulations effective prior to the issuance of the transition bonds. By authorizing the Securitizable Balance now, the Commission minimizes this potential, because the pending proposals are currently not expected to be effective prior to the issuance of the transition bonds.

I. Discussion and Statutory Overview

The Texas Legislature amended PURA in 1999 to provide for competition in the provision of retail electric service.[9] To facilitate the transition to a competitive environment, electric utilities are authorized to undertake securitization financing of qualified costs.[10] The Legislature provided this option for recovering qualified costs based on the conclusion that securitized financing will result in lower carrying costs for utility assets relative to the costs that would be incurred using conventional utility financing methods. As a precondition to the use of securitization, the Legislature required that the utility demonstrate that ratepayers would receive tangible and quantifiable benefits as a result of securitization and that this Commission make a specific finding that such benefits exist before issuing a financing order. Consequently, a basic purpose of securitization financing—the recovery of an electric utility's qualified costs—is conditioned upon the other basic purpose—providing economic benefits to consumers of electricity in this state.[11]

To securitize an electric utility's qualified costs, the Commission may authorize the issuance of securities known as transition bonds. Transition bonds are evidences of indebtedness or ownership that are issued under a financing order, are limited to a term of not longer than 15 years, and are secured by or payable from transition property.[12] The net proceeds from the sale of the transition bonds must be used to reduce the amount of a utility's recoverable regulatory assets or other true-up amounts through the refinancing or retirement of the utility's debt or equity. If transition bonds are approved and issued, retail electric consumers must pay the principal, interest, and related charges of the transition bonds through transition charges. Transition charges are nonbypassable charges that will be paid as a component of the monthly charge for electric service. Transition charges must be approved by the Commission pursuant to a financing order.[13]

---

9 *See* Act of May 27, 1999, 76th Leg., R.S., ch. 405, 1999 TEX. GEN. LAWS 2543 (codified primarily at TEX. UTIL. CODE Chapters 39, 40, and 41).

10 *See* PURA §§ 39.201, 39.301-39.303.

11 *Application of CenterPoint Energy Houston Electric, LLC for Financing Order*, Docket No. 34448, Financing Order at 5 (Sept. 18, 2007).

12 *See* PURA § 39.302(6).

13 *See* PURA § 39.302(7).

The Commission may adopt a financing order only if it finds that the total amount of revenues to be collected under the financing order is less than the revenue requirement that would be recovered using conventional financing methods and that the financing order is consistent with the standards of PURA § 39.301. The Commission must ensure that the net proceeds of transition bonds may be used only for the purpose of reducing the amount of recoverable costs through the refinancing or retirement of utility debt or equity. In addition, the Commission must ensure that (1) securitization provides tangible and quantifiable benefits to ratepayers greater than would have been achieved absent the issuance of the transition bonds, and (2) the structuring and pricing of the transition bonds result in the lowest transition bond charges consistent with market conditions and the terms of a financing order. Finally, the amount securitized may not exceed the present value of the revenue requirement over the life of the proposed transition bonds associated with the amounts sought to be securitized, and the present value calculation must use a discount rate equal to the proposed interest rate on the transition bonds. These statutory requirements are designed to ensure that securitization will provide real benefits to consumers.[14]

The essential finding by the Commission that is needed to issue a financing order is that ratepayers will receive tangible and quantifiable benefits as a result of securitization. This finding can only be made upon a showing of economic benefits to ratepayers through an economic analysis. An economic analysis is necessary to recognize the time value of money in evaluating whether and the extent to which benefits accrue from securitization. Moreover, an economic analysis recognizes the concept that the timing of a payment can be as important as the magnitude of a payment in determining the value of the payment. Thus, an analysis showing an economic benefit is necessary to quantify a tangible benefit to ratepayers.

[14] *See* PURA § 39.301.

Economic benefits also depend upon a favorable financial market—one in which transition bonds may be sold at an interest rate lower than the carrying costs of the assets being securitized. The precise interest rate at which transition bonds can be sold in a future market, however, is not known today. Nevertheless, benefits can be calculated based upon certain known facts (*e.g.* the amount of assets to be securitized and the cost of the alternative to securitization) and assumptions (*e.g.* the interest rate of the transition bonds, the term of the transition bonds and the amount of other qualified costs). By analyzing the proposed securitization based upon those facts and assumptions, a determination can be made as to whether tangible and quantifiable benefits result. To ensure that benefits are realized, the securitization transaction must conform to the structure ordered by the Commission and an issuance advice letter must be presented to the Commission immediately prior to issuance of the transition bonds demonstrating that the actual structure and costs of the transition bonds will provide tangible and quantifiable benefits. The cost-benefit analysis contained in the issuance advice letter must reflect the actual structure of the transition bonds.

CenterPoint's financial analysis shows that securitizing the Securitizable Balance will produce an economic benefit to ratepayers of approximately $647.9 million on a present value basis using a 2.50% weighted average interest rate.[15] CenterPoint's sensitivity analysis shows economic benefits even if the bond market is unfavorable and fourteen year transition bonds are issued at a weighted-average interest rate of 7.50%, which is the maximum weighted-average interest rate allowed by this Financing Order. Assuming that the transition bonds are, as CenterPoint projected in its financial analysis, subject to a 7.50% weighted-average annual interest rate, the benefit will be approximately $5.5 million on a present-value basis.[16] The economic benefit to ratepayers will be even larger if a more favorable market allows the transition bonds to be issued at a lower interest rate.

To issue a financing order, PURA also requires that the Commission find that the total amount of revenues collected under the financing order will be less than would otherwise have been collected under conventional financing methods. The analysis in the application demonstrates that revenues will be reduced by approximately $9.1 million on a nominal basis

[15] CenterPoint's financial analysis and the associated numbers set forth in this Financing Order assume that only one series of transition bonds are issued.

[16] *See id*. at Schedule 1A.

under this Financing Order compared to the amount that would be recovered under conventional financing methods, assuming fourteen year transition bonds are issued at a 7.50% weighted-average interest rate.[17] Under the expected scenario in which fourteen year transition bonds are issued at a 2.50% weighted-average annual interest rate, securitization saves ratepayers approximately $775.6 million in nominal revenue.[18] If transition bonds are issued in a more favorable market, or transition bonds with a maximum expected life less than fourteen years are issued, this reduction in revenues will be even larger.

Before the transition bonds may be issued, CenterPoint must submit to the Commission an issuance advice letter in which it demonstrates, based upon the actual market conditions at the time of pricing, that the proposed structure and pricing of the transition bonds will provide real economic benefits to retail consumers and comply with the statutory financial tests and terms of this Financing Order. As part of this submission, CenterPoint must also certify to the Commission that the structure and pricing of the transition bonds results in the lowest transition bond charges consistent with market conditions at the time of pricing and the terms of this Financing Order. The form of certification that must be submitted by CenterPoint is set out in Appendix A to this Financing Order. The Commission, by order, may stop the issuance of the transition bonds authorized by this Financing Order if CenterPoint fails to make this demonstration or certification. Should CenterPoint issue more than one series of transition bonds, CenterPoint shall demonstrate in the issuance advice letter for each series that the securitization will still provide real economic benefits to retail consumers and comply with the statutory financial tests and terms of this Financing Order.

PURA requires that transition charges be charged for the use or availability of electric services to recover all qualified costs.[19] Transition charges can be recovered over a period that does not exceed 15 years.[20] The Commission concludes that this prevents the collection of transition charges from retail consumers for services rendered after the 15-year period but does not prohibit recovery of transition charges for service rendered during the 15-year period but not actually collected until after the 15-year period.

---

17 *See id*. at Schedule 1B.
18 *See id.* at Schedule 1A.
19 *See* PURA § 39.302(7).
20 *See* PURA § 39.303(b).

Transition charges will be collected by an electric utility, its successors, an assignee, or other collection agents as provided for in this Financing Order to recover associated qualified costs for which transition bonds are issued and costs resulting from such issuance.[21] The rights to impose, collect, and receive transition charges (including all other rights of an electric utility under the financing order) are only contract rights until such rights (which may relate to all or, if more than one series of transition bonds are issued due to market conditions, a portion of the Securitizable Balance) are first transferred to an assignee or pledged in connection with the issuance of transition bonds. Upon the transfer or pledge of those rights, they become transition property and, as such, are afforded certain statutory protections to ensure that the charges are available for bond retirement.[22]

This Financing Order contains terms, as permitted under PURA § 39.306, ensuring that the imposition and collection of transition charges authorized herein will be nonbypassable.[23] It also includes a mechanism requiring that transition charges be reviewed and adjusted at least annually, within 45 days of the anniversary date of the issuance of the transition bonds, to correct any overcollections or undercollections during the preceding 12 months and to ensure the expected recovery of amounts sufficient to timely provide all payments of debt service and other required amounts and charges in connection with the transition bonds.[24] In addition to the required annual reviews, more frequent reviews are allowed to ensure that the amount of the transition charges matches the funding requirements approved in this Financing Order. These provisions will help to ensure that the amount of transition charges paid by retail consumers is equal to, but does not exceed, the amount necessary to cover the costs of this securitization. The Financing Order also reflects other statutory benefits and assurances that are necessary for securitization.

The State of Texas has pledged, for the benefit and protection of financing parties and electric utilities, that it will not take or permit any action that would impair the value of transition property, or, except for the true-up expressly allowed by law, reduce, alter, or impair the transition charges to be imposed, collected and remitted to financing parties, until the principal, interest and premium, and any other charges incurred and contracts to be performed in connection with the related transition bonds have been paid and performed in full.[25]

---

[21] *See* PURA § 39.302(7).
[22] *See* PURA § 39.304(b).
[23] *See* PURA § 39.306.
[24] *See* PURA § 39.307.
[25] *See* PURA § 39.310.

Transition property (whether associated with a single bond series covering the entire Securitizable Balance or with one of multiple bond series covering only a portion of the Securitizable Balance) constitutes a present property right for purposes of contracts concerning the sale or pledge of property and the property will continue to exist for the duration of the pledge of the State of Texas as described in the preceding paragraph.[26] In addition, the interests of an assignee or pledgee in transition property (as well as the revenues and collections arising from the property) are not subject to setoff, counterclaim, surcharge, or defense by the electric utility or any other person or in connection with the bankruptcy of the electric utility or any other entity.[27] Further, transactions involving the transfer and ownership of transition property and the receipt of transition charges are exempt from state and local income, sales, franchise, gross receipts, and other taxes or similar charges.[28] The creation, granting, perfection, and enforcement of liens and security interests in transition property are governed by PURA § 39.309 and not by the Texas Business and Commerce Code.[29]

The Commission may, at the request of an electric utility, adopt a financing order providing for the retiring and refunding of transition bonds only upon making a finding that the future transition charges required to service the new transition bonds, including transaction costs, will be less than the future transition charges required to service the transition bonds being retired or refunded.[30] CenterPoint has not requested, and this Financing Order does not grant, any authority to refinance transition bonds authorized by this Financing Order. This Financing Order does not preclude CenterPoint from filing a request for a financing order to retire or refund transition bonds approved in this Financing Order upon a showing that the statutory criteria in PURA § 39.303(g) are met.[31]

[26] *See* PURA § 39.304(b).
[27] *See* PURA § 39.305.
[28] *See* PURA § 39.311.
[29] *See* PURA § 39.309(a).
[30] *See* PURA § 39.303(g).
[31] *See* PURA § 39.303(g).

To facilitate compliance and consistency with applicable statutory provisions, this Financing Order adopts the definitions in PURA § 39.302.

II. Description of Proposed Transaction

A description of the transaction proposed by CenterPoint is contained in its application and the filing package submitted as part of the application. A brief summary of the proposed transaction is provided in this section. A more detailed description is included in the Findings of Fact, Section III.C, titled "Structure of the Proposed Securitization" and in the application and filing package submitted as part of the application.

To facilitate the proposed securitization, CenterPoint proposed that (depending on whether more than one series of transition bonds are issued) one or more special purpose entity transition bond companies (each referred to as BondCo) be created to which will be transferred the rights to impose, collect, and receive transition charges along with the other rights arising pursuant to this Financing Order, in each case allocable to a series of transition bonds it would issue. Upon transfer (in connection with the issuance of the particular series of transition bonds), these rights will become transition property as provided by PURA § 39.304. If transition bonds are issued in more than one series, then the transition property transferred as a result of each issuance shall be only those rights associated with that portion of the Securitizable Balance securitized by such issuance. The rights to impose, collect and receive transition charges along with the other rights arising pursuant to this Financing Order as they relate to any portion of the Securitizable Balance that remains unsecuritized shall remain with CenterPoint and shall not become transition property until transferred to a BondCo in connection with a subsequent issuance of transition bonds.

CenterPoint would create a separate BondCo for the issuance of a particular series of the transition bonds; and the rights, obligations, structure and restrictions described in this Financing Order with respect to "BondCo" would be applicable to each such purchaser of transition

property to the extent of the transition property transferred and sold to it and the transition bonds issued by it. BondCo will issue transition bonds and will transfer the net proceeds from the sale of the transition bonds to CenterPoint in consideration for the transfer of the corresponding transition property. BondCo will be organized and managed in a manner designed to achieve the objective of maintaining BondCo as a bankruptcy-remote entity that would not be affected by the bankruptcy of CenterPoint or any other affiliates of CenterPoint or any of their respective successors. In addition, BondCo will have at least one independent manager whose approval will be required for certain major actions or organizational changes by BondCo.

The transition bonds will be issued pursuant to an indenture and administered by an indenture trustee.[32] The transition bonds will be secured by and payable solely out of the corresponding transition property created pursuant to this Financing Order and other collateral described in CenterPoint's application. That collateral will be pledged to the indenture trustee for the benefit of the holders of the transition bonds and to secure payment of certain qualified costs.

The servicer of the transition bonds will collect the transition charges and remit those amounts to the indenture trustee on behalf of BondCo. The servicer will be responsible for filing any required or allowed true-ups of the transition charges. If the servicer defaults on its obligations under the servicing agreement, the indenture trustee may appoint a successor servicer. CenterPoint will act as the initial servicer for the transition bonds.

Retail electric providers (REPs) will be required to meet certain financial standards to collect transition charges under this Financing Order. These standards are identical to those applicable to REPs collecting transition charges under CenterPoint's prior securitizations. If a REP qualifies to collect transition charges, the servicer will bill to and collect from the REP the transition charges attributable to the REP's customers. The REP in turn will bill to and collect from its retail customers the transition charges attributable to them. If any REP fails to qualify to collect transition charges or defaults in the remittance of those charges to the servicer of the transition bonds, another entity can assume responsibility for collection of the transition charges from the REP's retail customers.

[32] If more than one series of transition bonds is issued, each series will be issued pursuant to a separate indenture and be subject to its own set of basic agreements (*e.g.*, Transition Property Sale Agreement, Transition Property Servicing Agreement, Administration Agreement). For purposes of this Financing Order the description of the transition bonds would apply to each series of transition bonds.

Transition charges will be calculated to ensure the collection of an amount sufficient to service the principal, interest, and related charges for the transition bonds and in a manner that allocates this amount to the various classes of retail consumers as provided in PURA and Commission orders. The transition charges will be calculated pursuant to the method described in Schedule TC5, a pro forma copy of which is contained in Appendix B.[33] In addition to the annual true-up required by PURA § 39.307, periodic true-ups may be performed as necessary to ensure that the amount collected from transition charges is sufficient to service the transition bonds. In addition, an adjustment to the transition charge class allocations will be allowed under certain circumstances. The methodology for making true-ups and allocation adjustments and the circumstances under which each shall be made are described in pro-forma Schedule TC5, attached to this Financing Order as Appendix B. If transition bonds are issued in more than one series, then each series will be subject to a separate true up pursuant to PURA and this Financing Order, provided, however, that more than one series may be trued-up in a single proceeding.

The Commission determines that CenterPoint's proposed level transition charge structure should be utilized. This structure, which was used in each of CenterPoint's prior securitizations, is designed to produce essentially level residential rates over the recovery period if (1) the actual year-to-year changes in customers' loads match the changes forecasted at the time the transition bonds are structured and (2) annual loads and costs match those used to develop each transition charge true-up. If the transition bonds are issued in more than one series, the transition charges for each series must provide a level transition charge structure.

All of the bonds issued in prior Texas securitizations have been issued with a fixed interest rate. A fixed interest rate is necessary to assure that consumers benefit from the securitization. The benefits of fixed rates can be achieved through a combination of floating rate bonds and interest rate swaps. Although use of floating rate bonds and interest rate swaps were actively considered in prior transactions, no floating rate bonds have ever been issued in Texas. Based on the Commission's experience in prior securitizations, while there are some potential

[33] If more than one series of transition bonds is issued, each series will have a separately numbered Schedule, but each will be in the form of Schedule TC5 with such changes as are necessary to reflect the fact that the transition bonds will be issued in more than one series.

purchasers of transition bonds that are primarily interested in holding floating rate obligations, it is not necessary to issue floating rate bonds to attract those purchasers. CenterPoint's own experience with prior securitizations was that, for investors seeking floating rate bonds, it was more efficient to issue fixed rate bonds and allow the purchaser of the bonds to convert them to floating rates through swaps entered into by the purchaser outside the transaction. Such a conversion, in fact, was done by at least one large purchaser of bonds in two prior securitizations.

In the Commission's last five financing orders, the Commission concluded that the possible benefit of floating rate bonds did not outweigh the cost of preparing for and executing swaps and the potential risks swaps would impose on consumers.[34] As a result, the financing orders in those proceedings prohibited use of swaps and thus, effectively, issuance of floating rate bonds. We reach the same conclusion in this proceeding and will prohibit CenterPoint from issuing floating rate bonds and employing related swaps.

In the 2005 CenterPoint securitization additional costs were incurred to facilitate the issuance of transition bonds denominated in foreign currencies. Ultimately, CenterPoint and the Commission's financial advisor concluded that CenterPoint should not issue any transition bonds denominated in foreign currencies. Denominating bonds in foreign currency would create currency risks for consumers. While those risks can be reduced through use of derivatives, the derivatives will themselves create risk for consumers.

Interest rate hedges can also be used to lock in interest rates or limit the variability of interest rates prior to issuance of the transition bonds; however, such hedges constitute a bet on the direction of future market changes, which is neither necessary nor appropriate. Hedges also create additional costs and risks if, for any reason, the transition bonds are not issued or the amount issued is different from the principal amount hedged. As a result, this financing order prohibits CenterPoint from issuing transition bonds denominated in foreign currencies and from entering into interest rate hedges.

[34] *Application of AEP Texas Central Company for a Financing Order*, Docket No. 32475 Financing Order at 14-15 (Jun. 21, 2006); *Application of Entergy Gulf States, Inc. for a Financing Order*, Docket No. 33586 Financing Order at 2 (Apr. 2, 2007); *Application of CenterPoint Energy Houston Electric, LLC for Financing Order*, Docket No. 34448, Financing Order at 2 (Sept. 18, 2007); *Application of CenterPoint Energy Houston Electric, LLC for a Financing Order*, Docket No. 37200, Financing Order at 2 (Aug. 27, 2009); *Application of Entergy Texas, Inc. for Financing Order*, Docket No. 37247, Financing Order at 2 (Sept. 11, 2009).

CenterPoint requested approval of transition charges sufficient to recover the principal and interest on the transition bonds plus ongoing qualified costs as described in this Financing Order and Appendix C attached hereto. CenterPoint requests that the transition charges be recovered from REPs and through them from retail consumers and that the amount of the transition charges be calculated based upon the allocation methodology and billing determinants specified in Schedule TC5. CenterPoint also requests that certain standards related to the billing and collection of transition charges be applied to REPs, as specified in Schedule TC5. To implement the transition charges and billing and collection requirements, CenterPoint requests approval of Schedule TC5.

CenterPoint requested authority to securitize and to cause the issuance of one or more series of transition bonds in an aggregate principal amount not to exceed the Securitizable Balance. Pursuant to the Stipulation, CenterPoint will be responsible for costs incurred in issuing the transition bonds, including without limitation, underwriting discount. The costs of issuance may be paid out of the proceeds from the transition bonds. CenterPoint requested in its application that its ongoing costs of maintaining the transition bonds be recovered respectively through the transition bonds and transition charges approved in this proceeding. CenterPoint estimated that its ongoing qualified costs of servicing the transition bonds would total approximately $1.2 million per year for each year of the term of the transition bonds if CenterPoint was the servicer and up to approximately $10.5 million per year if a third party was the servicer.[35] The estimates are based on assumptions regarding a number of variables that will directly affect the level of ongoing qualified costs including (1) only one series of transition bonds will be issued and (2) the financing order will not permit use of interest rate or foreign currency hedges, floating rate bonds, or transition bonds denominated in foreign currencies.

The Commission's analysis of CenterPoint's request begins with the finding that certain of the ongoing costs that CenterPoint proposes to recover directly through transition charges should be capped. This finding accords with CenterPoint's prior securitizations, and other securitization proceedings in this state. CenterPoint's case does not present sufficient distinctions to merit deviating from this practice.

[35] Direct Testimony of Walter L. Fitzgerald at 18 (October 7, 2011); Figures WLF-1, Schedule 5.

While PURA includes any costs of retiring and refunding the electric utility's existing debt and equity securities in connection with the issuance of transition bonds as "qualified costs," CenterPoint is not seeking to include any such costs as qualified costs covered by this Financing Order. However, any costs associated with retiring or refunding existing debt securities of CenterPoint with the proceeds from the issuance of the transition bonds shall be treated as a regulatory asset earning interest at the same rate as the weighted average interest rate on the transition bonds (and if more than one series of transition bonds is issued, then the weighted average interest rate of the transition bonds of all series authorized by this Financing Order) and be considered for recovery in CenterPoint's next regular rate proceeding.

As long as CenterPoint serves as the servicer or administrator, respectively, CenterPoint is authorized to recover, directly through the transition charges, annual servicing fees equal to 0.05% of the initial principal amount of each series of transition bonds issued pursuant to this Financing Order and annual administrative fees of $100,000 for each BondCo plus reimbursable third party costs incurred by it in its role as administrator. Ongoing qualified costs include an annual return at CenterPoint's then-authorized equity return on the amount, if any, of invested capital in excess of 0.5% of the principal amount of each series of transition bonds as discussed in Findings of Fact 30 and 60. Ongoing qualified costs, other than the servicer and administrative fees charged by CenterPoint when it is the servicer and administrator, are not capped. They are, however, estimated on Appendix C. The estimated ongoing qualified costs should be updated in the issuance advice letter to reflect more current information then available to CenterPoint. In accordance with the terms of this Financing Order and subject to the approval of the indenture trustee, the Commission will permit a successor servicer to CenterPoint to recover a higher servicer fee if CenterPoint ceases to service the transition property.

III. Findings of Fact

A. Identification and Procedure

1. Identification of Applicant and Application

1. CenterPoint is a transmission and distribution utility which owns and operates for compensation an extensive transmission and distribution network to provide electric service in the portion of this state which is included in ERCOT. CenterPoint is an indirect wholly-owned subsidiary of CenterPoint Energy, Inc. (CenterPoint Energy).

2. On March 31, 2004, in Docket No. 29526, CenterPoint, Texas Genco, LP and Reliant Energy Retail Services, LLC (RERS) jointly filed an application to determine the true-up balance CenterPoint is entitled to recover in connection with the transition from a regulated to a competitive electricity market in ERCOT as required under PURA § 39.262. After contested hearings, in an order issued on November 23, 2004, the Commission determined that CenterPoint was entitled to recover an aggregate balance of $2,300,888,665 plus the excess mitigation credits provided and interest accrued after August 31, 2004.
3. On March 16, 2005, the Commission issued a financing order in Docket No. 30485 authorizing CenterPoint to securitize a portion of the balance determined in Docket No. 29526. CenterPoint completed that securitization on December 16, 2005.
4. On July 14, 2005, the Commission issued its final order on Docket No. 30706 authorizing CenterPoint to implement CTCs to recover the portion of the Docket No. 29526 balance that was not securitized. CenterPoint implemented the CTC effective August 1, 2005.
5. During the 2007 legislative session, the legislature amended PURA to permit securitization of the entire true-up balance.[36] As a result, and pursuant to the Commission's September 18, 2007 financing order in Docket No. 34448, CenterPoint securitized the approximately $500 million portion of the true up balance initially being recovered through CTCs.
6. CenterPoint originally filed its true-up application with the Commission requesting recovery of $3.7 billion, excluding interest. Following the December 2004 Commission order allowing CenterPoint to recover a true-up balance of approximately $2.3 billion, CenterPoint and a number of other parties appealed the Commission's decision to the District Court, to the Court of Appeals and, ultimately, to the Supreme Court. On March

[36] Act of May 29, 2007, H.B. 624 §§ 2-4, 80th Leg., R.S. (to be codified as an amendment to TEX. UTIL. CODE. ANN. §§ 39.301-39.303).

18, 2011, the Supreme Court issued its ruling on the appeal of the true-up order issued in 2004. The Supreme Court affirmed in part and reversed in part the Commission's decision and remanded the matter to the Commission for further proceedings. On October 5, 2011, in the Docket No. 39504 remand proceeding, certain parties submitted for Commission approval the Stipulation resolving all issues on remand and providing for CenterPoint to securitize $1,695,000,000 under the form of financing order attached to the Stipulation. The Commission subsequently approved the Stipulation.

2. Procedural History

7. On October 7, 2011, CenterPoint filed in this docket an application for a financing order under Subchapter G of Chapter 39 of PURA in which CenterPoint seeks to securitize the Securitizable Balance of $1,695,000,000. CenterPoint provided a general description of the proposed transaction structure in its application and in the testimony and exhibits submitted in support of its application.
8. The following parties intervened in this proceeding and were granted party status: [TO COME].
9. CenterPoint's application in this proceeding is consistent with the Stipulation approved by the Commission in Docket No. 39504.
10. No party opposes CenterPoint's application in this docket for a financing order.
11. [Reserved.]
12. [Reserved.]

3. Notice of Application

13. Notice of CenterPoint's application was provided through publication once a week for two consecutive weeks in newspapers having general circulation in CenterPoint's service area, contemporaneously with the filing of the application. In addition, CenterPoint provided individual notice to the governing bodies of all Texas incorporated municipalities that have retained original jurisdiction over CenterPoint and to each retail electric provider listed on the Commission website. Notice was also provided to all parties in Docket Nos. 29526, 30485, 30706, 34448, and 39504. Proof of publication was submitted in the form of publishers' affidavits and verification of the mailing of individual notices and of the provision of notice to the municipalities.

B. Qualified Costs and Amount to be Securitized

1. Identification and Amounts

14. Qualified costs are defined in PURA to include 100% of an electric utility's regulatory assets and 75% of its recoverable costs determined by the Commission under PURA § 39.201 and any remaining amounts determined under PURA § 39.262 together with the costs of issuing, supporting, and servicing transition bonds and any costs of retiring and refunding the electric utility's existing debt and equity securities in connection with the issuance of transition bonds. Qualified costs also include the costs to the Commission of acquiring professional services for the purpose of evaluating proposed securitization transactions.[37]

    Other qualified costs include the costs of issuing, supporting, and servicing the transition bonds and any costs associated with retiring and refunding existing debt and equity securities with the proceeds from the transition bonds. Certain ongoing costs relating to the transition bonds may not be known until such costs are incurred. CenterPoint shall demonstrate in the issuance advice letter for each series of transition bonds that the securitization will still provide real economic benefits to retail consumers and comply with the statutory financial tests and terms of this Financing Order.

15. While PURA includes any costs of retiring and refunding the electric utility's existing debt and equity securities in connection with the issuance of transition bonds as "qualified costs", CenterPoint is not seeking to include any such costs as qualified costs covered by this Financing Order. However, any costs associated with retiring or refunding existing debt securities of CenterPoint with the proceeds from the issuance of the transition bonds shall be treated as a regulatory asset earning interest at the same rate as the weighted average interest rate on the transition bonds (and if more than one series of transition bonds is issued, then the weighted average interest rate of the transition bonds of all series authorized by this Financing Order) and be considered for recovery in CenterPoint's next regular rate proceeding.

[37] *See* PURA § 39.302(4).

16. [Reserved.]

2. Balance to be Securitized

17. CenterPoint should be authorized to cause transition bonds to be issued in one or more series in an aggregate principal amount not to exceed the Securitizable Balance. Pursuant to the Stipulation, CenterPoint will be responsible for costs of issuance, which may be paid out of proceeds of the transition bonds. It is appropriate to recover the annual ongoing servicing fees and the annual fixed operating costs directly through transition charges. It is also appropriate to impose additional limits to ensure that the ongoing annual servicing fees incurred when CenterPoint serves as servicer do not exceed 0.05% of the initial principal balance of the transition bonds and that administrative fees incurred when CenterPoint is the administrator do not exceed $100,000 per year for each BondCo plus reimbursable third party costs as shown in Appendix C. Consistent with CenterPoint's prior securitizations, the annual servicing fee payable to any other servicer not affiliated with CenterPoint will not exceed 0.6% of the original principal amount of the transition bonds unless such higher rate is approved by the Commission. Ongoing costs other than the servicer and administrative fees charged by CenterPoint when it serves as servicer and administrator will not be capped but are estimated in Appendix C to this Financing Order. The servicing and administrative fees collected by CenterPoint, or any affiliate of CenterPoint, acting as either servicer or administrator under the servicing agreement or administration agreement, shall be included as a revenue credit and reduce revenue requirements in each subsequent CenterPoint base rate case. The expenses incurred by CenterPoint or such affiliate to perform obligations under the servicing agreement and administration agreement should be included as a cost of service in each CenterPoint base rate case.

18. The proposed recovery of the sum described in Finding of Fact 17 through issuance of transition bonds as provided in this Financing Order should be approved because ratepayers will receive tangible and quantifiable benefits as a result of the securitization.

3. Issuance Advice Letter

19. Because the actual structure and pricing of the transition bonds will not be known at the time this Financing Order is issued, following determination of the final terms of the transition bonds and prior to issuance of the transition bonds, CenterPoint will file with the Commission for each series of transition bonds issued, and no later than the end of the first business day after the pricing date for that series of transition bonds, an issuance advice letter. The issuance advice letter for each series of transition bonds will report the actual dollar amount of the initial transition charges and other information specific to the transition bonds to be issued. CenterPoint's issuance advice letter for each series of transition bonds shall update the benefit analysis to verify that the final amount securitized by that series satisfies the statutory financial tests. All amounts that require computation will be computed using the mathematical formulas contained in the form of the issuance advice letter in Appendix A to this Financing Order and Schedule TC5. The initial transition charges and the final terms of the transition bonds set forth in the issuance advice letter shall become effective on the date of issuance of the applicable series of transition bonds unless prior to noon on the fourth business day after pricing the Commission issues an order finding that the proposed issuance does not comply with the requirements of PURA and this Financing Order.

20. CenterPoint will submit a draft issuance advice letter to the Commission Staff for review not later than two weeks prior to the expected date of commencement of marketing a series of the transition bonds. Within one week after receipt of the draft issuance advice letter, Commission Staff will provide CenterPoint comments and recommendations regarding the adequacy of the information provided.

21. The issuance advice letter for a series of transition bonds shall be submitted to the Commission not later than the end of the first business day after the pricing of such series of transition bonds. Commission Staff may request such revisions of the issuance advice

letter as may be necessary to assure the accuracy of the calculations and that the requirements of PURA and of this Financing Order have been met. The initial transition charges and the final terms of the transition bonds set forth in the issuance advice letter shall become effective on the date of issuance of the transition bonds (which shall not occur prior to the fifth business day after pricing) unless prior to noon on the fourth business day after pricing the Commission issues an order finding that the proposed issuance does not comply with the requirements of PURA and the Financing Order.

22. The completion and filing of an issuance advice letter in the form of the issuance advice letter attached as Appendix A, including the certification from CenterPoint discussed in Findings of Fact 23 and 102, is necessary to ensure that any securitization actually undertaken by CenterPoint complies with the terms of this Financing Order.

23. The certification statement contained in CenterPoint's certification letter shall be worded precisely as the statement in the form of the issuance advice letter approved by the Commission. Other aspects of the certification letter may be modified to describe the particulars of the transition bonds and the actions that were taken during the transaction.

4. Tangible and Quantifiable Benefit

24. The statutory requirement in PURA § 39.301 that directs the Commission to ensure that securitization provides tangible and quantifiable benefits to ratepayers greater than would be achieved absent the issuance of transition bonds can only be determined using an economic analysis to account for the time value of money. An analysis that compares in the aggregate over the expected life of the transition bonds the present value of the revenue requirement associated with recovery of the Securitizable Balance through application of competition transition charges, which is the method that would be used to recover any portion of the balance not securitized and is reflective of conventional utility financing, with the present value of the revenue required under securitization is an appropriate economic analysis to demonstrate whether securitization provides economic benefits to ratepayers.

25. The financial analysis presented by CenterPoint indicates that securitization of the Securitizable Balance and other qualified costs as requested by CenterPoint is expected to result in approximately $5.5 million of tangible and quantifiable economic benefits to ratepayers on a present-value basis if the transition bonds are issued at the maximum weighted-average interest rate of 7.50% allowed by this Financing Order and with a fourteen-year expected life. Using the projected weighted-average interest rate of 2.50% and a fourteen-year expected life, the benefits of securitization would be approximately $647.9 million. These estimates assume that actual ongoing qualified costs will be as shown on Appendix C to this Financing Order. The benefits for consumers set forth in CenterPoint's evidence are fully indicative of the benefits consumers will realize from the securitization approved in this Financing Order; however, the actual benefit to ratepayers will depend upon market conditions on the date of pricing of the transition bonds and the actual scheduled maturity of the transition bonds. CenterPoint will be required to provide an updated tangible and quantifiable benefit analysis in its issuance advice letter to verify that this statutory test is met.

5. Present Value Cap

26. The amount securitized may not exceed the present value of the revenue requirement over the life of the proposed transition bonds associated with conventional (*i.e.*, non-securitized) recovery of the authorized amounts where the present value analysis uses a discount rate equal to the proposed interest rate on the transition bonds.[38] The analysis presented by CenterPoint demonstrates that the amount CenterPoint seeks to securitize does not exceed the present value of the revenue requirement associated with the securitized amount over the expected life of the transition bonds. The present value of the revenue requirement (calculated using a weighted average rate of 7.50% and an expected life of fourteen years which is consistent with prior CenterPoint securitizations) is approximately $5.5 million. Using the projected weighted average interest rate of 2.50%, the benefits of securitization would be even larger. Using a 2.50% weighted average interest rate, the present value of the revenue requirements would be approximately $647.9 million. These estimates assume the transition bonds will be issued with maximum expected lives of fourteen years and that actual ongoing qualified costs will be as estimated on Appendix C to this Financing Order. The benefits for consumers set forth in CenterPoint's evidence are fully indicative of the benefits consumers will realize from the securitization approved in this Financing Order; however, CenterPoint will be required to provide an updated present value analysis in its issuance advice letter to verify that this statutory test is met.

[38] *See* PURA § 39.301.

27. The amount of qualified costs to be securitized does not exceed the present value of the revenue requirement over the maximum expected life of the transition bonds associated with the amount approved to be securitized in this Financing Order. The present value analysis uses a discount rate equal to the maximum allowed weighted average interest rate on the transition bonds on an annual basis.

6. Total Amount of Revenue to be Recovered

28. The Commission is required to find that the total amount of revenues to be collected under this Financing Order will be less than the revenue requirement that would be recovered over the remaining life of the amounts that are securitized under this Financing Order, using conventional financing methods.[39] The appropriate conventional financing method with which to make this comparison is the recovery of the amount through collection of CTCs. If fourteen-year transition bonds are issued at a 7.50% weighted-average interest rate, CenterPoint's financial analysis indicates that the total amount of revenues to be collected under this Financing Order is expected to be approximately $9.1 million less than the revenue requirement that would be recovered using conventional utility financing methods over the period under which they would be recovered through CTCs. Using the projected weighted-average interest rate of 2.50%, the benefits of securitization would be approximately $775.6 million. These estimates assume the transition bonds will be issued with a maximum expected life of fourteen years, and that actual ongoing qualified costs will be as estimated on Appendix C to this Financing Order. The benefits for consumers set forth in CenterPoint's evidence are fully indicative of the benefits consumers will realize from the securitization approved in this Financing Order; however, CenterPoint will be required to provide an updated total revenue analysis in its issuance advice letter to verify that this statutory test is met.

[39] *See* PURA § 39.303(a).

C. Structure of the Proposed Securitization

1. BondCo

29. For purposes of this securitization, CenterPoint will create one or more special purpose entities (each referred to as BondCo), each of which will be a Delaware limited liability company with CenterPoint as its sole member. CenterPoint would create a separate BondCo for the issuance of a particular series of transition bonds and the rights, structure and restrictions described in this Financing Order with respect to BondCo would be applicable to each such purchaser of transition property to the extent of the transition property sold to it and the transition bonds issued by it. BondCo will be formed for the limited purpose of acquiring transition property, issuing transition bonds in one or more tranches or classes[40] for each series, and performing other activities relating thereto or otherwise authorized by this Financing Order. BondCo will not be permitted to engage in any other activities and will have no assets other than transition property and related assets to support its obligations under the transition bonds. Obligations relating to the transition bonds will be BondCo's only significant liabilities. These restrictions on the activities of BondCo and restrictions on the ability of CenterPoint to take action on BondCo's behalf are imposed to achieve the objective that BondCo will be bankruptcy remote and not affected by a bankruptcy of CenterPoint. BondCo will be managed by a board of managers with rights and duties similar to those of a board of directors of a corporation. As long as the transition bonds remain outstanding, BondCo will have at least one independent manager with no organizational affiliation with CenterPoint other than acting as an independent manager for one or more other bankruptcy-remote subsidiaries of CenterPoint or its affiliates. BondCo will not be permitted to amend the provisions of the organizational documents that relate to bankruptcy-remoteness of BondCo without the consent of the independent manager. Similarly, BondCo will not be permitted to institute bankruptcy or insolvency proceedings or to consent to the institution of bankruptcy or insolvency proceedings against it, or to dissolve, liquidate, consolidate, convert, or merge without the consent of the independent manager. Other restrictions to facilitate bankruptcy-remoteness may also be included in the organizational documents of BondCo as required by the rating agencies.

[40] Some prior Texas securitizations have used "tranches" while others have used "classes" to describe the bonds being issued. We use the terms interchangeably in this Financing Order.

30. The initial capital of BondCo is expected to be not less than 0.5% of the original principal amount of the transition bonds issued by BondCo. Funding of BondCo at this level is intended to protect the bankruptcy remoteness of BondCo. A sufficient level of capital is necessary to minimize this risk and, therefore, assist in achieving the lowest transition bond charges possible. Section 15G of the Securities Exchange Act of 1934 (Section 15G), as added by section 941 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, requires various federal agencies including the SEC and the Office of the Comptroller of the Currency, Treasury (the OCC) to adopt rules to implement the credit risk retention requirements of Section 15G. Such regulations could affect the level of capital which must be invested in BondCo or otherwise invested by CenterPoint in connection with the transition bonds, or other costs of issuing, supporting, and servicing the transition bonds. If CenterPoint is required to invest directly or indirectly more than 0.5% of the original principal amount of each series of transition bonds, it should be permitted to earn an annual return on such additional investment at CenterPoint's then-authorized rate of return on equity. The required revenue, if any, to provide an annual return on any such additional capital at CenterPoint's then-authorized rate of return on equity is an ongoing qualified cost.

31. BondCo will issue transition bonds in one or more series, and in one or more tranches for each series, in an aggregate amount not to exceed the principal amount approved by this Financing Order and will pledge to the indenture trustee, as collateral for payment of the transition bonds, the transition property, including BondCo's right to receive the transition charges as and when collected, and certain other collateral described in CenterPoint's application.

32. The expected final maturity of the last tranche of transition bonds will not exceed fourteen years (although the legal final maturity of the transition bonds may extend to 15 years), which is consistent with CenterPoint's prior securitizations.

33. Concurrent with the issuance of any of the transition bonds, CenterPoint will transfer to BondCo all of CenterPoint's rights under this Financing Order related to the amount of transition bonds BondCo is issuing, including rights to impose, collect, and receive transition charges approved in this Financing Order. This transfer will be structured so that it will qualify as a true sale within the meaning of PURA § 39.308. By virtue of the transfer, BondCo will acquire all of the right, title, and interest of CenterPoint in the portion of the transition property arising under this Financing Order that is related to the amount of transition bonds BondCo is issuing.

34. The use and proposed structure of BondCo and the limitations related to its organization and management are necessary to minimize risks related to the proposed securitization transactions and to minimize the transition charges. Therefore, the use and proposed structure of BondCo should be approved.

2. Credit Enhancement and Arrangements to Reduce Interest Rate Risk or Enhance Marketability

35. CenterPoint requested approval to use additional forms of credit enhancement (including letters of credit, reserve accounts, surety bonds, or guarantees) and other mechanisms designed to promote the credit quality and marketability of the transition bonds if the benefits of such arrangements exceed their cost. CenterPoint also asked that the costs of any credit enhancements as well as the costs of arrangements to enhance marketability be included in the amount of qualified costs to be securitized. CenterPoint should be permitted to recover the ongoing costs of credit enhancements and arrangements to enhance marketability, provided that the Commission's designated representative and CenterPoint agree in advance that such enhancements and arrangements provide benefits greater than their tangible and intangible costs. If the use of original issue discount, credit enhancements, or other arrangements is proposed by CenterPoint, CenterPoint shall provide the Commission's designated representative copies of all cost/benefit analyses performed by or for CenterPoint that support the request to use such arrangements. This finding does not apply to the collection account or its subaccounts approved in this Financing Order.

36. CenterPoint's proposed use of credit enhancements and arrangements to enhance marketability is reasonable and should be approved, provided that CenterPoint certifies that the enhancements or arrangements provide benefits greater than their cost and that such certifications are agreed with by the Commission's designated representative.

37. In the first two financing orders issued to CenterPoint and its predecessors, the Commission did not preclude CenterPoint from entering into floating rate or foreign currency denominated notes, interest rate hedges, or foreign currency hedges. None were utilized.

38. In the Commission's five most recent financing orders,[41] the Commission determined that the costs and risks of swap transactions outweighed the expected benefits and prohibited the use of interest rate swaps.

39. The evidence submitted by CenterPoint in this proceeding established that use of floating rate notes, notes denominated in foreign currencies, interest rate hedges, or foreign currency hedges would not be expected to result in the lowest transition bond charges, and would necessarily expose ratepayers to higher risks and greater uncertainty about future costs. Accordingly, the Commission has determined that CenterPoint should not be permitted to use floating rate notes, notes denominated in foreign currencies, or hedges in this transaction.

3. Transition Property

40. Under PURA § 39.304(a), the rights and interests of an electric utility or successor under a financing order, including the right to impose, collect, and receive the transition charges authorized in the financing order, are only contract rights until they are first transferred to an assignee or pledged in connection with the issuance of transition bonds, at which time they will become transition property.

[41] *Application of AEP Texas Central Company for a Financing Order*, Docket No. 32475, Financing Order at 14-15 (Jun. 21, 2006); *Application of Entergy Gulf States, Inc. for a Financing Order*, Docket No. 33586, Financing Order at 2 (Apr. 2, 2007); *Application of CenterPoint Energy Houston Electric, LLC for Financing Order*, Docket No. 34448, Financing Order at 2 (Sept. 18, 2007); *Application of CenterPoint Energy Houston Electric, LLC for a Financing Order*, Docket No. 37200, Financing Order at 2 (Aug. 27, 2009); *Application of Entergy Texas, Inc. for Financing Order*, Docket No. 37247, Financing Order at 2 (Sept. 11, 2009).

41. The rights to impose, collect, and receive the transition charges approved in this Financing Order along with the other rights arising pursuant to this Financing Order will become transition property upon the transfer of such rights by CenterPoint to BondCo pursuant to PURA § 39.304. If transition bonds are issued in more than one series, then the transition property transferred as a result of each issuance shall be only those rights associated with that portion of the Securitizable Balance securitized by such issuance. The rights to impose, collect and receive transition charges along with the other rights arising pursuant to this Financing Order as they relate to any portion of the Securitizable Balance that remains unsecuritized shall remain with CenterPoint and shall not become transition property until transferred to a BondCo in connection with a subsequent issuance of transition bonds.

42. Transition property and all other collateral will be held and administered by the indenture trustee pursuant to the indenture, as described in CenterPoint's application. This proposal will help ensure the lowest transition bond charges and should be approved.

43. Under PURA § 39.304(b), transition property constitutes a present property right for purposes of contracts concerning the sale or pledge of property, even though the imposition and collection of transition charges depends on further acts of the utility or others that have not yet occurred.

4. Servicer and the Servicing Agreement

44. CenterPoint will execute a servicing agreement with BondCo. The servicing agreement may be amended, renewed, or replaced by another servicing agreement. The entity responsible for carrying out the servicing obligations under any servicing agreement is the servicer. CenterPoint will be the initial servicer but may be succeeded as servicer by another entity under certain circumstances detailed in the servicing agreement and as authorized by the Commission. Pursuant to the servicing agreement, the servicer will be required, among other things, to impose and collect the applicable transition charges for the benefit and account of BondCo, to make the periodic true-up adjustments of transition charges required or allowed by this Financing Order, and to account for and remit the applicable transition charges to or for the account of BondCo in accordance with the

remittance procedures contained in the servicing agreement without any charge, deduction or surcharge of any kind (other than the servicing fee specified in the servicing agreement). Under the terms of the servicing agreement, if any servicer fails to perform its servicing obligations in any material respect, the indenture trustee acting under the indenture to be entered into in connection with the issuance of the transition bonds, or the indenture trustee's designee, may, or, upon the instruction of the requisite percentage of holders of the outstanding amount of transition bonds, shall, appoint an alternate party to replace the defaulting servicer, in which case the replacement servicer will perform the obligations of the servicer under the servicing agreement. The obligations of the servicer under the servicing agreement and the circumstances under which an alternate servicer may be appointed will be more fully described in the servicing agreement. The rights of BondCo under the servicing agreement will be included in the collateral pledged to the indenture trustee under the indenture for the benefit of holders of the transition bonds. CenterPoint currently serves as servicer of the transition charges related to the transition bonds issued by CenterPoint Energy Transition Bond Company, LLC in October 2001 pursuant to the financing order issued on June 1, 2000, in Docket No. 21665; CenterPoint Energy Transition Bond Company II, LLC in December 2005 pursuant to the financing order issued on March 16, 2005, in Docket No. 30485; and CenterPoint Energy Transition Bond Company III, LLC in February 2008 pursuant to the financing order issued on September 18, 2007, in Docket No. 34448. CenterPoint also currently serves as servicer of the system restoration charges related to the system restoration bonds issued by CenterPoint Energy Restoration Bond Company, LLC in November 2009 pursuant to the financing order issued on August 27, 2009, in Docket No. 37200. Consequently, CenterPoint, as initial servicer of transition charges associated with transition bonds issued under this Financing Order will, and any successor servicer may, simultaneously be serving as servicer of separate transition or system restoration charges associated with transition or system restoration bonds for more than one issuer.

45. The servicing agreement shall contain a recital clause that the Commission, or its attorney, will enforce the servicing agreement for the benefit of Texas ratepayers to the extent permitted by law.

46. The servicing agreement shall include a provision that CenterPoint shall indemnify the Commission (for the benefit of consumers) in connection with any increase in servicing fees that become payable as a result of a default resulting from CenterPoint's willful misconduct, bad faith, or negligence in performance of its duties or observance of its covenants under the servicing agreement. The indemnity will be enforced by the Commission but will not be enforceable by any REP or consumer.

47. The obligations to continue to provide service and to collect and account for transition charges will be binding upon CenterPoint and any other entity that provides transmission and distribution services or direct wire services to a person that was a retail consumer located within the service area of CenterPoint's predecessor, Houston Lighting & Power Company (HL&P), as it existed on May 1, 1999, or that became a retail consumer for electric services within such area after May 1, 1999, and is still located within such area. Further, and to the extent REPs are responsible for imposing and billing transition charges on behalf of BondCo, billing and credit standards approved in this Financing Order will be binding on all REPs that bill and collect transition charges from such retail consumers, together with their successors and assigns. The Commission will enforce the obligations imposed by this Financing Order, its applicable substantive rules, and statutory provisions.

48. To the extent that any interest in the transition property created by this Financing Order is assigned, sold, or transferred to an assignee,[42] CenterPoint will enter into a contract with that assignee that will require CenterPoint to continue to operate its transmission and distribution system in order to provide electric services to CenterPoint's customers. This provision does not prohibit CenterPoint from selling, assigning or otherwise divesting its transmission and distribution system or any part thereof so long as the entity acquiring such facilities agrees to continue operating the facilities to provide electric services to CenterPoint's customers.

[42] The term "assignee" means "any individual, corporation, or other legally recognized entity to which an interest in transition property is transferred, other than as security, including any assignee of that party." PURA § 39.302(1).

49. The proposals described in Findings of Fact 44 through 48 are reasonable, will reduce risk associated with the proposed securitization and will, therefore, result in lower transition bond charges and greater benefits to ratepayers and should be approved.

5. Retail Electric Providers

50. The servicer will bill the transition charges to each retail consumer's REP and the REP will collect the transition charges from its retail customers.

51. Schedule TC5 sets forth minimum billing and collection standards to apply to REPs that collect transition charges approved by this Financing Order from retail electric consumers. The Commission finds that the REP standards set forth in Schedule TC5 are appropriate and should be adopted.

52. The REP standards set forth in Schedule TC5 relate only to the billing and collection of transition charges authorized under this Financing Order, and do not apply to collection of any other nonbypassable charges or other charges. The standards apply to all REPs other than REPs that have contracted with CenterPoint to have CenterPoint bill and collect transition charges from the REP's retail consumers. REPs may contract with parties other than CenterPoint to bill and collect transition charges from retail consumers, but such parties shall remain subject to these standards. Upon adoption of any amendment to P.U.C. SUBST. R. 25.108, Commission Staff will open a proceeding to investigate the need to modify the standards in Schedule TC5 to conform to that rule, provided that such modifications may not be implemented absent prior written confirmation from each of the rating agencies from which CenterPoint has obtained a rating of the transition bonds that such modifications will not cause a suspension, withdrawal, or downgrade of the ratings on the transition bonds.

53. The REP standards are as follows:

(a) Rating, Deposit, and Related Requirements.

Each REP must (1) have a long-term, unsecured credit rating of not less than "BBB-" and "Baa3" (or the equivalent) from Standard & Poor's and Moody's Investors Service, respectively, or (2) provide to the indenture trustee (a) a deposit of two months' maximum expected transition

charge collections in the form of cash, (b) an affiliate guarantee, surety bond, or letter of credit providing for payment of such amount of transition charge collections in the event that the REP defaults in its payment obligations, or (c) a combination of any of the foregoing. A REP that does not have or maintain the requisite long-term, unsecured credit rating may select which alternate form of deposit, credit support, or combination thereof it will utilize, in its sole discretion. The indenture trustee shall be a beneficiary of any affiliate guarantee, surety bond or letter of credit. The provider of any affiliate guarantee, surety bond, or letter of credit must have and maintain a long-term, unsecured credit rating of not less than "BBB-" and "Baa3" (or the equivalent) from Standard & Poor's and Moody's Investors Service, respectively.

(b) Loss of Rating.

If the long-term, unsecured credit rating from either Standard & Poor's or Moody's Investors Service of a REP that did not previously provide the alternate form of deposit, credit support, or combination thereof or of any provider of an affiliate guarantee, surety bond, or letter of credit is suspended, withdrawn, or downgraded below "BBB-" or "Baa3" (or the equivalent), the REP must provide the alternate form of deposit, credit support, or combination thereof, or new forms thereof, in each case from providers with the requisite ratings, within 10 business days following such suspension, withdrawal, or downgrade. A REP failing to make such provision must comply with the provisions set forth in Paragraph (e).

(c) Computation of Deposit, etc.

The computation of the size of a deposit required under Paragraph (a) shall be agreed upon by the servicer and the REP, and reviewed no more frequently than quarterly to ensure that the deposit accurately reflects two months' maximum expected transition charge collections. Within 10 business days following such review, (1) the REP shall remit to the indenture trustee the amount of any shortfall in such required deposit or (2) the servicer shall instruct the indenture trustee to remit to the REP any amount in excess of such required deposit. A REP failing to so remit any such shortfall must comply with the provisions set forth in Paragraph (e). REP cash deposits shall be held by the indenture trustee, maintained in a segregated account, and invested in short-term high quality investments, as permitted by the rating agencies from which a rating of the transition bonds has been obtained by CenterPoint. Investment earnings on REP cash deposits shall be considered part of such cash deposits so long as they remain on deposit with the

indenture trustee. At the instruction of the servicer, cash deposits will be remitted with investment earnings to the REP at the end of the term of the transition bonds unless otherwise utilized for the payment of the REP's obligations for transition charges. Once the deposit is no longer required, the servicer shall promptly (but not later than 30 calendar days) instruct the indenture trustee to remit the amounts in the segregated accounts to the REP.

(d) Payment of Transition Charges.

Payments of transition charges are due 35 calendar days following each billing by the servicer to the REP, without regard to whether or when the REP receives payment from its retail customers. The servicer shall accept payment by electronic funds transfer, wire transfer, and/or check. Payment will be considered received the date the electronic funds transfer or wire transfer is received by the servicer, or the date the check clears. A 5% penalty is to be charged on amounts received after 35 calendar days; however, a 10 calendar-day grace period will be allowed before the REP is considered to be in default. A REP in default must comply with the provisions set forth in Paragraph (e). The 5% penalty will be a one-time assessment measured against the current amount overdue from the REP to the servicer. The "current amount" consists of the total unpaid transition charges existing on the 36th calendar day after billing by the servicer. Any and all such penalty payments will be made to the servicer to be applied against transition charge obligations. A REP shall not be obligated to pay the overdue transition charges of another REP. If a REP agrees to assume the responsibility for the payment of overdue transition charges as a condition of receiving the customers of another REP that has decided to terminate service to those customers for any reason, the new REP shall not be assessed the 5% penalty upon such transition charges; however, the prior REP shall not be relieved of the previously-assessed penalties.

(e) Remedies upon Default.

After the 10 calendar-day grace period (the 45th calendar day after the billing date) referred to in Paragraph (d), the servicer shall have the option to seek recourse against any cash deposit, affiliate guarantee, surety bond, letter of credit, or combination thereof provided by the REP, and avail itself of such legal remedies as may be appropriate to collect any remaining unpaid transition charges and associated penalties due the servicer after the application of the REP's deposit or alternate form of credit support. In addition, a REP that is in default with respect to the requirements set forth in Paragraphs (b), (c), or (d) shall, subject to the limitations and requirements of applicable bankruptcy laws if the REP is a debtor in bankruptcy, select and implement one of the following options:

(1) Allow the Provider of Last Resort (POLR) or a qualified REP of the consumer's choosing to immediately assume the responsibility for the billing and collection of transition charges.

(2) Immediately implement other mutually suitable and agreeable arrangements with the servicer. It is expressly understood that the servicer's ability to agree to any other arrangements will be limited by the terms of the servicing agreement and requirements of each of the rating agencies from which CenterPoint has obtained a rating of the transition bonds necessary to avoid a suspension, withdrawal, or downgrade of the ratings on the transition bonds.

(3) Arrange that all amounts owed by retail consumers for services rendered be timely billed and immediately paid directly into a lock-box controlled by the servicer with such amounts to be applied first to pay transition charges before the remaining amounts are released to the REP. All costs associated with this mechanism will be borne solely by the REP.

If a REP that is in default fails to immediately select and implement one of the foregoing options or, after so selecting one of the foregoing options, fails to adequately meet its responsibilities thereunder, then the servicer shall immediately implement option (1), subject to the limitations and requirements of applicable bankruptcy laws if the REP is a debtor in bankruptcy. Upon re-establishment of compliance with the requirements set forth in Paragraphs (b), (c) and (d) and the payment of all past-due amounts and associated penalties, the REP will no longer be required to comply with this paragraph.

(f) Interest of REPs (Including the POLR) in Funds Held by Servicer.

Any interest that a REP (including the POLR) may have in any funds in the hands of the servicer shall be junior and subordinate to any and all rights of the indenture trustee or BondCo to such funds.

(g) Billing by Providers of Last Resort, etc.

The POLR appointed by the Commission must meet the minimum credit rating or deposit/credit support requirements described in Paragraph (a) in addition to any other standards that may be adopted by the Commission. If the POLR defaults or is not eligible to provide such services, responsibility for billing and collection of transition charges will immediately be transferred to and assumed by the servicer until a new POLR can be named by the Commission or the consumer requests the services of a certified REP. Retail consumers may never be re-billed by the successor REP, the POLR, or the servicer for any amount of transition charges they have paid their REP (although future transition charges shall reflect REP and other system-wide charge-offs). Additionally, if the amount of the penalty detailed in Paragraph (d) is the sole remaining past-due amount after the 45th calendar day, the REP shall not be required to comply with clauses (1), (2), or (3) of Paragraph (e), unless the penalty is not paid within an additional 30 calendar days.

(h) Disputes.

In the event that a REP disputes any amount of billed transition charges, the REP shall pay the disputed amount under protest according to the timelines detailed in Paragraph (d). The REP and servicer shall first attempt to informally resolve the dispute, but if they fail to do so within 30 calendar days, either party may file a complaint with the Commission. If the REP is successful in the dispute process (informal or formal), the REP shall be entitled to interest on the disputed amount paid to the servicer at the Commission-approved interest rate. Disputes about the date of receipt of transition charge payments (and penalties arising thereon) or the size of a required REP deposit will be handled in a like manner. It is expressly intended that any interest paid by the servicer on disputed amounts shall not be recovered through transition charges if it is determined that the servicer's claim to the funds is clearly unfounded. No interest shall be paid by the servicer if it is determined that the servicer has received inaccurate metering data from another entity providing competitive metering services pursuant to PURA § 39.107.

(i) Metering Data.

If the servicer is providing the metering, metering data will be provided to the REP at the same time as the billing. If the servicer is not providing the metering, the entity providing the metering services will be responsible for complying with Commission rules and ensuring that the servicer and the REP receive timely and accurate metering data in order for the servicer to meet its obligations under the servicing agreement and this Financing Order with respect to billing and true ups.

(j) Charge-Off Allowance.

The REP will be allowed to hold back an allowance for charge-offs in its payments to the servicer. Such charge-off rate will be recalculated each year in connection with the annual true-up procedure. In the initial year, REPs will be allowed to remit payments based on the same charge-off percentage then being used by the REP to remit payments to the servicer in connection with the then most recently established transition charges related to (i) the transition bonds issued by CenterPoint Energy Transition Bond Company, LLC on October 24, 2001, (ii) the transition bonds issued by CenterPoint Energy Transition Bond Company II, LLC on December 16, 2005, or (iii) the transition bonds issued by CenterPoint Energy Transition Bond Company III, LLC on February 12, 2008. On an annual basis in connection with the true-up process, the REP and the servicer will be responsible for reconciling the amounts held back with amounts actually written off as uncollectible in accordance with the terms agreed to by the REP and the servicer, provided that:

(1) The REP's right to reconciliation for write-offs will be limited to customers whose service has been permanently terminated and whose entire accounts (*i.e.*, all amounts due the REP for its own account as well as the portion representing transition charges) have been written off.

(2) The REP's recourse will be limited to a credit against future transition charge payments unless the REP and the servicer agree to alternative arrangements, but in no event will the REP have recourse to the indenture trustee, BondCo or BondCo's funds for such payments.

(3) The REP shall provide information on a timely basis to the servicer so that the servicer can include the REP's default experience and any subsequent credits into its calculation of the adjusted transition-charge rates for the next transition-charge billing period and the REP's rights to credits will not take effect until after such adjusted transition charges have been implemented.

(k) Service Termination.

In the event that the servicer is billing consumers for transition charges, the servicer shall have the right to terminate transmission and distribution service to the end-use consumer for non-payment by the end-use consumer pursuant to applicable Commission rules. In the event that a REP or the POLR is billing consumers for transition charges, the REP or POLR shall have the right to transfer customers to the POLR (or to another certified REP) or to direct the servicer to terminate transmission and distribution service to the end-use consumer for non-payment in accordance with the applicable Commission rules.

54. The proposed billing and collection standards are the same as those adopted in Docket Nos. 21665, 30485, 34448, and 37200 and currently applied by CenterPoint in its capacity as servicer under the transition and system restoration bonds issued pursuant to the financing orders in those dockets.

55. The proposed billing and collection standards for REPs and the applicability of those standards are appropriate for the collection of transition charges resulting from this Financing Order, are reasonable and will lower risks associated with the collection of transition charges and will result in lower transition bond charges and greater benefits to ratepayers. In addition, adoption of these standards will provide uniformity of standards for the billing and collection of transition charges for which CenterPoint acts as servicer. Therefore, the proposed billing and collection standards for REPs and the applicability of those standards described in Findings of Fact 52 and 53 should be approved.

6. Transition Bonds

56. Transition bonds will be issued in one or more series, and each series may be issued in one or more tranches. The legal final maturity date of any series of transition bonds will not exceed 15 years from the date of issuance of such series. The legal final maturity date of each series and tranche within a series and amounts in each series will be finally determined by CenterPoint and the Commission's designated representative, consistent with market conditions and indications of the rating agencies, at the time the transition bonds are priced, but subject to ultimate Commission review through the issuance advice letter process. CenterPoint will retain sole discretion regarding whether or when to

assign, sell, or otherwise transfer any rights concerning transition property arising under this Financing Order, or to cause the issuance of any transition bonds authorized in this Financing Order, subject to the right of the Commission to find that the proposed issuance does not comply with the requirements of PURA and this Financing Order. BondCo will issue the transition bonds on or after the fifth business day after pricing of the transition bonds unless, prior to noon on the fourth business day following pricing of the bonds, the Commission issues an order finding that the proposed issuance does not comply with the requirements of PURA and this Financing Order.

57. The Commission finds that the proposed structure, providing annual transition charges to residential customers that would be essentially level over the term of the transition bonds if the actual year-to-year changes in residential load match the changes forecast at the time the transition bonds are structured, is in the public interest and should be used. The approved structure is reasonable and should be approved, provided that the issuance advice letter demonstrates that all of the statutory financial requirements are met. This restriction is necessary to ensure that the stated economic benefits to ratepayers materialize.

7. Security for Transition Bonds

58. The payment of the transition bonds and related charges authorized by this Financing Order is to be secured by the transition property created by this Financing Order and by certain other collateral as described in the application. Each series of the transition bonds will be issued pursuant to an indenture administered by the indenture trustee (any such indenture, “the indenture,” and the trustee under an indenture, “the indenture trustee”). The indenture will include provisions for a collection account for the series and subaccounts for the collection and administration of the transition charges and payment or funding of the principal and interest on the transition bonds and other costs, including fees and expenses, in connection with the transition bonds, as described in CenterPoint’s application. Pursuant to the indenture, BondCo will establish a collection account as a trust account to be held by the indenture trustee as collateral to ensure the payment of the principal, interest, and other costs approved in this Financing Order related to the transition bonds in full and on a timely basis. The collection account will include the general subaccount, the capital subaccount, and the excess funds subaccount, and may include other subaccounts.

a. The General Subaccount

59. The indenture trustee will deposit the transition charge remittances that the servicer remits to the indenture trustee for the account of BondCo into the general subaccount. The indenture trustee will on a periodic basis allocate or use all amounts in this subaccount to pay expenses of BondCo, to pay principal and interest on the transition bonds, and to meet the funding requirements of the other subaccounts. The funds in the general subaccount will be invested by the indenture trustee in short-term high-quality investments, and such funds (including, to the extent necessary, investment earnings) will be applied by the indenture trustee to pay principal and interest on the transition bonds and all other components of the Periodic Payment Requirement (as defined in Finding of Fact 83), and otherwise in accordance with the terms of the indenture.

b. The Capital Subaccount

60. When a series of transition bonds is issued, CenterPoint will make a capital contribution to BondCo for that series, which BondCo will deposit into the capital subaccount. The amount of the capital contribution is expected to be not less than 0.5% of the original principal amount of each series of transition bonds, although the actual amount will depend on tax and rating agency requirements and possible regulatory changes resulting from regulations under Section 15G. The capital subaccount will serve as collateral to ensure timely payment of principal and interest on the transition bonds and all other components of the Periodic Payment Requirement. Any funds drawn from the capital subaccount to pay these amounts due to a shortfall in the transition charge remittances will be replenished through future transition charge remittances. The funds in this subaccount will be invested by the indenture trustee in short-term high-quality investments, and such funds (including investment earnings) will be available to be used by the indenture trustee to pay principal and interest on the transition bonds and all other components of the Periodic Payment Requirement. If CenterPoint is required to make a capital contribution in excess of 0.5% of the original principal amount of each series of

transition bonds, CenterPoint will be authorized to receive an aggregate amount equal to the sum of (i) the actual amounts earned by the trustee from investment of the capital contribution (up to 0.5% of the original principal amount of each series) and (ii) an annual return on the remainder of the capital contribution at CenterPoint's then-authorized rate of return on equity. The required revenue, if any, to provide an annual return on any such additional capital at CenterPoint's then-authorized rate of return on equity is an ongoing qualified cost. Upon payment of the principal amount of all transition bonds and the discharge of all obligations that may be paid by use of transition charges, all amounts in the capital subaccount, including any investment earnings, will be released to BondCo for payment to CenterPoint. Investment earnings in this subaccount may be released earlier in accordance with the indenture.

61. The capital contribution to BondCo will be funded by CenterPoint. To ensure that ratepayers receive the appropriate benefit from the securitization approved in this Financing Order, the proceeds from the sale of the transition bonds should not be applied towards this capital contribution. Because CenterPoint funds the capital subaccount, CenterPoint should receive the investment earnings on that capital, and if CenterPoint is required to make a capital contribution in excess of 0.5% of the original transition bonds, CenterPoint should receive the annual return on any such additional capital contribution, from time to time, and should receive a return of all capital contributions after all transition bonds have been paid. So long as no event of default under the indenture has occurred and is continuing, and the Periodic Payment Requirement is satisfied, such earnings and return on amounts in the capital subaccount shall be released to CenterPoint as provided in the indenture.

c. The Excess Funds Subaccount

62. The excess funds subaccount will hold any transition charge remittances and investment earnings on the collection account (other than earnings attributable to the capital subaccount and released under the terms of the indenture) in excess of the amounts needed to pay current principal and interest on the transition bonds and to pay ongoing costs related to the transition bonds (including, but not limited to, replenishing the capital subaccount). Any balance in or allocated to the excess funds subaccount on a true-up

adjustment date will be subtracted from the Periodic Payment Requirement for purposes of the true-up adjustment. The funds in this subaccount will be invested by the indenture trustee in short-term high-quality investments, and such funds (including investment earnings thereon) will be available to be used by the indenture trustee to pay principal and interest on the transition bonds and other ongoing costs relating to the transition bonds.

d. Other Subaccounts

63. Other credit enhancements in the form of subaccounts may be utilized for the transaction provided that the Commission's designated representative and CenterPoint agree in advance that such enhancements provide benefits greater than their tangible and intangible costs. For example, CenterPoint does not propose use of an overcollateralization subaccount as was approved in Docket Nos. 21665 and 30485 in connection with CenterPoint's first two securitizations. As described in CenterPoint's application, under Rev. Proc. 2002-49, as clarified by Rev. Proc. 2005-61 and 2005-62 issued by the Internal Revenue Service (IRS), the use of an overcollateralization subaccount is no longer necessary to obtain the tax treatment described in Finding of Fact 99(e) nor does it appear to be necessary to obtain AAA ratings for the proposed transition bonds. However, if the Commission's designated representative and CenterPoint subsequently agree that use of an overcollateralization subaccount or other subaccount is necessary to obtain such tax treatment or AAA ratings or will otherwise increase the tangible and quantifiable benefits of the securitization, CenterPoint may implement such subaccounts in order to reduce transition charges.

8. General Provisions

64. The collection account and the subaccounts described above are intended to provide for full and timely payment of scheduled principal and interest on the transition bonds and all other components of the Periodic Payment Requirement. If the amount of transition charges remitted to the general subaccount is insufficient to make all scheduled payments of principal and interest on the transition bonds and to make payment on all of the other components of the Periodic Payment Requirement, the excess funds subaccount, and the

capital subaccount will be drawn down, in that order, to make those payments. Any deficiency in the capital subaccount due to such withdrawals must be replenished on a periodic basis through the true-up process. In addition to the foregoing, there may be such additional accounts and subaccounts as are necessary to segregate amounts received from various sources (*i.e.*, amounts received from REPs), or to be used for specified purposes. Such accounts will be administered and utilized as set forth in the servicing agreement and the indenture. Upon the maturity of the transition bonds and the discharge of all obligations in respect thereof, remaining amounts in the collection account, other than amounts that were in the capital subaccount, will be released to BondCo and equivalent amounts will be credited by CenterPoint to customers consistent with PURA § 39.262(g). The servicer, on behalf of BondCo, will distribute to REPs and other entities responsible for collection of transition charges from retail consumers, the final balance of the general subaccount, excess funds subaccount, and all other subaccounts (except the capital subaccount), whether such balance is attributable to amounts deposited in such subaccounts or to interest thereon, remaining after all other qualified costs have been paid. The amounts will be distributed to each REP and other entity that paid Schedule TC5 transition charges during the last 12 months that the Schedule TC5 transition charges were in effect. The amount paid to each REP or other entity will be determined by multiplying the total amount available for distribution by a fraction, the numerator of which is the total Schedule TC5 transition charges paid by the REP or other entity during the last 12 months Schedule TC5 transition charges were in effect and the denominator of which is the total Schedule TC5 transition charges paid by all REPs and other entities responsible for collection of transition charges from ratepayers during the last 12 months the Schedule TC5 transition charges were in effect.

65. The use of a collection account and its subaccounts in the manner proposed by CenterPoint is reasonable, will lower risks associated with the securitization and thus lower the costs to ratepayers, and should, therefore, be approved.

9. Transition Charges—Imposition and Collection, Nonbypassability, and Self-Generation

66. CenterPoint seeks authorization to impose on and collect from REPs, and from other entities which are required to pay transition charges under this Financing Order or Schedule TC5, transition charges in an amount sufficient to provide for the timely recovery of its qualified costs approved in this Financing Order (including payment of principal and interest on the transition bonds and ongoing costs related to the transition bonds).

67. Transition charges will be separately identified on bills presented to REPs.

68. If a REP or other entity does not pay the full amount it has been billed, the amount paid by the REP or such other entity will first be apportioned between the transition charges and other fees and charges (including amounts billed and due in respect of transition charges associated with transition bonds issued under other financing orders), other than late fees, and second, any remaining portion of the payment will be allocated to late fees. This allocation will facilitate a proper balance between the competing claims to this source of revenue in an equitable manner.

69. The transition bonds will have a scheduled final maturity of not longer than fourteen years. However, amounts may still need to be recovered after the scheduled final maturity. CenterPoint proposed that the transition charges related to a series of transition bonds will be recovered over a period of not more than 15 years from the date of issuance of that series of transition bonds but that amounts due at or before the end of that period for services rendered during the 15-year period may be collected after the conclusion of the 15-year period.

70. PURA § 39.303(b) prohibits the recovery of transition charges for a period of time that exceeds 15 years. Transition charges related to a series of transition bonds may not be collected after 15 years from the date of issuance of that series of bonds. This restriction does not, however, prevent the recovery of amounts due at the end of such 15-year period for services rendered during such 15-year period.

71. CenterPoint, acting as servicer, and any subsequent servicer, will collect transition charges from all REPs serving existing and future retail consumers located within HL&P's service area as it existed on May 1, 1999, and from all other entities which are required to pay transition charges under Schedule TC5, except as provided in Finding of

Fact 72. In accordance with PURA § 39.252(c), a retail consumer within such area may not avoid transition charges by switching to another electric utility, electric cooperative or municipally-owned utility after May 1, 1999. However, a consumer in a multiply-certificated service area that requested to switch providers on or before May 1, 1999, or was not taking service from HL&P on May 1, 1999, and does not do so after that date, will not be responsible for paying transition charges.

72. Except as provided by PURA §§ 39.262(k) and 39.252, as implemented by P.U.C. SUBST. R. 25.345 a retail consumer may not avoid the payment of transition charges by switching to new on-site generation as defined in PURA § 39.252(b). Pursuant to PURA § 39.252(b)(2), if a consumer commences taking energy from new on-site generation that materially reduces the consumer's use of energy delivered through CenterPoint's facilities, the consumer will pay an amount each month computed by multiplying the output of the on-site generation utilized to meet the internal electrical requirements of the consumer by the applicable transition charges in effect for that month. Any reduction equivalent to more than 12.5% of the consumer's annual average use of energy delivered through CenterPoint's facilities will be considered material for this purpose. Payments of the transition charges owed by such consumers under PURA § 39.252(b)(2) will be made to the servicer and will be collected in addition to any other charges applicable to services provided to the consumer through CenterPoint's facilities and any other charges applicable to self-generation under PURA § 39.252.

73. CenterPoint's proposal related to imposition and collection of transition charges is reasonable and is necessary to ensure collection of transition charges sufficient to support recovery of the qualified costs approved in this Financing Order and should be approved. It is reasonable to approve the form of CenterPoint's Schedule TC5 in this Financing Order and require that these tariff provisions be filed before any transition bonds are issued pursuant to this Financing Order.

10. Allocation of Qualified Costs among Texas Retail Consumers

74. [Reserved.]

75. CenterPoint proposed that a single allocation percentage be developed for each transition charge class and that such percentage and the procedures for adjusting such percentage be set forth in Schedule TC5. The proposed single allocation percentage, referred to as the periodic billing requirement allocation factor (PBRAF), reflects the allocation factors agreed to in the Stipulation.

76. Schedule TC5 contains a series of formulas to adjust the class allocation factors if load losses within a given class or group of classes exceed specified thresholds or if there are additional load losses attributable to eligible generation as defined in P.U.C. SUBST. R. 25.345(c)(2). Schedule TC5 contains procedures for further adjusting the allocation percentages if there is a change in the amount of statewide retail stranded costs in excess of $5 billion and the securitized amount includes stranded costs.

77. TNMP, a previous wholesale customer of CenterPoint, exited CenterPoint's system in 2001 before the start of retail competition. In Docket No. 34448, the true-up balances allocable to TNMP were excluded from the amounts to be recovered through the CTC and from the components used to calculate the securitizable balance in that docket, which did not include any costs allocable to TNMP. Similarly, in this proceeding, CenterPoint will not include in the Securitizable Balance any qualified costs which are either directly applicable to TNMP or are allocable to TNMP based on the time period during which TNMP was CenterPoint's customer.

78. The methodology for allocating qualified costs and developing the initial PBRAFs as described above is reasonable and appropriate and should be approved. That methodology will not be changed except in the limited circumstance where, on a statewide basis, there is a subsequent reallocation of total retail stranded costs in excess of $5 billion. The methodology for adjusting the PBRAFs in such circumstances are described in Part D of Section 6 of Schedule TC5.

79. The initial PBRAF for each transition charge class shall be as set out in the Schedule TC5 filed with CenterPoint's issuance advice letter.

80. New consumers will be assigned to the transition charge classes listed in Schedule TC5 based on the definitions and procedures described in Schedule TC5.

81. The initial PBRAFs will remain in effect throughout the life of the transition bonds unless a modification is required to comply with Finding of Fact 78 or is made pursuant to the allocation factor adjustment provisions in Section 6 of Schedule TC5.

82. The method of calculating and adjusting PBRAFs as set forth in CenterPoint's Application and Schedule TC5 comply with the requirements of PURA § 39.253 and should be approved.

11. True-Up of Transition Charges

83. Pursuant to PURA § 39.307, the servicer of the transition bonds will make annual adjustments to the transition charges to:

(a) correct any undercollection or overcollection of transition charges, including without limitation any caused by REP defaults, during the preceding 12 months; and

(b) ensure the billing of transition charges necessary to generate the collection of amounts sufficient to timely provide all scheduled payments of principal and interest and any other amounts due in connection with the transition bonds (including, but not limited to, ongoing fees and expenses; amounts required to be deposited in or allocated to any collection account or subaccount; indenture trustee indemnities; payments due in connection with any expenses incurred by the indenture trustee or the servicer to enforce bondholder rights; and all other payments that may be required pursuant to the waterfall of payments set forth in the indenture) during the period for which such adjusted transition charges are to be in effect.

Such amounts are referred to as the "Periodic Payment Requirement" and the amounts necessary to be billed to collect such Periodic Payment Requirement are referred to as the "Periodic Billing Requirement." With respect to any series of transition bonds, the servicer will make true-up adjustment filings with the Commission at least annually, within 45 days of the anniversary of the date of the original issuance of the transition bonds of that series.

84. True-up filings will be based on the cumulative differences, regardless of the reason, between the Periodic Payment Requirement (including scheduled principal and interest payments on the transition bonds) and the amount of transition charge remittances to the

indenture trustee. True-up procedures are necessary to ensure full recovery of amounts sufficient to meet the Periodic Payment Requirements over the expected life of the transition bonds. In order to assure adequate transition charge revenues to fund the Periodic Payment Requirement and to avoid large overcollections and undercollections over time, the servicer will reconcile the transition charges using CenterPoint's most recent forecast of electricity deliveries (*i.e.*, forecasted billing units) and estimates of transaction-related expenses. The calculation of the transition charges will also reflect both a projection of uncollectible transition charges and a projection of payment lags between the billing and collection of transition charges based upon CenterPoint's and the REPs' most recent experience regarding collection of transition charges.

85. The servicer will make true-up adjustments in the manner described in Section 8 of Schedule TC5. For the residential consumer class it will:

(a) allocate the upcoming period's Periodic Billing Requirement, including any undercollection or overcollection of transition charges, including, without limitation, any caused by REP defaults, from the preceding period, based on the PBRAFs determined in accordance with Schedule TC5 approved in this Financing Order; and

(b) divide the amount assigned to the residential consumer class in step (a) above by the appropriate forecasted billing units to determine the transition charge rate by class for the upcoming period.

For each of the Commercial and Industrial TC Groups as defined in Schedule TC5, an adjustment factor will be computed by dividing (1) the amount assigned to the group in step (a) above by (2) the sum of the existing rates times the forecasted billing determinants for each class in the group. For each class in a group, the transition charge for the upcoming period will be the product of the existing transition charge times the adjustment factor for the group in which that class resides.

12. Interim True-Up

86. In addition to annual true-up adjustments, true-up adjustments may be made by the servicer more frequently at any time during the term of the transition bonds to correct any undercollection or overcollection, as provided for in this Financing Order, in order to assure timely payment of transition bonds based on rating agency and bondholder considerations. In addition to the foregoing, either of the following two conditions may result in an interim true-up adjustment:

(a) the servicer determines that expected collection of transition charges for the upcoming payment date would result in a difference that is greater than 5% in absolute value, between (i) the actual outstanding principal balances of the transition bonds plus amounts on deposit in the excess funds subaccount and (ii) the outstanding principal balances anticipated in the target amortization schedule; or

(b) to meet a rating agency requirement that any tranche of transition bonds be paid in full by its scheduled final maturity date.

87. In the event an interim true-up is necessary, the interim true-up adjustment should be filed on the fifteenth day of the current month for implementation in the first billing cycle of the following month. In no event would such interim true-up adjustments occur more frequently than every three months if quarterly transition bond payments are required or every six months if semi-annual transition bond payments are required; provided, however, that interim true-up adjustments for any transition bonds remaining outstanding during the fourteenth and fifteenth year after the bonds are issued may occur quarterly. If transition bonds are issued in more than one series, then each series will be subject to separate true-up adjustments pursuant to PURA and this Financing Order, provided, however, that more than one series may be trued-up in a single proceeding.

13. Adjustment to PBRAFs

88. Schedule TC5 contains detailed procedures for adjustment of PBRAFs to reflect load losses a transition charge class or group of transition charge classes may suffer and certain changes that may be ordered by the Commission.

89. A proceeding for the purpose of approving an allocation factor adjustment should be conducted in the following manner:

(a) Any allocation factor adjustment will be made in conjunction with a standard, annual true up. Any such adjustment will be filed with the Commission at least 90 days before the date the proposed adjustment will become effective. The filing will contain the proposed changes to the transition charge rates, justification for such changes as necessary to specifically address the cause(s) of the adjustment and a statement of the proposed adjustment date.

(b) Concurrently with the filing with the Commission, the servicer will notify all parties to this docket of the filing of the proposed adjustment.

(c) The servicer will issue appropriate notice and the Commission will conduct a contested case proceeding on the allocation adjustment pursuant to PURA § 39.003.

The scope of the proceeding will be limited to determining whether the proposed adjustment complies with this Financing Order. In any true-up proceeding that involves the adjustment of the PBRAFs, all parties in the proceeding shall have the right to challenge the reasonableness of the forecasts of billing determinants proposed as a basis for adjusting the PBRAFs. The Commission will issue a final order by the proposed adjustment date stated in the filing. In the event that the Commission cannot issue an order by that date, the servicer will be permitted to implement its proposed changes. Any modifications subsequently ordered by the Commission will be made by the servicer in the next true-up filing.

90. Schedule TC5 provides for an additional true-up provision and adjustment to PBRAFs for the Industrial TC group which resulted from the Stipulation Regarding Industrial Intra-Class Allocations approved in Docket No. 30485. Under this provision, the first 10% of load loss within an Industrial TC class is borne by that class, with the excess of load loss over 10% allocated to the remaining Industrial TC classes.

91. The allocation adjustment procedures contained in Schedule TC5 are necessary to avoid inequities, are reasonable, and should be adopted.

14. Additional True-Up Provisions

92. The true-up adjustment filing will set forth the servicer's calculation of the true-up adjustment to the transition charges. Except for the allocation adjustment described in Findings of Fact 88 through 90, the Commission will have 15 days after the date of a true-up adjustment filing in which to confirm the mathematical accuracy of the servicer's adjustment. Except for the allocation adjustment described above, any true-up adjustment filed with the Commission should be effective on its proposed effective date, which shall be not less than 15 days after filing. Any necessary corrections to the true-up adjustment, due to mathematical errors in the calculation of such adjustment or otherwise, will be made in future true-up adjustment filings.

93. The true-up procedures contained in Schedule TC5 are reasonable and will reduce risks related to the transition bonds, resulting in lower transition bond charges and greater benefits to ratepayers and should be approved.

94. The broad-base nature of the true-up mechanism and the pledge of the State of Texas, along with the bankruptcy remoteness of the special purpose entity and the collection account, will serve to minimize, if not effectively eliminate, for all practical purposes and circumstances, any credit risk.

15. Designated Representative

95. In order to ensure, as required by PURA § 39.301, that the structuring and pricing of the transition bonds result in the lowest transition bond charges consistent with market conditions and the terms of this Financing Order, the Commission finds that it is necessary for the Commission or its designated representative to have a decision-making role co-equal with CenterPoint with respect to the structuring and pricing of the transition bonds and that all matters related to the structuring and pricing of the transition bonds shall be determined through a joint decision of CenterPoint and the Commission or its designated representative. The Commission's primary goal is to ensure that the structuring and pricing of the transition bonds result in the lowest transition bond charges consistent with market conditions and the terms of this Financing Order.

96. The Commission or its designated representative must have an opportunity to participate fully and in advance in all plans and decisions relating to the structuring, marketing, and pricing of the transition bonds and must be provided timely information as necessary to allow it to participate in a timely manner (including, but not limited to, information prepared for the benefit of rating agencies and information prepared for use in marketing the transition bonds to investors).

97. The Commission or its designated representative shall require a certificate from the bookrunning underwriter(s) confirming that the structuring, marketing, and pricing of the transition bonds resulted in the lowest transition bond charges consistent with market conditions and the terms of this Financing Order.

98. CenterPoint stated that it expected the following transaction documents to be executed in connection with each series of transition bonds issued pursuant to this Financing Order and that it expected the form of each document to be consistent with those used in its most recent securitization: Administration Agreement, Indenture, Amended and Restated Limited Liability Company Agreement, Transition Property Servicing Agreement, Transition Property Sale Agreement, and Bill of Sale. The Commission's designated representative shall be afforded an opportunity to review and comment on these documents before they are finalized. Consistent with its most recent securitization, CenterPoint requested the right to amend the terms of these transaction documents; provided, however, that no amendment to any such agreement shall increase ongoing qualified costs without the approval of the Commission.

16. Lowest Transition Bond Charges

99. CenterPoint has proposed a transaction structure that is expected to include (but is not limited to):

(a) the use of BondCo as issuer of the transition bonds, limiting the risks to transition bondholders of any adverse impact resulting from a bankruptcy proceeding of its parent or any affiliate;

(b) the right to impose and collect transition charges that are nonbypassable and which must be trued-up at least annually, but may be trued-up more frequently under certain circumstances, in order to assure the timely payment of the debt service and other ongoing transaction costs;

(c) additional collateral in the form of a collection account which includes a capital subaccount funded in cash in an amount not less than 0.5% of the original principal amount of the transition bonds and other subaccounts resulting in greater certainty of timely payment of interest and principal to investors and that are consistent with (i) the IRS requirements that must be met to receive the desired federal income tax treatment for the transition bond transaction and (ii) any applicable regulations under Section 15G;

(d) protection of transition bondholders against potential defaults by a servicer or REPs that are responsible for billing and collecting the transition charges from existing or future retail consumers;

(e) certain federal income tax treatment including: (i) the transfer of the rights under this Financing Order to BondCo not resulting in gross income to CenterPoint Energy and the future revenues under the transition charges being included in CenterPoint Energy's gross income under its normal method of accounting; (ii) the issuance of the transition bonds and the transfer of the proceeds of the transition bonds to CenterPoint not resulting in gross income to CenterPoint Energy; and (iii) the transition bonds constituting obligations of CenterPoint Energy;

(f) the transition bonds will be marketed using proven underwriting and marketing processes, through which market conditions and investors' preferences, with regard to the timing of the issuance, the terms and conditions, expected and legal final maturities, and other aspects of the structuring and pricing will be determined, evaluated, and factored into the structuring and pricing of the transition bonds; and

(g) furnishing timely information to the Commission's designated representative, to allow the Commission, through the issuance advice letter process, to ensure that the structuring and pricing of the transition bonds result in the lowest transition bond charges consistent with market conditions and the terms of this Financing Order.

100. CenterPoint's proposed transaction structure is necessary to enable the transition bonds to obtain the highest possible bond credit rating, ensures that the structuring and pricing of the transition bonds will result in the lowest transition bond charges consistent with market conditions and the terms of this Financing Order, ensures the greatest benefit to ratepayers consistent with market conditions and the terms of this Financing Order, and protects the competitiveness of the retail electric market.

101. To ensure that ratepayers receive the tangible and quantifiable economic benefits due from the proposed securitization and so that the proposed transition bond transaction will be consistent with the standards set forth in PURA §§ 39.301 and 39.303, it is necessary that (i) the issuance advice letter demonstrates that the transaction is expected to provide benefits to customers on both the total revenue (*i.e.* nominal) and net present value bases when compared to collection of the Securitizable Balance through CTCs, (ii) the expected final maturity of the last tranche of transition bonds does not exceed fourteen years (although the legal final maturity of the transition bonds may extend to 15 years), (iii) the amortization of the transition bonds is structured to produce level residential rates over the term of the bonds, and (iv) CenterPoint otherwise satisfies the requirements of this Financing Order.

102. To allow the Commission to fulfill its obligations under PURA related to the securitization approved in this Financing Order, it is necessary for CenterPoint, for each series of transition bonds issued, to certify to the Commission that the structure and pricing of that series results in the lowest transition bond charges consistent with market conditions at the time that the transition bonds are priced and the terms (including the specified amortization pattern) of this Financing Order and, if additional credit enhancements or arrangements to enhance marketability or reduce interest rate risks were used, to certify that they are expected to provide benefits in excess of their cost as required by Findings of Fact 35 and 36 of this Financing Order.

D. Use of Proceeds

103. Upon the issuance of transition bonds, BondCo will use the net proceeds from the sale of the transition bonds (after payment of transaction costs) to pay to CenterPoint the purchase price of the transition property.

104. The net proceeds from the sale of the transition property (after payment of transaction costs) will be applied to reduce the debt and/or common equity on the regulatory books of CenterPoint.

105. Through the steps described in Findings of Fact 103 and 104, the net proceeds from the sale of transition bonds will be used solely to retire existing debt and/or common equity of CenterPoint and will result in a reduction in CenterPoint's recoverable transition costs as determined in Docket No. 29526.

E. Waiver of P.U.C. PROC. R. 22.35(b)

106. Pursuant to P.U.C. PROC. R. 22.5(b), good cause existed to waive the requirements of P.U.C. PROC. R. 22.35(b), to permit consideration of CenterPoint's application in this docket for a financing order at the Commission's Open Meeting on October 27, 2011, so that consumers could obtain the earliest and greatest possible benefit from the Docket No. 39504 Stipulation and the proposed securitization of the competition transition charges.

IV. Conclusions of Law

1. CenterPoint is a public utility, as defined in PURA § 11.004, and an electric utility, as defined in PURA § 31.002(6).
2. CenterPoint is entitled to file an application for a financing order under PURA § 39.301.
3. The Commission has jurisdiction and authority over CenterPoint's application pursuant to PURA §§ 14.001, 32.001, 39.201 and 39.301-39.313.
4. The Commission has authority to issue this Financing Order under Subchapters E, F, and G of Chapter 39 of PURA.
5. Notice of CenterPoint's application was provided in compliance with the Administrative Procedure Act[43] and P.U.C. PROC. R. 22.54 and 22.55.
6. This application does not constitute a major rate proceeding as defined by P.U.C. PROC. R. 22.2.
7. CenterPoint's application, as modified by this Financing Order, is in the public interest and complies with Commission rules.
8. Only the retail portion of regulatory assets may be recovered through a transition charge assessed against retail consumers.
9. Amended PURA § 39.301 allows a utility to securitize its regulatory assets and other amounts determined under Section 39.201 or 39.262.
10. BondCo will be an assignee as defined in PURA § 39.302(1) when an interest in transition property is transferred, other than as security, to BondCo.
11. The holders of the transition bonds and the indenture trustee will each be a financing party as defined in PURA § 39.302 (3).

[43] TEX. GOV'T CODE ANN. §§ 2001.001-2001.902 (Vernon 2000 & Supp. 2006).

12. CenterPoint may use one or more BondCos to issue one or more series of transition bonds in accordance with this Financing Order.

13. The securitization approved in this Financing Order satisfies the requirement of PURA § 39.301 dictating that the proceeds of the transition bonds shall be used solely for the purposes of reducing the amount of recoverable regulatory assets and other amounts determined pursuant to PURA §§ 39.201 and 39.262 through the refinancing or retirement of utility debt and/or equity.

14. The securitization approved in this Financing Order satisfies the requirement of PURA § 39.301 mandating that the securitization provides tangible and quantifiable benefits to ratepayers greater than would have been achieved absent the issuance of transition bonds. Consistent with fundamental financial principles, this requirement in PURA § 39.301 can only be determined using an economic analysis to account for the time value of money. An analysis that compares in the aggregate over the expected life of the transition bonds the present value of the revenue requirement associated with continued use of CTCs (which is the method under which these costs would otherwise be recovered and reflects conventional utility financing) with the present value of the revenue required under securitization is an appropriate economic analysis to demonstrate whether securitization provides economic benefits to ratepayers.

15. BondCo's issuance of the transition bonds approved in this Financing Order in compliance with the criteria established by this Financing Order satisfies the requirement of PURA § 39.301 prescribing that the structuring and pricing of the transition bonds will result in the lowest transition bond charges consistent with market conditions and the terms of this Financing Order.

16. The amount approved in this Financing Order for securitization does not exceed the present value of the revenue requirement over the life of the transition bonds approved in this Financing Order that are associated with the costs sought to be securitized, as required by PURA § 39.301.

17. The securitization approved in this Financing Order satisfies the requirements of PURA § 39.303(a) directing that the total amount of revenues to be collected under this Financing Order be less than the revenue requirement that would be recovered using conventional financing methods (which, in the case of the balance at issue in this proceeding, would be a CTC) and that this Financing Order be consistent with the standards of PURA § 39.301.

18. Under PURA §§ 39.301 and 39.303, the Commission has the ability to prohibit different financial options relating to the transition bonds if the evidence supports the finding that the financial option will not or is unlikely to result in the lowest transition bonds charges consistent with market conditions.

19. This Financing Order adequately details the amount to be recovered and the period over which CenterPoint will be permitted to recover nonbypassable transition charges in accordance with the requirements of PURA § 39.303(b). Transition charges related to a series of transition bonds may not be collected after 15 years from the date of issuance of that series of transition bonds. This provision does not preclude the servicer from recovering transition charges attributable to service rendered during the 15-year period but remaining unpaid at the end of the 15-year period.

20. The method approved in this Financing Order for collecting and allocating the transition charges satisfies the requirements of PURA §§ 39.303(c) and 39.253.

21. As provided in PURA § 39.303(d), this Financing Order, together with the transition charges authorized by this Financing Order, is irrevocable and not subject to reduction, impairment, or adjustment by further act of the Commission, except for the true-up procedures approved in this Financing Order, as required by PURA § 39.307; provided, however, that such irrevocability shall not preclude the Commission from extending the deadline for issuance of transition bonds if requested to do so by CenterPoint.

22. As provided in PURA § 39.304(a), the rights and interests of CenterPoint or its successor under this Financing Order, including the right to impose, collect and receive the transition charges authorized in this Financing Order, are assignable and shall become transition property when they are first transferred to BondCo.

23. The rights, interests and property conveyed to each BondCo in a Transition Property Sale Agreement and the related Bill of Sale, including the irrevocable right to impose, collect and receive transition charges and the revenues and collections from transition charges are "transition property" within the meaning of PURA §§ 39.302(8) and 39.304.

24. Transition property will constitute a present property right for purposes of contracts concerning the sale or pledge of property, even though the imposition and collection of the transition charges depend on further acts by CenterPoint or others that have not yet occurred, as provided by PURA § 39.304(b).

25. All revenues and collections resulting from the transition charges will constitute proceeds only of the transition property arising from this Financing Order, as provided by PURA § 39.304(c).

26. Upon the transfer by CenterPoint of the transition property to BondCo, BondCo will have all of the rights, title and interest of CenterPoint in the portion of the transition property arising under this Financing Order that is related to the amount of transition bonds BondCo is issuing, including the right to impose, collect and receive the transition charges authorized by the Financing Order.

27. The transition bonds issued pursuant to this Financing Order will be "transition bonds" within the meaning of PURA § 39.302(6) and the transition bonds and holders thereof are entitled to all of the protections provided under Subchapter G of Chapter 39 of PURA.

28. The transition charges paid by the REPs to the servicer as transition charges pursuant to this Financing Order are "transition charges" as defined in PURA § 39.302(7).

29. The amounts collected from retail consumers who purchase electricity from a REP are "transition charges" as defined in PURA § 39.302(7), to the extent that such amounts are attributable to transition charges billed to the REPs by the servicer, whether or not such charges are set out as a separate line-item on the retail consumer's bill.

30. Any payment of transition charges by a retail consumer to its REP or directly to the servicer will discharge the retail consumer's obligations in respect of that payment, but will not discharge the obligations of any REP to remit such payments to the servicer of the transition bonds on behalf of BondCo or an assignee or its obligations to pay amounts determined through subsequent true-up adjustments.

31. As provided in PURA § 39.305, the interests of an assignee, the holders of transition bonds, and the indenture trustee in transition property and in the revenues and collections arising from that property are not subject to setoff, counterclaim, surcharge, or defense by CenterPoint or any other person or in connection with the bankruptcy of CenterPoint or any other entity.

32. The methodology approved in this Financing Order to true-up the transition charges satisfies the requirements of PURA § 39.307.

33. If and when CenterPoint transfers to BondCo the right to impose, collect, and receive transition charges and to issue transition bonds, the servicer will be able to recover the transition charges associated with such transition property only for the benefit of BondCo and the holders of the transition bonds in accordance with the servicing agreement.

34. If and when CenterPoint transfers its rights under this Financing Order to BondCo under an agreement that expressly states that the transfer is a sale or other absolute transfer in accordance with the true-sale provisions of PURA § 39.308, then, pursuant to that statutory provision, that transfer will be a true sale of an interest in transition property and not a secured transaction or other financing arrangement and title, legal and equitable, to the transition property will pass to BondCo. As provided by PURA § 39.308, this true sale shall apply regardless of whether the purchaser has any recourse against the seller, or any other term of the parties' agreement, including the seller's retention of an equity interest in the transition property, CenterPoint's role as the collector of transition charges relating to the transition property, or the treatment of the transfer as a financing for tax, financial reporting, or other purposes.

35. As provided in PURA § 39.309(b), a valid and enforceable lien and security interest in the transition property in favor of the holders of the transition bonds or a trustee on their behalf will be created by this Financing Order and the execution and delivery of a security agreement with the holders of the transition bonds or a trustee on their behalf in connection with the issuance of the transition bonds. The lien and security interest will attach automatically from the time that value is received for the transition bonds and, on perfection through the filing of notice with the Secretary of State in accordance with the rules prescribed by the Secretary of State under PURA § 39.309(d), will be a continuously perfected lien and security interest in the transition property and all proceeds of the transition property, whether accrued or not, will have priority in the order of filing and will take precedence over any subsequent judicial or other lien creditor.

36. As provided in PURA § 39.309(c), the transfer of an interest in transition property to an assignee will be perfected against all third parties, including subsequent judicial or other lien creditors, when this Financing Order becomes effective, transfer documents have been delivered to that assignee, and a notice of that transfer has been filed in accordance with the rules prescribed by the Secretary of State under PURA § 39.309(d); provided, however, that if notice of the transfer has not been filed in accordance with this process within 10 days after the delivery of transfer documentation, the transfer of the interest will not be perfected against third parties until the notice is filed. The transfer to BondCo of CenterPoint's rights under this Financing Order will be a transfer of an interest in transition property for purposes of PURA § 39.309(c).

37. As provided in PURA § 39.309(e), the priority of a lien and security interest perfected in accordance with PURA § 39.309 will not be impaired by any later change in the transition charges pursuant to PURA § 39.307 or by the commingling of funds arising from transition charges with other funds, and any other security interest that may apply to those funds will be terminated when they are transferred to a segregated account for an assignee or a financing party. To the extent that transition charges are not collected separately from other funds owed by REPs, the amounts to be remitted to such segregated account for an assignee or a financing party may be determined according to system-wide charge off percentages, collection curves or such other reasonable methods of estimation, as are set forth in the servicing agreement.

38. As provided in PURA § 39.309(e), if transition property is transferred to an assignee, any proceeds of the transition property will be treated as held in trust for the assignee.

39. As provided in PURA § 39.309(f), if a default or termination occurs under the transition bonds, the financing parties or their representatives may foreclose on or otherwise enforce their lien and security interest in the relevant transition property as if they were secured parties under Chapter 9, Texas Business and Commerce Code, and, upon application by or on behalf of the financing parties, the Commission may order that amounts arising from the related transition charges be transferred to a separate account for the financing parties' benefit, to which their lien and security interest may apply.

40. As provided in PURA § 39.309(f), if a default or termination occurs under the transition bonds, on application by or on behalf of the financing parties, a district court of Travis County, Texas shall order the sequestration and payment to those parties of revenues arising from the related transition charges.

41. As provided by PURA § 39.310, the transition bonds authorized by this Financing Order are not a debt or obligation of the State of Texas and are not a charge on its full faith and credit or taxing power.

42. Pursuant to PURA § 39.310, the State of Texas has pledged for the benefit and protection of all financing parties and CenterPoint, that it will not take or permit any action that would impair the value of the transition property, or, except as permitted by PURA § 39.307, reduce, alter, or impair the transition charges to be imposed, collected, and remitted to any financing parties, until the principal, interest, and any other charges incurred and contracts to be performed in connection with the transition bonds have been paid and performed in full. BondCo, in issuing transition bonds, is authorized pursuant to PURA § 39.310 and this Financing Order to include this pledge in any documentation relating to the transition bonds.

43. As provided in PURA § 39.311, transactions involving the transfer and ownership of the transition property and the receipt of transition charges are exempt from state and local income, sales, franchise, gross receipts, and other taxes or similar charges.

44. This Financing Order will remain in full force and effect and unabated notwithstanding the bankruptcy of CenterPoint, its successors, or assignees.

45. CenterPoint retains sole discretion regarding whether or when to assign, sell, or otherwise transfer the rights and interests created by this Financing Order or any interest therein, or to cause the issuance of any transition bonds authorized by this Financing Order, subject to the right of the Commission or its designated representative to have a decision-making role co-equal with CenterPoint to approve or disapprove the proposed pricing, marketing, and structuring of the transition bonds as set out in this Financing Order, and the Commission's authority through the issuance advice letter process to find that the proposed issuance does not comply with the requirements of PURA and this Financing Order.

46. This Financing Order is final, is not subject to rehearing by this Commission, and is not subject to review or appeal except as expressly provided in PURA § 39.303(f). The finality of this Financing Order is not impaired in any manner by the participation of the Commission through its designated representative in any decisions related to issuance of the transition bonds or by the Commission's review of or issuance of an order related to the issuance advice letter required to be filed with the Commission by this Financing Order.

47. This Financing Order meets the requirements for a financing order under Subchapter G of Chapter 39 of PURA.

48. The true-up mechanism and all other obligations of the State of Texas and the Commission set forth in this Financing Order are direct, explicit, irrevocable and unconditional upon issuance of the transition bonds and are legally enforceable against the State of Texas and the Commission.

49. [Reserved]

50. The requirements for informal disposition pursuant to P.U.C. PROC. R. 22.35 have been met in this proceeding except for subsection (b)(2) that requires the proposed order to be served on all parties no less than 20 days before the Commission is scheduled to consider the application in an open meeting. Under P.U.C. PROC. R. 22.5(b), good cause exists to waive the requirements of P.U.C. PROC. R. 22.35(b), to permit consideration of this proceeding at the Commission's next regularly scheduled Open Meeting on October 27, 2011, so that consumers may obtain the earliest and greatest possible benefit from the Docket No. 39504 Stipulation and the proposed securitization of the competition transition charges.

V. Ordering Paragraphs

Based upon the record, the Findings of Fact and Conclusions of Law set forth herein, and for the reasons stated above, this Commission orders:

A. Approval

1. **Approval of Application.** The application of CenterPoint for the issuance of a financing order under PURA § 39.303, is approved, as provided in this Financing Order. CenterPoint's application and accompanying testimony and schedules, and proof of publication are incorporated into the record pursuant to this Financing Order.
2. **Authority to Securitize.** CenterPoint is authorized in accordance with this Financing Order to securitize and to cause the issuance of transition bonds in one or more series with an aggregate principal amount equal to $1,695,000,000 (the Securitizable Balance).
3. **Recovery of Transition Charges.** CenterPoint shall impose on, and the servicer shall collect from, all REPs serving existing or future retail consumers located within HL&P's certificated service area as it existed on May 1, 1999, and other entities which, under the terms of this Financing Order or Schedule TC5 are required to pay or collect transition charges, as provided in this Financing Order, transition charges in an amount sufficient to provide for the timely recovery of its aggregate qualified costs detailed in this Financing Order (including payment of principal and interest on the transition bonds). REPs shall pay the transition charges billed to them whether or not they collect the transition charges from their customers.

4. **Provision of Information.** CenterPoint shall take all necessary steps to ensure that the Commission or its designated representative is provided sufficient and timely information to allow the Commission or its designated representative to fully participate in and exercise its decision making authority over the proposed securitization as provided in this Financing Order.

5. **Issuance Advice Letter.** For each series of transition bonds issued, CenterPoint shall submit a draft issuance advice letter to the Commission Staff for review not later than two weeks prior to the expected date of commencement of marketing of the transition bonds. Within one week after receipt of the draft issuance advice letter, Commission Staff shall provide CenterPoint comments and recommendations regarding the adequacy of the information provided. Not later than the end of the first business day after pricing of the transition bonds and prior to issuance of the transition bonds, CenterPoint, in consultation with the Commission acting through its designated representative, shall file with the Commission an issuance advice letter in substantially the form of the issuance advice letter attached as Appendix A to this Financing Order. As part of the issuance advice letter, an officer of CenterPoint shall provide a certification worded precisely as the statement in the form of issuance advice letter approved by the Commission. The issuance advice letter shall be completed, shall evidence the actual dollar amount of the initial transition charges and other information specific to the transition bonds to be issued, and shall certify to the Commission that the structure and pricing of that series results in the lowest transition bond charges consistent with market conditions at the time that the transition bonds are priced, and the terms set out in this Financing Order. In addition, if original issue discount, additional credit enhancements, or arrangements to reduce interest rate risks or enhance marketability are used, the issuance advice letter shall include certification that the original issue discount, additional credit enhancements, or other arrangements are reasonably expected to provide benefits as required by this Financing Order. All amounts that require computation shall be computed using the mathematical formulas contained in the form of the issuance advice letter in Appendix A

to this Financing Order and Schedule TC5 approved in this Financing Order. Electronic spreadsheets with the formulas supporting the schedules contained in the issuance advice letter shall be included with such letter. The Commission's review of the issuance advice letter shall be limited to the arithmetic accuracy of the calculations and to compliance with PURA, this Financing Order, and the requirements that are contained in the issuance advice letter. The initial transition charges and the final terms of the transition bonds set forth in the issuance advice letter shall become effective on the date of issuance of the transition bonds (which shall not occur prior to the fifth business day after pricing) unless prior to noon on the fourth business day after pricing the Commission issues an order finding that the proposed issuance does not comply with PURA and this Financing Order.

6. **Approval of Tariff.** The form of the Schedule TC5 tariff attached as Appendix B to this Financing Order is approved. Prior to the issuance of any transition bonds under this Financing Order, CenterPoint shall file a tariff that conforms to the form of the Schedule TC5 tariff attached to this Financing Order. CenterPoint will begin billing the Schedule TC5 transition charges on the first meter reading day after the issuance of the transition bonds. For example, if the transition bonds are issued on a Wednesday, then the meters read on the next day, Thursday, will be billed for one day of transition charges; meters read two days later, Friday, will be billed for two days of transition charges, etc. This billing amount will be calculated by using the customer's billing determinant for that month (*i.e.*, kVA or kWh) and multiplying it by the appropriate Schedule TC5 transition charges. The resulting dollar amount will then be multiplied by a proration factor. The proration factor will be calculated by dividing the number of days the meter reading occurs past the transition bond issuance date by the total number of days in the customer's billing cycle. For example, if the meter was read nine days after the transition bond issuance date and the billing cycle was thirty days long, the proration factor would be 30% (9/30 = .30, or 30%). All transition charges will be prorated in this manner until all days in the billing cycle occur after the transition bond issuance date, after which transition charges will apply to all usage. In a similar fashion, Schedule TC5 will be prorated commensurate with any subsequent periodic adjustments or annual reconciliations.

B. Transition Charges

7. **Imposition and Collection.** CenterPoint is authorized to impose on, and the servicer is authorized to collect from, REPs serving all existing and future retail consumers located within HL&P's certificated service area as it existed on May 1, 1999, and other entities which, under the terms of this Financing Order or Schedule TC5 are required to pay or collect transition charges, transition charges in an amount sufficient to provide for the timely recovery of the aggregate Periodic Payment Requirement (including payment of principal and interest on the transition bonds), as approved in this Financing Order. If there is a shortfall in payment of an amount billed, the amount paid shall first be apportioned between the transition charges and other fees and charges (including transition charges or system restoration charges, as the case may be, attributable to the transition bonds issued in October 2001 pursuant to the financing order in Docket No. 21665; the transition bonds issued in December 2005 pursuant to the financing order in Docket No. 30485; the transition bonds issued in February 2008 pursuant to the financing order in Docket No. 34448; and the system restoration bonds issued in November 2009 pursuant to the financing order in Docket No. 37200), other than late fees, and second, any remaining portion of the payment shall be allocated to late fees.

8. **BondCo's Rights and Remedies.** Upon the transfer by CenterPoint of the transition property to BondCo, BondCo shall have all of the rights, title, and interest of CenterPoint with respect to such transition property, including, without limitation, the right to exercise any and all rights and remedies with respect thereto, including the right to authorize disconnection of electric service and to assess and collect any amounts payable by any retail consumer in respect of the transition property. If transition bonds are issued in more than one series, then the transition property transferred as a result of each issuance shall be only those rights associated with that portion of the Securitizable Balance securitized by such issuance. The rights to impose, collect and receive transition charges along with the other rights arising pursuant to this Financing Order as they relate to any portion of the Securitizable Balance that remains unsecuritized shall remain with CenterPoint and shall not become transition property until transferred to a BondCo in connection with a subsequent issuance of transition bonds.

9. **Collector of Transition Charges.** CenterPoint or any subsequent servicer of the transition bonds shall bill a consumer's REP for the transition charges attributable to that consumer and the REP shall pay to the servicer of the transition bonds the amount billed for transition charges less the applicable charge-off allowance as provided in Finding of Fact 53(j) whether or not the REP has collected the transition charges from its customers.

10. **Collection Period.** The transition charges related to a series of transition bonds shall be designed to be collected over the expected life of the transition bonds. However, to the extent that any amounts are not recovered at the end of this period, CenterPoint may continue to recover them over a period ending not more than 15 years from the date of issuance of that series of transition bonds. Amounts remaining unpaid after this 15-year period may be recovered but only to the extent that the charges are attributable to services rendered during the 15-year period.

11. **Allocation.** CenterPoint shall allocate the transition charges among consumer classes in the manner described in this Financing Order and Schedule TC5.

12. **Nonbypassability.** CenterPoint and any other entity providing electric transmission or distribution services and any REP providing services to any retail consumer within HL&P's certificated service area as it existed on May 1, 1999, are entitled to collect and must remit, consistent with this Financing Order, the transition charges from such retail consumers and, except as provided under PURA §§ 39.252(b) and 39.262(k), as implemented by P.U.C. SUBST. R. 25.345, from retail consumers that switch to new on-site generation, and such retail consumers are required to pay such transition charges. The Commission will ensure that such obligations are undertaken and performed by CenterPoint, any other entity providing electric transmission or distribution services within HL&P's certificated service area as of May 1, 1999, and any REP providing services to any retail consumer within such certificated service area.

13. **True-Ups.** True-ups of the transition charges, including any required adjustments to PBRAFs, shall be undertaken and conducted as described in Schedule TC5. The servicer shall file the true-up in a compliance docket and shall give notice of the filing to all parties in this docket. If transition bonds are issued in more than one series, then each series will be subject to separate true-up adjustments pursuant to PURA and this Financing Order, provided, however, that more than one series may be trued-up in a single proceeding.

14. **Ownership Notification.** Any entity that bills transition charges to retail consumers shall, at least annually, provide written notification to each retail consumer for which the entity bills transition charges that the transition charges are the property of BondCo and not of the entity issuing such bill. In addition, the entity that bills transition charges to retail consumers shall include on its invoices a statement that all or part of the receivable reflected on the invoice has been or may be assigned.

C. Transition Bonds

15. **Issuance.** CenterPoint is authorized, through one or more BondCos, to issue one or more series of transition bonds as specified in this Financing Order. The ongoing qualified costs described in Appendix C may be recovered directly through the transition charges. The transition bonds shall be denominated in U.S. Dollars.

16. [Reserved.]

17. **Ongoing Qualified Costs.** CenterPoint may recover its actual ongoing qualified costs (including amounts required to provide a return on the portion, if any, of capital contributions or other required investment by CenterPoint in excess of 0.5% of the original principal amount of each series of transition bonds, as described in Findings of Fact 30 and 60) through its transition charges subject, with respect to servicing and administrative fees, to the cap on the servicing and administrative fees (which is applicable as long as CenterPoint serves as servicer and administrator) as set forth in Finding of Fact 17 and Appendix C to this Financing Order. Ongoing costs other than the servicing and administration fees of CenterPoint as servicer and administrator are not capped by this Financing Order. The amount of ongoing qualified costs is subject to updating in the issuance advice letter to reflect a change in the size of the transition bond issuance and any decision to issue the transition bonds in more than one series and other information available at the time of submission of the issuance advice letter. As provided in Ordering Paragraph 28, a servicer other than CenterPoint may collect a higher servicing fee than that set forth in Appendix C to this Financing Order if such higher fee is approved by the Commission and the indenture trustee.

18. **Refinancing.** CenterPoint or any assignee may apply for one or more new financing orders pursuant to PURA § 39.303 (g).

19. **Collateral.** All transition property and other collateral shall be held and administered by the indenture trustee pursuant to the indenture as described in CenterPoint's application. BondCo shall establish a collection account with the indenture trustee as described in Findings of Fact 58-63. Upon payment of the principal amount of all transition bonds issued pursuant to this Financing Order and the discharge of all obligations in respect thereof, all amounts in the collection account, other than amounts in the capital subaccount (including investment earnings therein), and any amounts required to replenish the capital subaccount to the level of CenterPoint's capital contribution and pay the authorized return on any capital contributions in excess of 0.5% of the original principal amount of the transition bonds, if any, shall be released by the indenture trustee to the servicer. CenterPoint shall notify the Commission within 30 days after the date that these funds are eligible to be released of the amount of such funds available for crediting to the benefit of ratepayers as set forth in Ordering Paragraph 20.

20. **Distribution Following Repayment.** Following repayment of the transition bonds authorized in this Financing Order and release of the funds held by the indenture trustee, the servicer, on behalf of BondCo, shall distribute to REPs and other entities responsible for collection of transition charges from retail consumers, the final balance of the general subaccount, excess funds subaccount and all other subaccounts (except the capital subaccount), whether such balance is attributable to amounts deposited in such subaccounts or to interest thereon, remaining after all other qualified costs have been paid. The amounts shall be distributed to each REP and other entity that paid Schedule TC5 transition charges during the last 12 months that the Schedule TC5 transition charges were in effect. The amount paid to each REP or other entity shall be determined by multiplying the total amount available for distribution by a fraction, the numerator of

which is the total Schedule TC5 transition charges paid by the REP or other entity during the last 12 months Schedule TC5 charges were in effect and the denominator of which is the total Schedule TC5 transition charges paid by all REPs and other entities responsible for collection of transition charges from retail ratepayers during the last 12 months the Schedule TC5 transition charges were in effect.

21. **Funding of Capital Subaccount.** The capital contribution by CenterPoint to BondCo to be deposited into the capital subaccount shall, with respect to each series of transition bonds, be funded by CenterPoint and not from the proceeds of the sale of transition bonds. Upon payment of the principal amount of all transition bonds and the discharge of all obligations in respect thereof, all amounts in the capital subaccount, including investment earnings, and any amounts required to replenish the capital subaccount to the level of CenterPoint's capital contribution and any unpaid authorized return on capital contributions in excess of 0.5% of the original principal amount of the transition bonds, if any, shall be released to BondCo for payment to CenterPoint. Investment earnings in this subaccount and authorized return on capital contributions in excess of 0.5% of the original principal amount of the transition bonds, if any, may be released earlier in accordance with the indenture.

22. **Original Issue Discount and Credit Enhancement.** CenterPoint may provide original issue discount or provide for various forms of credit enhancement including letters of credit, reserve accounts, overcollateralization account, surety bonds, and other mechanisms designed to promote the credit quality or marketability of the transition bonds to the extent not prohibited by this Financing Order. The decision to use such arrangements to enhance credit or promote marketability shall be made in conjunction with the Commission acting through its designated representative. CenterPoint may not enter into an interest-rate swap, currency hedge, or other hedging arrangement. CenterPoint may include the costs of original issue discount, credit enhancements, or other arrangements to promote credit quality or marketability as qualified costs only if CenterPoint certifies that such arrangements are reasonably expected to provide benefits greater than their cost and such certifications are agreed with by the Commission's designated representative. CenterPoint shall not be required to enter any arrangements to

promote credit quality or marketability unless all related costs and liabilities can be included in qualified costs. CenterPoint and the Commission's designated representative shall evaluate the relative benefits of the arrangements in the same way that benefits are quantified under the quantifiable benefits test. This ordering paragraph does not apply to the collection account or its subaccounts approved in this Financing Order.

23. **Annual Weighted Average Interest Rate of Bonds.** The effective annual weighted average interest rate of the transition bonds, excluding ongoing qualified costs, shall not exceed 7.50% on an annual basis.

24. **Life of Bonds.** The expected final maturity of the transition bonds authorized by this Financing Order shall not exceed fourteen years.

25. **Amortization Schedule.** The Commission approves, and the transition bonds shall be structured to provide, transition charges that are designed to produce essentially level residential rates over the period of recovery if the actual year-to-year changes in residential load match the changes forecast at the time the bonds are structured. If the transition bonds are issued in more than one series each series must meet the levelized charge requirement.

26. **Commission Participation in Bond Issuance.** The Commission, acting through its designated representative, shall participate directly with CenterPoint in negotiations regarding the structuring, marketing, and pricing of the transition bonds, and shall have equal rights with CenterPoint to approve or disapprove the proposed pricing, marketing, and structuring of the transition bonds. The Commission's designated representative shall have the right to participate fully and in advance regarding all aspects of the structuring, marketing, and pricing of the transition bonds (and all parties shall be notified of the designated representative's role) and shall be provided timely information that is necessary to fulfill its obligation to the Commission. The Commission expects its designated representative to advise the Commission of any proposal that does not comply in any material respect with the criteria established in this Financing Order and to promptly inform CenterPoint and the Commission of any items that, in the designated representative's opinion, are not reasonable. Although this Financing Order is written in

the context of an underwritten offering, nothing herein shall be construed to preclude issuance of the transition bonds through a competitive bid offering or private placement if CenterPoint and the Commission's designated representative agree that CenterPoint should do so. The Commission's designated representative shall notify CenterPoint and the Commission no later than 12:00 p.m. CST on the second business day after the Commission's receipt of the issuance advice letter for each series of transition bonds whether the structuring, marketing, and pricing of that series of transition bonds comply with the criteria established in this Financing Order.

27. **Use of BondCo.** CenterPoint shall use BondCo, a special purpose entity as proposed in its application, in conjunction with the issuance of any transition bonds authorized under this Financing Order. BondCo shall be funded with an amount of capital that is sufficient for BondCo to carry out its intended functions and to avoid the possibility that CenterPoint would have to extend funds to BondCo in a manner that could jeopardize the bankruptcy remoteness of BondCo. CenterPoint may create more than one BondCo in which event the rights, structure and restrictions described in this Financing Order with respect to BondCo would be applicable to each such purchaser of transition property to the extent of the transition property sold to it and the transition bonds issued by it.

D. Servicing

28. **Servicing Agreement.** The Commission authorizes CenterPoint to enter into a servicing agreement with each BondCo and to perform the servicing duties approved in this Financing Order. Without limiting the foregoing, in its capacity as initial servicer of the transition property, CenterPoint is authorized to calculate, bill and collect for the account of BondCo, the transition charges initially authorized in this Financing Order, as adjusted from time to time to meet the Periodic Payment Requirements as provided in this Financing Order; and to make such filings and take such other actions as are required or permitted by this Financing Order in connection with the periodic true-ups described in this Financing Order. The servicer shall be entitled to collect servicing fees in accordance with the provisions of the servicing agreement, provided that, as set forth in Appendix C, (i) the annual servicing fee payable to CenterPoint while it is serving as

servicer (or to any other servicer affiliated with CenterPoint) shall not at any time exceed 0.05% of the original principal amount of the transition bonds. The annual servicing fee payable to any other servicer not affiliated with CenterPoint shall not at any time exceed 0.6% of the original principal amount of the transition bonds unless such higher rate is approved by the Commission pursuant to Ordering Paragraph 31. The servicing agreement shall contain a recital clause that the Commission, or its attorney, will enforce the servicing agreement for the benefit of Texas ratepayers to the extent permitted by law. The servicing agreement shall also include a provision that CenterPoint shall indemnify the Commission (for the benefit of retail consumers) in connection with any increase in servicing fees that become payable as a result of a default resulting from CenterPoint's willful misconduct, bad faith, or negligence in performance of its duties or observance of its covenants under the servicing agreement. The indemnity will be enforced by the Commission but will not be enforceable by any REP or retail consumer.

29. **Administration Agreement.** The Commission authorizes CenterPoint to enter into an administration agreement with each BondCo to provide the services covered by the administration agreements in CenterPoint's prior securitization transactions. The fee charged by CenterPoint as administrator under that agreement shall not exceed $100,000 per annum per BondCo plus reimbursable third party costs.

30. **Servicing and Administration Agreement Revenues.** The servicing and administrative fees collected by CenterPoint, or any affiliate of CenterPoint, acting as either the servicer or the administrator under the servicing agreement or administration agreement, shall be included as a revenue credit and reduce revenue requirements in each CenterPoint base rate case. The expenses incurred by CenterPoint or such affiliate to perform obligations under the servicing agreement and the administration agreement shall likewise be included as a cost of service in each CenterPoint base rate case.

31. **Replacement of CenterPoint as Servicer.** Upon the occurrence of an event of default under the servicing agreement relating to CenterPoint's performance of its servicing functions with respect to the transition charges, the financing parties may replace CenterPoint as the servicer in accordance with the terms of the servicing agreement. If

the servicing fee of the replacement servicer will exceed the applicable maximum servicing fee specified in Ordering Paragraph 28, the replacement servicer shall not begin providing service until (i) the date the Commission approves the appointment of such replacement servicer or (ii) if the Commission does not act to either approve or disapprove the appointment, the date which is 45 days after notice of appointment of the replacement servicer is provided to the Commission. No entity may replace CenterPoint as the servicer in any of its servicing functions with respect to the transition charges and the transition property authorized by this Financing Order, if the replacement would cause any of the then current credit ratings of the transition bonds to be suspended, withdrawn or downgraded.

32. **Amendment of Agreements.** The parties to the servicing agreement, indenture, administration agreement, and sale agreement may amend the terms of such agreements; provided, however, that no amendment to any such agreement shall increase the ongoing qualified costs without the approval of the Commission. Any amendment that does not increase the ongoing qualified costs shall be effective without prior Commission approval. Any amendment to any such agreement that may have the effect of increasing ongoing qualified costs shall be provided by BondCo to the Commission along with a statement as to the possible effect of the amendment on the ongoing qualified costs. The amendment shall become effective on the later of (i) the date proposed by the parties to the amendment or (ii) 31 days after such submission to the Commission unless the Commission issues an order disapproving the amendment within a 30-day period.

33. **Collection Terms.** The servicer shall remit collections of the transition charges to BondCo or the indenture trustee for BondCo's account in accordance with the terms of the servicing agreement.

34. **Contract to Provide Service.** To the extent that any interest in the transition property created by this Financing Order is assigned, sold, or transferred to an assignee, CenterPoint shall enter into a contract with that assignee that requires CenterPoint to continue to operate its transmission and distribution system in order to provide electric services to CenterPoint's customers; provided, however, that this provision shall not prohibit CenterPoint from selling, assigning, or otherwise divesting its transmission and distribution systems or any part thereof so long as the entity or entities acquiring such system agree to continue operating the facilities to provide electric service to CenterPoint's customers.

35. **SEC Requirements.** Each REP or other entity responsible for collecting transition charges from retail consumers shall furnish to BondCo or CenterPoint or to any successor servicer information and documents necessary to enable BondCo or CenterPoint or any successor to comply with their respective disclosure and reporting requirements, if any, with respect to the transition bonds under federal securities laws.

E. Retail Electric Providers

36. **REP Billing and Credit Standards.** The Commission approves the REP standards detailed in Findings of Fact 51 through 53. These proposed REP standards relate only to the billing and collection of transition charges authorized under this Financing Order, and do not apply to collection of any other nonbypassable charges or other charges. The standards apply to all REPs other than REPs that have contracted with CenterPoint to have CenterPoint bill and collect transition charges from retail consumers. REPs may contract with parties other than CenterPoint to bill and collect transition charges from retail consumers, but such REPs shall remain subject to these standards. Upon adoption of any amendment to the rules governing REP standards as set out in P.U.C. SUBST. R. 25.108, Commission Staff shall initiate a proceeding to investigate the need to modify the standards adopted in this Financing Order to conform to that rule and to address whether each of the rating agencies from which a rating has been obtained by CenterPoint will determine that such modifications will not cause a suspension, withdrawal or downgrade of the ratings on the transition bonds. Modifications to the REP standards adopted in this Financing Order may not be implemented absent prior written confirmation from each such rating agency that such modifications will not cause a suspension, withdrawal or downgrade of its ratings on the transition bonds. The servicer of the transition bonds shall also comply with the provisions of the REP standards adopted by this Financing Order that are applicable to the servicer.

37. **Transition Charge Remittance Procedures.** Transition charges shall be billed and collected in accordance with the REP standards adopted by this Financing Order. REPs shall be subject to penalties as provided in these standards. A REP shall not be obligated to pay the overdue transition charges of another REP whose customers it agrees to serve.

38. **Remedies upon REP Default.** A servicer of transition bonds shall have the remedies provided in the REP standards adopted by this Financing Order. If a REP that is in default fails to immediately select and implement one of the options provided in the REP standards or, after making its selection, fails to adequately meet its responsibilities under the selected option, then, subject to the limitations and requirements of the bankruptcy code if the REP is a debtor in bankruptcy, the REP shall allow the POLR or a qualified REP of the consumer's choosing to assume immediately the responsibility for the billing and collection of transition charges in the manner and for the time provided in the REP standards.

39. **Billing by POLRs.** Every POLR appointed by the Commission shall comply with the minimum credit rating or deposit/credit support requirements described in the REP standards in addition to any other standard that may be adopted by the Commission. If the POLR defaults or is not eligible to provide billing and collection services, the servicer shall immediately assume responsibility for billing and collection of transition charges and continue to meet this obligation until a new POLR can be named by the Commission or the consumer requests the services of a REP in good standing. Retail consumers may never be directly re-billed by the successor REP, the POLR, or the servicer for any amount of transition charges the consumers have previously paid to their REP.

40. **Disputes.** Disputes between a REP and a servicer regarding any amount of billed transition charges shall be resolved in the manner provided by the REP standards adopted by this Financing Order.

41. **Metering Data.** If the servicer is providing metering services to a REP's retail consumers, then metering data shall be provided to the REP at the same time as the billing. If the servicer is not providing metering services, the entity providing metering services shall comply with Commission rules and ensure that the servicer and the REP receive timely and accurate metering data in order for the servicer to meet its obligations under the servicing agreement and this Financing Order.

42. **Charge-Off Allowance.** The REP may retain an allowance for charge-offs from its payments to the servicer as provided in the REP standards adopted by this Financing Order.

43. **Service Termination.** In the event that the servicer is billing consumers for transition charges, the servicer shall have the right to terminate transmission and distribution service to the end-use consumer for non-payment by the end-use consumer pursuant to applicable Commission rules. In the event that a REP or the POLR is billing consumers for transition charges, the REP or POLR shall have the right to transfer the consumer to the POLR or to another certified REP or to direct the servicer to terminate transmission and distribution service to the end-use consumer for non-payment by the end-use consumer to the extent permitted by and pursuant to terms and limitations of the applicable Commission rules.

F. Structure of the Securitization

44. **Structure.** CenterPoint shall structure the securitization as proposed in CenterPoint's application. This structure shall be consistent with Findings of Fact 95 through 98.

G. Use of Proceeds

45. **Use of Proceeds.** Upon the issuance of transition bonds, BondCo shall pay the net proceeds from the sale of the transition bonds (after payment of transaction costs) to CenterPoint for the purchase price of the transition property. CenterPoint will apply these net proceeds to reduce the debt and/or common equity on its regulatory books. While PURA includes any costs of retiring and refunding the electric utility's existing debt and equity securities in connection with the issuance of transition bonds as "qualified costs", CenterPoint is not seeking to include any such costs as qualified costs covered by this Financing Order. However, any costs associated with retiring or refunding existing debt securities of CenterPoint with the proceeds from the issuance of

the transition bonds shall be treated as a regulatory asset earning interest at the same rate as the weighted average interest rate on the transition bonds (and if more than one series of transition bonds is issued, then the weighted average interest rate of the transition bonds of all series authorized by this Financing Order) and be considered for recovery in CenterPoint's next regular rate proceeding, subject to a showing that such costs were prudently incurred and are reasonable and necessary.

H. Miscellaneous Provisions

46. **Continuing Issuance Right.** CenterPoint has the continuing irrevocable right to cause the issuance of transition bonds in one or more series in accordance with this Financing Order for a period commencing with the date of this Financing Order and extending 24 months following the later of (i) the date on which this Financing Order becomes final and no longer subject to any appeal; or (ii) the date on which any other regulatory approvals necessary to issue the transition bonds are obtained and no longer subject to any appeal. If at any time during the effective period of this Financing Order there is a severe disruption in the financial markets of the United States, the effective period shall automatically be extended to a date which is not less than 90 days after the date such disruption ends.

47. **Internal Revenue Service Private Letter or Other Rulings.** CenterPoint is not required by this Financing Order to obtain a ruling from the IRS; however, if it elects to do so, then upon receipt, CenterPoint shall promptly deliver to the Commission a copy of each private letter or other ruling issued by the IRS with respect to the proposed transaction, the transition bonds, or any other matter related thereto. CenterPoint shall also include a copy of every such ruling by the IRS it has received as an attachment to each issuance advice letter required to be filed by this Financing Order. CenterPoint may cause transition bonds to be issued without a private letter ruling if it obtains an opinion of tax counsel sufficient to support the issuance of the bonds.

48. **Binding on Successors.** This Financing Order, together with the transition charges authorized in it, shall be binding on CenterPoint and any successor to CenterPoint that provides transmission and distribution service directly to retail consumers in HL&P's

certificated service area as of May 1, 1999, and any other entity that provides transmission or distribution services to retail consumers within that service area. This Financing Order is also binding on each REP, and any successor, that sells electric energy to retail consumers located within that service area, any other entity responsible for billing and collecting transition charges on behalf of BondCo, and any successor to the Commission. In this paragraph, a "successor" means any entity that succeeds by any means whatsoever to any interest or obligation of its predecessor, including by way of bankruptcy, reorganization or other insolvency proceeding, merger, consolidation, conversion, assignment, pledge or other security, by operation of law or otherwise.

49. **Flexibility.** Subject to compliance with the requirements of this Financing Order, CenterPoint and BondCo shall be afforded flexibility in establishing the terms and conditions of the transition bonds, including the final structure of BondCo, repayment schedules, term, payment dates, collateral, credit enhancement, required debt service, reserves, interest rates, use of original issue discount, other financing costs, and the ability of CenterPoint, at its option, to cause one or more series of transition bonds to be issued or to create more than one BondCo for purposes of issuing such transition bonds.

50. **Effectiveness of Order.** This Financing Order is effective upon issuance and is not subject to rehearing by the Commission. Notwithstanding the foregoing, no transition property shall be created hereunder, and CenterPoint shall not be authorized to impose, collect, and receive transition charges, until CenterPoint's rights and interests under this Financing Order with respect to such transition property have been transferred to an assignee or pledged in connection with the issuance of the transition bonds.

51. **Regulatory Approvals.** All regulatory approvals within the jurisdiction of the Commission that are necessary for the securitization of the transition charges associated with the costs that are the subject of the application, and all related transactions contemplated in the application, are granted.

52. **Payment of Commission's Costs for Professional Services.** In accordance with PURA § 39.302(4), CenterPoint shall pay the costs to the Commission of acquiring professional services for the purpose of evaluating CenterPoint's proposed transaction, including, but not limited to, the Commission's outside attorneys' fees no later than 30 days after the issuance of any transition bonds.

53. **[Reserved.]**

54. **Effect.** This Financing Order constitutes a legal financing order for CenterPoint under Subchapter G of Chapter 39 of PURA. The Commission finds this Financing Order complies with the provisions of Subchapter G of Chapter 39 of PURA. A financing order gives rise to rights, interests, obligations, and duties as expressed in Subchapter G of Chapter 39 of PURA. It is the Commission's express intent to give rise to those rights, interests, obligations, and duties by issuing this Financing Order. CenterPoint and the servicer are directed to take all actions as are required to effectuate the transactions approved in this Financing Order, subject to compliance with the criteria established in this Financing Order.

55. **Further Commission Action.** The Commission guarantees that it will act pursuant to this Financing Order as expressly authorized by PURA to ensure that expected transition charge revenues are sufficient to pay on a timely basis scheduled principal and interest on the transition bonds issued pursuant to this Financing Order and other costs, including fees and expenses, in connection with the transition bonds.

56. **All Other Motions Denied.** All motions, requests for entry of specific findings of fact and conclusions of law, and any other requests for general or specific relief not expressly granted herein, are denied for want of merit.

SIGNED AT AUSTIN, TEXAS the 27th day of October 2011.

PUBLIC UTILITY COMMISSION OF TEXAS

/s/ Donna L. Nelson
DONNA L. NELSON, CHAIRMAN

/s/ Kenneth W. Anderson, Jr.
KENNETH W. ANDERSON, JR., COMMISSIONER

9-2. Please refer to the direct testimony of Eric K. Chang, p. 2, lines 14-18 of the direct testimony of Mr. Chang. While Mr. Chang describes Barclays as "a financial advisor and banking witness"; in the direct testimony of Brett A. Jerasa at p. page 12, line 2, references a "structuring advisor." On p. 19, lines 12-13, of his direct testimony, Mr. Jerasa also indicates, "The structuring fee is paid to Barclay's, CEI South's advisor, for providing financial advisory services." Please also refer to Petitioner's Exhibit No. 2, Attachment BAJ-4 – NBV Projections – Upfront Fee Comps and note there is no line item for "financial advisor and banking witness" or "structuring fee." How is Barclays being compensated? Please explain.

a. Will Barclays be paid from securitization bond proceeds? If so, is this compensation on a contingency basis and dependent on the issuance of the securitization bonds? Is Barclays' fees on a "flat" or on an hourly basis? If the fees are contingent, how can Barclays ensure that they will act in the best interest of CEI South or its ratepayers?

b. Is Barclays the "structuring advisor" for the securitization bond or CEI South's "financial advisor," or both?

c. Are Barclays' services related to the structuring advisor for the bonds different from the services as financial advisor for CEI South?

d. Please identify the specific services that Barclays is expected to perform as either the structuring advisor or financial advisory services.

e. If Barclays is both financial advisor and structuring advisor, what fees have been agreed to with Barclays for each of these services

   i. financial advisory,

   ii. banking witness, and

   iii. structuring advisor?

f. Please describe the duties and the deliverables of each of the services and corresponding role, and when would they be expected to begin and end?

g. How much has been spent or committed to as of the date for each of Barclays' services above in which CEI South responds to this request?

h. Is the primary service/deliverable of the structuring advisor to develop an excel-based financial model of the charge for the rating agencies to evaluate the transaction in relation to their rating criteria and stress testing to achieve a top credit rating e.g., AAA?

i. What fees, sums, or other amounts is Barclays or the structuring advisory firm charging solely to provide the financial model for use in this securitization bond transaction?

j. Did CEI South have a competitive process to select Barclays or any other firm as structuring advisor or financial advisor for the securitization bonds?

k. Did CEI South use a form of "request for proposal" or "request for qualifications"? If so, please provide 1) a copy of such document and 2) the responses of all recipients of the CEI South request.

l. How did CEI South decide which firms to invite to present proposals to serve as the structuring advisor or financial advisor?

m. Please provide a copy of the final engagement letter terms and conditions including, but not limited to, any disclaimers by Barclays as well as indemnifications provided to Barclays by CenterPoint Energy, CEI South or any of its affiliates.

i. In the Barclays engagement letter, does Barclays, "as financial advisor and banking witness," have a fiduciary duty to act in the best interests of CEI South, CEI South ratepayers, or the issuer of the Securitization Bonds and not in its own financial interest? Please explain.

ii. In the public power and state and local government market, financial advisors are not only required by their regulator, the MSRB, to hold a "duty of loyalty" (i.e., deal honestly and in the best interests of the issuer) but also a "duty of care" which requires them to possess specialized knowledge to make appropriate recommendations to the issuer. Does Barclays engagement letter reflect these same duties in their financial advisor or structuring advisor role?

iii. In the engagement letter of the structuring advisor, does the structuring advisory firm have a fiduciary duty to act in the best interests of CEI South ratepayers, or the issuer of the securitization bonds, and not in its financial or economic interest? Please explain.

iv. If Barclays or the structuring advisor has no fiduciary duty to CEI South or to CEI South's ratepayers, how will the Indiana Utility Regulatory Commission ("Commission") and others know what Barclays or the structuring advisor recommends is in the best interests of CEI South's ratepayers, and not CEI South's of Barclays' financial or economic interests?

n. Would CEI South agree to pursue a competitive selection of an independent financial modeling firm as structuring advisor to save ratepayers up-front costs? If not, why not?

o. Can Barclays, either as CEI South's financial advisor or structuring advisor, also be an underwriter of those bonds?

p. If Barclays is performing multiple roles in this financing, do any of these roles constitute a conflict of interest?

q. If Barclays may become one of the underwriters, how will that affect their respective fiduciary duties if any as financial advisor to CEI South and/or structuring advisor to CEI South's ratepayers? If Barclays has no fiduciary duties to either and may act in its financial and economic interest and not the interest of CEI South ratepayers, please state and confirm.

r. Please refer to page 6 line 16-20, of the direct testimony of Mr. Chang, which states "Utility securitizations are also a well-established asset class that are broadly understood in capital markets. A diverse range of investors have participated in utility securitizations to date, including domestic and international banks, money managers, investment advisors, pensions funds, insurance companies, corporate cash managers, and different types of trust funds."

i. Please provide the supporting evidence to the ownership of utility securitization bonds by investor type alleged by Mr. Chang i.e., by "domestic and international banks, money managers, investment advisors, pensions funds, insurance companies, corporate cash managers, and different types of trust funds" in size and amount.

ii. If there is no independently verifiable information to support the statement, please acknowledge or provide the source for such information.

s. Does CEI South believe that underwriters have a fiduciary duty to act in the best interests of the issuer and/or CEI South ratepayers and may not and will not act in their own financial or economic interest?

t. Please refer to page 25 line 15-24, of the direct testimony of Mr. Chang. Mr. Chang recommends a public SEC registered offering; however, he does not describe the method of the public sale. Will the securitization bonds be offered through a competitive bid/auction or through a negotiated firm commitment underwriting transaction (as further defined below) with a preselected group of underwriters? Please provide and explain the evidence to support what CEI South is proposing.

u. If an SEC registered public offering, according to Mr. Chang's direct testimony, p. 25, lines 19-20, which states an SEC registered public offering "would likely lead to lower overall costs for CEI South's customers," on what basis would CEI South determine that a private placement is preferable to a public offering?

   i. Who would make this decision and when?

   ii. Have recent private placement/144A utility securitization bond offerings priced at higher or lower interest rates (credit spread to relevant benchmarks and relevant comparable corporate securities) compared to SEC registered public offerings? If higher, by how much in basis points per tranche and weighted average life of such tranche?

v. In the sale of bonds by public power authorities and all state and local governments in Indiana and elsewhere (also known as the municipal bond market), financial advisors to bond issuers are prohibited from also being underwriters of the bonds. Moreover, as of 2011, financial advisors in the public power and state and local government market are now prohibited from resigning their role as advisor to act as an underwriter.[1] Because these bonds are the sole obligation of CEI South ratepayers directly and not its shareholders as with traditional utility bonds, would CEI South be willing to restrict Barclays from participating as an underwriter of the bonds to prevent a similar conflict of interest?

w. If CEI South is not willing to make the above restriction, how can it ensure that Barclays will structure, market and price the offering to benefit CEI South ratepayers versus itself in the underwriting process, such as to reduce their financial risk as underwriters, if any, and allow for a quicker sale regardless of the cost to CEI South ratepayers?

x. In connection with public offerings of securities, what is the difference between an underwriter and a placement agent?

y. What is the difference between a "firm commitment" negotiated underwriting and a "best efforts" underwriting? Does CEI South propose that the Issuer will sell the securitization bonds to underwriters in a "firm commitment" underwriting or a "best efforts" underwriting?

   i. In a firm commitment competitive bid, do firms purchase all the bonds at a fixed priced, regardless of having orders from investors for every bond in every tranche?

   ii. In a firm commitment underwriting of bonds, must the underwriters always have orders from investors for every bond in every tranche when the bonds are priced and the underwriting agreement is executed?

   iii. If CEI South proposal is not a competitive bid/auction but a negotiated firm commitment underwriting with a pre-selected group of underwriters, how will those underwriters be selected?

[1] MSRB Rule G-23 - Activities of Financial Advisors

iv. Will the underwriters provide advice to CEI South concerning the structure, marketing, preliminary pricing and final pricing of securitization bonds on which CEI South will rely?

v. Are the underwriters expected to analyze or review other information to assist CEI South in evaluating whether the terms negotiated with the underwriters are in the best interests of CEI South ratepayers?

Objection:

Petitioner objects to the Request on the grounds and to the extent the Request seeks information which is trade secret or other proprietary, confidential and competitively sensitive business information of Petitioner, its Customers, or other third parties. Petitioner has made reasonable efforts to maintain the confidentiality of this information. Such information has independent economic value and disclosure of the requested information would cause an identifiable harm to Petitioner, its Customers, or other third parties whose confidential information is sought. The responses are "trade secret" under law (Ind. Code § 24-2-3-2) and entitled to protection against disclosure. See also Indiana Trial Rule 26(C)(7). All responses containing designated confidential information are being provided pursuant to non-disclosure agreements between Petitioner and the receiving parties. Petitioner objects to producing the information sought in OUCC DR 09.2(k)(2) even pursuant to a non-disclosure agreement with the receiving parties as the information is highly sensitive trade secret information of those parties that would provide competitors of those third parties an unfair advantage in negotiating engagements of a similar nature or responding to future requests for proposal. The information is also irrelevant to this proceeding and not reasonably calculated to lead to the discovery of relevant or admissible evidence and Petitioner objects to producing the information on this basis; the harm to those third parties from disclosure outweighs any likely benefit of producing such confidential information, taking into account the needs of the case and the irrelevance of the information sought in the request. Petitioner further objects to producing the engagement letter with Barclays in response to OUCC DR 09.2(m), even pursuant to a non-disclosure agreement, as it is confidential, proprietary trade secret information of Barclays, the disclosure of which would cause identifiable harm to Barclays, affording its competitors an unfair advantage in negotiating engagements of a similar nature or responding to future requests for proposal. Petitioner further objects to producing the information requested in OUCC DR 09.2(r)i as the identity of buyers in securitizations is not public information and Petitioner is not in possession of the information sought by that Request.

Petitioner further objects to the Request on separate and independent grounds and to the extent that it is premised on legal conclusions that Petitioner has not verified, does not accept, and about which Petitioner offers no legal opinion.

Petitioner further objects to OUCC DR 09.2(v) on the separate and independent grounds and to the extent it is based on the false premise that CEI South ratepayers are the debtors under the securitization bonds.

Petitioner further objects to OUCC DR 09.2(w) on the separate and independent grounds and to the extent it calls for speculation or otherwise implies a set of circumstances that does not currently exist; Barclays has not been engaged as the underwriter for CEI South's securitization bond offering.

Response:

Subject to and without waiver of the foregoing objections, Petitioner responds as follows:

CEI South has hired Barclays Capital Inc. to act as the Company's lead structuring agent and banking witness. CEI South will pay Barclays an advisory fee once the Commission has declared the record closed in this Cause.

a) No. N/A. Flat fee. N/A.

b) Barclays is engaged as the structuring advisor, though with a broad mandate. Barclays is engaged to review and analyze various structural and financial considerations related to the Securitization, including cash flow modelling; the design of customer revenue requirements; maturity and amortization profiles; the proposed true-up adjustment mechanism; assistance in the preparation and review of the Financing Order; preparation and review of content required for rating agency stress scenarios; support for the submission of Testimony, discovery, pre- and post-hearing activities; and other such matters.

c) See response to 45722 OUCC DR 09-2(b).

d) See response to 45722 OUCC DR 09-2(b).

e) Flat fee for all services of $350,000.

f) Barclays was engaged on March 22, 2022 and the contract will automatically terminate on June 30, 2023. See response to 45722 OUCC DR 09-2(b).

g) Please refer to the response to 45722 OUCC DR 09-2; no fees have been paid to Barclays to date.

h) One of Barclays' services / deliverables as structuring advisor is to develop an Excel-based financial model of the charge to evaluate how rating agencies will view the transaction in relation to their rating criteria and stress testing to achieve AAA ratings.

i) Flat fee for all services. Please refer to the response to 45722 OUCC DR 09-2(b) and (e); flat fee for all services.

j) Yes.

k) Yes.
1) Please see 45722 OUCC DR09-2k1 - CEI South RFP for Structuring Agent--July 2021.pdf.
2) See objection. Responses from those that participated in the RFP are considered confidential, proprietary, trade secret.

l) CEI South relied on internal experience in addition to reviewing recent securitization filings .

m) See objection. The Barclays engagement letter is confidential, proprietary, trade secret information of Barclays.

i. No, Barclays is an independent contractor.

ii. No, Barclays is an independent contractor.

iii. No, Barclays is an independent contractor.

iv. Please refer to the Direct Testimony of Brett Jerasa, page 30, where CEI South has invited the Commission to appoint a representative (either a Commissioner or a senior staff member) to observe the pricing discussions. The Commission has the sole right to review and reject the Issuance Advice Letter if the Commission believes CEI South has not followed the Financing Order and Securitization Act or otherwise does not desire the transaction to proceed. In addition, intervening parties are participating in this adversarial proceeding, and have opportunity to provide input on structuring recommendations within this proceeding. Finally, CEI South is committed to structuring and marketing the bonds to optimize benefits and will uphold the requirements set forth in the Financing Order and Securitization Act.

n) No, CEI South cannot agree. CEI South cannot at this time guarantee that an additional financial modeling RFP would save ratepayers up-front costs. CEI South pursued a competitive process to choose a structuring agent when selecting Barclays.

o) Yes.

p) No. Underwriters will be chosen in a completely separate, competitive RFP process and there is no guarantee that Barclays will be chosen as an underwriter on the securitization bond offering.

q) Barclays is not a fiduciary.

r)

i. See objection. Refer to the response to OUCC DR 09.2(r)ii.

ii. Barclays has participated as an underwriter on previous utility securitizations and the investor types described were chosen based on that experience.

s) See objection.

t) CEI South expects the securitization bonds will be offered through a multi-step syndication and book-building process where the bonds will be broadly marketed and offered to investors, similar in approach to recent utility securitizations.

u) CEI South would evaluate and determine whether to pursue an SEC registered public offering or a private placement offering based on which method would likely be expected to achieve a lower bond cost and therefore increase benefits.

i. CEI South will make that determination with input from the underwriting syndicate and the Commission prior to commencing any investor marketing on the securitization bonds.

ii. There are many factors, including whether a utility securitization is offered in a public or private format, that will impact the pricing of the securitization offering. Market conditions at the time of issuance, the issuing entity, the issuance size, tenor, public vs. private offering, and other factors, can all impact pricing and must be evaluated for each utility securitization prior to coming to market.

v) No; see objection.

w) See objection.

x) Placement agents are more commonly used in relation to private placement or direct placement transactions. Placement agents typically do not purchase or hold the securities – instead, they arrange for the direct transfer of securities from the Issuer to the investors. Underwriters are typically involved in public transactions and purchase the securities from the Issuer before then reselling the securities to investors.

y) A "firm commitment" underwriting typically would require the underwriters to purchase and take down an agreed upon amount of the issued securities, regardless of whether there is sufficient investor demand to resell. In comparison, a "best efforts" underwriting typically requires the underwriters to purchase and take down the issued securities if all securities can then be resold to investors – in which case, typically, either all securities are sold, or no securities are sold. Consistent with recent utility securitizations, CEI South currently anticipates the securitization bonds will be sold using a best efforts approach.

i. Yes. However, please refer to response to OUCC DR 09-2(y) – CEI South currently anticipates the securitization bonds will be sold using a best efforts approach.

ii. No. However, please refer to response to OUCC DR 09-2(y) – CEI South currently anticipates the securitization bonds will be sold using a best efforts approach.

iii. Not applicable – CEI South currently anticipates the securitization bonds will be sold using a best efforts approach.

iv. Yes. However, please refer to response OUCC DR 09-3(b) for limitations on the reliance on such advice.

v. Yes.

9-3. In the December 9, 2005 underwriting agreement between CenterPoint Energy Houston and the underwriters for CenterPoint Energy Transition Bond Company II for Texas Public Utility Commission Docket No. 30485, the following section was included to the Underwriting Agreement[2]:

a) "Absence of Fiduciary Relationship. Each of the Issuer and the Company acknowledges and agrees that: (a) the Underwriters have been retained solely to act as underwriters in connection with the sale of the Bonds and that no fiduciary, advisory or agency relationship between the Underwriters, on one hand, and the Company and/or the Issuer, on the other hand, has been created in respect of any of the transactions contemplated by this Underwriting Agreement, irrespective of whether the Underwriters have advised or are advising the Company and/or the Issuer on other matters; (b) the price of the Bonds was established by the Issuer and the Company following discussions and arms-length negotiations with the Underwriters, among others; (c) it has been advised that the Underwriters and their affiliates are engaged in a broad range of transactions which may involve interests that differ from those of the Issuer and Company and that the Underwriters have no obligation to disclose such interests and transactions to the Issuer or the Company by virtue of any fiduciary, advisory or agency relationship; and (d) it waives, to the fullest extent permitted by law, any claims it may have against the Underwriters for breach of fiduciary duty or alleged breach of fiduciary duty and agrees that the Underwriters shall have no liability (whether direct or indirect) to the Issuer or the Company in respect of such fiduciary duty claim or to any person asserting a fiduciary duty claim on behalf of or in right of the Issuer or the Company including stockholders, employees or creditors of the Issuer and/or the Company."
b) However, in the underwriting agreements for CenterPoint Energy Transition Bond Company I, there is no such section or statement.3 Why was this "Absence of Fiduciary Relationship" section added to the CenterPoint securitization bond underwriting agreement in 2005 and all subsequent securitization bond underwritings? Please explain.
c) What is the significance of this term of the underwriting agreement?
d) In this "Absence of Fiduciary Relationship" section, it states that "the price of the Bonds was established by the Issuer and the Company following discussions and arms-length negotiations with the Underwriters, among others;" What is meant by "arms-length negotiations?" Please explain.
e) When underwriters use their professional judgement to increase the spread, are they providing advice or a recommendation to the issuer that is in the issuer's/ ratepayer's best interest and not in the underwriter's economic interest?
f) Please describe how CEI South would determine the appropriate credit spreads for each tranche in an "arms-length" negotiations with the underwriters to ensure the lowest cost to ratepayers/ optimal transaction for CEI South's ratepayers.
g) Please refer to p. 33, lines 13-16, of Mr. Chang's direct testimony, which states, "This step can only occur when the book has at least an equal amount of orders on the bonds as the principal amount of securitization bonds offered (generally referred to as being "fully-subscribed")." Is this consistent with the financial industry definition (FINRA/SEC) of a firm commitment underwriting or is it a best efforts underwriting or something else?
h) Has Barclays ever underwritten bonds? i.e., have they ever entered into a firm commitment underwriting agreement without the bonds of all tranches fully subscribed by any amount?

[2] Referenced at: https://www.sec.gov/Archives/edgar/data/48732/000095012905012020/h31290aexv1w1.txt
[3] Referenced at: https://www.sec.gov/Archives/edgar/data/1098911/000102140801508585/dex11.txt

i) Does Mr. Chang have any experience or know of any firm that has underwritten bonds? i.e., entered into a firm commitment underwriting agreement without the bonds of all tranches fully subscribed by any amount?
j) Does Barclays have a policy against underwriting bonds of a series or tranche? i.e., enter into a firm commitment underwriting agreement without the bonds of all tranches fully subscribed by any amount? If so, please describe.
k) Is CEI South or Barclays aware of any firm acting as an underwriter who will not enter into a firm commitment underwriting without the bonds fully subscribed by any amount? If so, please identify.
l) Please provide a detailed explanation and supporting documentation as to how CEI South plans to ensure that the underwriters are working in the best interests of the ratepayers in a negotiated or firm commitment underwriting given the agreement above that there is an "Absence of a Fiduciary Relationship" between the underwriters CEI South or its ratepayers.

Objection:

Petitioner objects to the Request on the grounds and to the extent it seeks information that is irrelevant to and beyond the scope of this proceeding, and not reasonably calculated to lead to the discovery of relevant or admissible evidence. Petitioner further objects to OUCC DR 09.3(d) to the extent it seeks a legal conclusion as to the definition of "arms-length negotiation." Petitioner further objects to OUCC DR 09.3(f) on the separate and independent grounds and to the extent it misstates the applicable statutory requirements or attempts to impose a requirement not present in the statute through the phrase "ensure the lowest cost to ratepayers/ optimal transaction for CEI South's ratepayers." Petitioner further objects to OUCC DR 09.3(h), (i) and (j) to the extent it is irrelevant and beyond the scope of this proceeding given that Barclays has not been engaged as the underwriter for CEI South's securitization bond offering. Petitioner further objects to OUCC DR 09.3(k) on the grounds and to the extent it is irrelevant and beyond the scope of this proceeding. CEI South has not selected the underwriter for securitization bond offering, and the practices of underwriting firms in general are not relevant to this proceeding.

Response:

Subject to and without waiver of the foregoing objections, Petitioner responds as follows:

a) No questions are asked in 9-3a.

b) The "Absence of Fiduciary Relationship" provision became a standard provision in all investment bank engagement letters, underwriting agreements, bond purchase agreements and similar agreements as a result of the eToys Inc. litigation. In the eToys case, the New York State Court of Appeals held that an issuer in an IPO can properly assert a claim for breach of fiduciary duty against an underwriter based on the issuer's reliance on the underwriter's expertise and advice on the pricing of an offering (EBC 1 Inc. v. Goldman, Sachs & Co., 5 N.Y.3d 11 (N.Y. 2005)).

c) This provision, like others in a standard underwriting agreement, expressly sets forth the contractual relationship between an issuer and the underwriters in connection with a firm commitment underwritten offering of securities.

d) As noted in this provision, the price to the public for the securities and the purchase price for the securities that the underwriters pay the issuer are set after discussions and negotiations between the issuer and the underwriters.

e) The spread on utility securitizations may increase, decrease, or stay the same depending on market conditions at the time of issuance and overall investor demand for the bonds. Any decisions that CEI South makes on spreads will be consistent with CEI South's commitment to optimize benefits.

f) CEI South will work with the Commission and the underwriting syndicate to evaluate the pricing of the bonds to ensure that it meets the requirements of the statute.

g) This is consistent with a best efforts underwriting approach.

h) See objection.

i) See objection.

j) See objection.

k) See objection.

l) CEI South will comply with all requirements of the Financing Order and Securitization Act in regard to customer savings and is committed to structuring and marketing the bonds to optimize benefits.

CenterPoint Energy Indiana South

July 29, 2021

Via electronic mail

To: Selected investment banks interested in serving as the structuring agent and banking witness for CenterPoint Energy Indiana South's upcoming securitization case with the Indiana Utility Regulatory Commission (IURC) to obtain a financing order.

Re: **REQUEST FOR PROPOSALS** (RFP) for Sole Structuring Agent Position for Proposed Issuance of approximately $250 million of Bonds for retiring certain coal assets

Dear [insert banker name here],

CenterPoint Energy Indiana South (CEIS) invite your firm to submit information to be used in connection with our evaluation of your potential role as sole structuring agent and banking witness for the issuance of approximately $250 million of bonds.

This offering of bonds is very important to CEIS and its customers. CEIS requests that you respond to the attached scope of work below so that we may evaluate your firm's capabilities to help deliver the lowest reasonable charges that are consistent with market conditions and the terms of the financing order.

This proposed bond offering is undertaken pursuant to SEA 386 that was enacted in the 2021 Indiana General Assembly legislative session, creating Indiana Code chapter 8-1-40.5 and establishing a pilot program for securitization of retired electric utility assets. At this point in time, the pilot program only applies to Southern Indiana Gas & Electric Company, also known as CenterPoint Energy Indiana South ("CenterPoint").

CEIS expects to file the case in chief with the Indiana Regulatory Commission in February of 2022. The financing order that is expected to be issued by the Commission during October 2022 will authorize the issuance of transition bonds and include a true-up mechanism to ensure the billing of transition charges necessary to generate the collection of amounts sufficient to provide all scheduled payments of principal and interest and related fees in a timely fashion. It will provide for the adjustment of the transition charges at least annually to address any overcollections or undercollections of such charges. The terms of the financing order will be consistent with statutory requirements found in SEA 386.

Please respond to this RFP by 5:00 p.m. (CST) on Friday, August 6, 2021. Please respond *via email* with your proposal (in a Microsoft Word, Power Point or Adobe "pdf" attachment) to Matt Rice, Indiana Director of Electric Regulatory and Rates, at matt.rice@centerpointenergy.com.

Any questions concerning this Request for Proposals may be directed to Matt Rice via e-mail to matt.rice@centerpointenergy.com

After we have reviewed all responses from candidates, we may request a meeting with your firm. We anticipate that any such meeting would be held virtually in mid-August.

Our goal is to obtain information on how your firm can partner with CEIS to educate stakeholders and structure the bonds to help our customers receive the lowest reasonable rate. Thank you in advance for your interest and cooperation.

Sincerely,

Matt Rice
Director of Indiana Electric Regulatory and Rates
CenterPoint Energy Indiana South

CenterPoint Energy Securitization Bonds
Request for Proposal

Scope of Work:

- Assistance in the preparation of the form of proposed securitization financing order including, but not limited to:
    - Transaction structure
    - Cash flow modeling and design of the customer revenue requirements
    - Effective date and implementation of the securitization charges
    - True-up adjustment structure, frequency, and implementation
    - Customer savings tests
    - Role of the Commission in the financing process
    - Structure of the financing
    - Investor education and marketing
- Preparation of draft transaction overview content for the rating agency presentation
- Interactive stakeholder education sessions on securitization throughout the process (2-3 on site meetings with various stakeholder groups including IURC Commissioners in Indianapolis, IN)
- Preparation and submission of expert written and oral testimony (live hearing in Indianapolis, IN), including rebuttal testimony and responses to data requests supporting approval of the proposed financing order
- Work with legal (CEIS and external counsel), treasury, regulatory, accounting, finance departments, and decommissioning expert throughout the case to ensure timely filing of the case in chief in February 2022.
    - Provide a lead point of contact for day to day activities, as well as clearly identify the team, including management responsible for the project.

AFFIRMATION

I affirm, under the penalties for perjury, that the foregoing representations are true.

Leja D. Courter

Leja D. Courter
Chief Technical Advisor
Indiana Office of Utility Consumer Counselor
Cause No.45722
CenterPoint Energy Indiana South

8/3/2022

Date

CERTIFICATE OF SERVICE

This is to certify that a copy of the ***OUCC's Consumer Comments*** has been served upon the following parties of record in the captioned proceeding by electronic service on August 3, 2022.

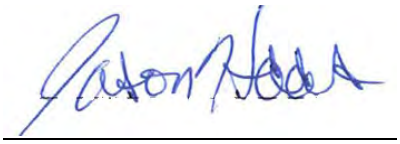
Jason Stephenson
Heather A. Watts
Jeffery A. Earl
Michelle D. Quinn
Matthew Rice
CENTERPOINT ENERGY INDIANA SOUTH
Jason.Stephenson@centerpointenergy.com
Heather.Watts@centerpointenergy.com
Jeffery.Earl@centerpointenergy.com
Matt.Rice@centerpointenergy.com
Michelle.Quinn@centerpointenergy.com

Nicholas K. Kile
Hillary J. Close
Lauren M. Box
BARNES & THORNBURG LLP
nicholas.kile@btlaw.com
hillary.close@btlaw.com
lauren.box@btlaw.com

Jennifer A. Washburn
Reagan Kurtz
CITIZENS ACTION COALITION
jwashburn@citact.org
rkurtz@citact.org

Tabitha Balzer
Todd Richardson
LEWIS & KAPPES, P.C
tbalzer@lewis-kappes.com
trichardson@lewis-kappes.com

REI
Nikki G. Shoultz
Kristina Kern Wheeler
BOSE MCKINNEY & EVANS LLP
nshoultz@boselaw.com
kwheeler@boselaw.com



T. Jason Haas
Attorney No. 34983-29
Deputy Consumer Counselor

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR
PNC Center
115 West Washington Street, Suite 1500 South
Indianapolis, IN 46204
infomgt@oucc.in.gov
thaas@oucc.in.gov
317.232.2494 – Telephone
317.232.3315 – Direct
317.232.5923 – Facsimile