PUBLIC

INFORMATION SHEET

PRESIDING: Chair Mitchell, Presiding; Commissioners Brown-Bland, Gray, Clodfelter, Duffley, Hughes, and McKissick
PLACE: Held Via Videoconference
DATE: Thursday, January 28, 2021
TIME: 1:30 p.m. – 5:00 p.m.
DOCKET NOS.: E-2, Sub 1262
E-7, Sub 1243
COMPANY: Duke Energy Progress, LLC, and Duke Energy Carolinas, LLC
DESCRIPTION: Joint Petition for Issuance of Storm Recovery Financing Orders (Securitization)

VOLUME NUMBER: 2

APPEARANCES
(See attached)

WITNESSES
(See attached)

EXHIBITS
(See attached)

CONFIDENTIAL TRANSCRIPTS ORDERED: N/A
CONFIDENTIAL EXHIBITS ORDERED: N/A
REPORTED BY: Susan Hurrey
TRANSCRIBED BY: Susan Hurrey
DATE FILED: February 5, 2021

TRANSCRIPT PAGES: 131
PREFILED PAGES: 112
TOTAL PAGES: 243

PLACE: Held via Videoconference

DATE: Thursday, January 28, 2021

TIME: 1:30 p.m. - 5:00 p.m.

DOCKET NO.: E-2, Sub 1262

E-7, Sub 1243

BEFORE: Chair Charlotte A. Mitchell, Presiding

Commissioner ToNola D. Brown-Bland

Commissioner Lyons Gray

Commissioner Daniel G. Clodfelter

Commissioner Kimberly W. Duffley

Commissioner Jeffrey A. Hughes

Commissioner Floyd B. McKissick, Jr.

IN THE MATTER OF:

Joint Petition of Duke Energy Carolinas, LLC, and Duke Energy Progress, LLC, for Issuance of Storm Recovery Financing Orders

VOLUME 2

Noteworthy Reporting Services, LLC

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NORTH CAROLINA UTILITIES COMMISSION

APPEARANCE SLIP

DATE: ____1/25/2020____ DOCKET NO.:E-2, Sub 1262; E-7, Sub 1243_

ATTORNEY NAME and TITLE:__Christina D. Cress, Of Counsel_____

FIRM NAME: _Bailey & Dixon, LLP_____

ADDRESS: __PO Box 1351 CITY: _Raleigh___ STATE: NC__

ZIP CODE: 27602-1351

APPEARING FOR:__CIGFUR II & III_____

APPLICANT: ___ COMPLAINANT: ___ INTERVENOR: X_

PROTESTANT: ___ RESPONDENT: ___ DEFENDANT: ___

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SIGNATURE: ___/s/ Christina D. Cress_____

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NORTH CAROLINA UTILITIES COMMISSION

APPEARANCE SLIP

DATE: January 28, 2021 **DOCKET NO.:** E-2, Sub 1262 & E-7, Sub 1243

ATTORNEY NAME and TITLE: Kristin M. Athens, Associate

FIRM NAME: McGuireWoods LLP

ADDRESS: 501 Fayetteville St., Suite 500

CITY: Raleigh **STATE:** NC **ZIP CODE:** 27601

APPEARING FOR: Duke Energy Carolinas, LLC & Duke Energy Progress, LLC

APPLICANT: X **COMPLAINANT:** ___ **INTERVENOR:** ___

PROTESTANT: ___ **RESPONDENT:** ___ **DEFENDANT:** ___

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NORTH CAROLINA UTILITIES COMMISSION
PUBLIC STAFF - APPEARANCE SLIP

DATE January 28, 2021 DOCKET #: E-2 Sub 1262 and E-7 Sub 1243____

PUBLIC STAFF ATTORNEY William E.H. Creech and William Grantmyre__

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LEGAL zeke.creech@psncuc.nc.gov; william.grantmyre@psncuc.nc.gov
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/s/ William E.H. Creech
/s/ William E. Grantmyre

NORTH CAROLINA UTILITIES COMMISSION

APPEARANCE SLIP

DATE: 1/22/21 **DOCKET NO.:** E-7, Sub 1243 & E-2, Sub 1262

ATTORNEY NAME and TITLE: Lawrence "Bo" Somers, Deputy General Counsel

FIRM NAME: Duke Energy

ADDRESS: NCRH 20 / P.O. Box 1551

CITY: Raleigh **STATE:** NC **ZIP CODE:** 27602

APPEARING FOR: Duke Energy Carolinas & Duke Energy Progress

APPLICANT: X **COMPLAINANT:** ___ **INTERVENOR:** ___

PROTESTANT: ___ **RESPONDENT:** ___ **DEFENDANT:** ___

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Email: BO.SOMERS@duke-energy.com

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NORTH CAROLINA UTILITIES COMMISSION

APPEARANCE SLIP

DATE: 1/22/21 DOCKET NO.: E-7, Sub 1243 + E-2, Sub 1262

ATTORNEY NAME and TITLE: Camal Robinson, Associate General Counsel

FIRM NAME: Duke Energy

ADDRESS: 550 South Tryon Street

CITY: Charlotte STATE: NC ZIP CODE: 28202

APPEARING FOR: Duke Energy Carolinas + Duke Energy Progress

APPLICANT: X COMPLAINANT: ___ INTERVENOR: ___

PROTESTANT: ___ RESPONDENT: ___ DEFENDANT: ___

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NORTH CAROLINA UTILITIES COMMISSION

APPEARANCE SLIP

DATE: January 28, 2021 **DOCKET NO.:** E-2, Sub 1262 & E-7, Sub 1243

ATTORNEY NAME and TITLE: James H. Jeffries, Partner

FIRM NAME: McGuireWoods LLP

ADDRESS: 201 N Tryon Street, Suite 3000

CITY: Charlotte **STATE:** NC **ZIP CODE:** 28202

APPEARING FOR: Duke Energy Carolinas, LLC & Duke Energy Progress, LLC

APPLICANT: X **COMPLAINANT:** ___ **INTERVENOR:** ___

PROTESTANT: ___ **RESPONDENT:** ___ **DEFENDANT:** ___

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Estimated Up-front Storm Recovery Bond Issuance Costs[1]

		DEC		DEP		Total	
	Estimated Principal Amount of Storm Recovery Bonds	$ 230,800,000		$ 748,000,000		$ 978,800,000	
Line No.	Description	Lower End of Range	Upper End of Range	Lower End of Range	Upper End of Range	Lower End of Range	Upper End of Range
1	Underwriting Fees and Expenses	$ 923,200	$ 1,154,000	$ 2,992,000	$ 3,740,000	$ 3,915,200	$ 4,894,000
2	Servicer Set-up Fees (including IT Programming Costs)	300,000	400,000	300,000	400,000	600,000	800,000
3	Legal Fees	1,387,500	1,725,000	1,387,500	1,725,000	2,775,000	3,450,000
4	Rating Agency Fees	350,000	710,000	1,150,000	2,290,000	1,500,000	3,000,000
5	Public Staff Financial Advisor Fee	400,000	800,000	400,000	800,000	800,000	1,600,000
6	Public Staff Financial Advisor Counsel Fees	300,000	600,000	300,000	600,000	600,000	1,200,000
7	DEC/DEP Structuring Advisor Fees	350,000	350,000	350,000	350,000	700,000	700,000
8	Accounting Fees	92,685	123,580	132,315	176,420	225,000	300,000
9	SEC Fees	25,180	25,180	81,607	81,607	106,787	106,787
10	SPE Set-up Fee	6,179	30,895	8,821	44,105	15,000	75,000
11	Marketing and Miscellaneous Fees	5,895	11,790	19,105	38,210	25,000	50,000
12	Printing/Edgarizing Fee	17,685	23,580	57,315	76,420	75,000	100,000
13	Trustee/Trustee Counsel Fees	49,432	74,148	70,568	105,852	120,000	180,000
14	Original Issue Discount - TBD	-	-	-	-	-	-
15	Other Ancillary Agreements - TBD	-	-	-	-	-	-
	Total	$ 4,207,756	$ 6,028,173	$ 7,249,231	$ 10,427,614	$ 11,456,987	$ 16,455,787
	Storm Expenses, including carrying costs through 7/31/2020 for DEC and 8/31/2020 for DEP	$ 213,094,000		$ 714,027,000		$ 927,121,000	
	Additional carrying costs and adjustments to above amounts through May 31, 2020	12,476,000		24,981,000		37,457,000	
	Estimated Up-front Bond Issuance Costs Included in Proposed Structure (approximates the average of the lower end and higher end range amounts above)	5,230,000		8,992,000		14,222,000	
	Estimated Principal Amount of Storm Recovery Bonds	$ 230,800,000		$ 748,000,000		$ 978,800,000	

[1] Includes a range of $245,000 to $1,885,000 of expenses related to the SRB Issuer trust that have been allocated to DEC and DEP based on their Storm Recovery Bond issuance amount to the total SRB Issuer issuance amount.

Estimated Annual Ongoing Financing Costs[1]

Line No.	Description	Lower End of Range	Upper End of Range	Lower End of Range	Upper End of Range	Lower End of Range	Upper End of Range
1	Servicing Fees [2]	$ 115,400	$ 1,384,800	$ 374,000	$ 4,488,000	$ 489,400	$ 5,872,800
2	Return on Invested Capital	18,349	18,349	59,466	59,466	77,815	77,815
3	Administration Fees	61,790	92,685	88,210	132,315	150,000	225,000
4	Accounting and Auditing Fees	92,685	123,580	132,315	176,420	225,000	300,000
5	Regulatory Fees	23,530	23,530	74,750	74,750	98,280	98,280
6	Legal Fees	12,358	24,716	17,642	35,284	30,000	60,000
7	Rating Agency Surveillance Fees	42,000	62,000	42,000	106,000	84,000	168,000
8	Trustee Fees	12,358	12,358	17,642	17,642	30,000	30,000
9	Independent Director or Manager Fees	4,325	6,179	6,175	8,821	10,500	15,000
10	Other Miscellaneous Fees	1,854	6,179	2,646	8,821	4,500	15,000
	Total	$ 384,648	$ 1,754,375	$ 814,846	$ 5,107,519	$ 1,199,495	$ 6,861,895
	Amount used in developing annual revenue requirement estimates[3]	$ 440,000		$ 910,000		$ 1,350,000	

[1] Includes a range of $150,000 to $299,000 per year of expenses related to the SRB Issuer trust that have been allocated to DEC and DEP based on their Storm Recovery Bond issuance amount to the total SRB Issuer issuance amount.

[2] Low end of the range assumes DEC and DEP are the servicers (0.05%). Upper end of range reflects an alternative servicer (0.60%).

[3] Average of the low and high end of range for lines 2-10 plus the low end of range for the Servicing Fee.

STORM RECOVERY PROPERTY PURCHASE AND SALE AGREEMENT

by and between

[DUKE ENERGY [CAROLINAS/PROGRESS] STORM RECOVERY FUNDING], LLC,

Issuer

and

DUKE ENERGY [CAROLINAS/PROGRESS], LLC,

Seller

Acknowledged and Accepted by

[ ], as Indenture Trustee

Dated as of [ ], 2021

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EXHIBIT

Exhibit A Form of Bill of Sale

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Appendix A Definitions and Rules of Construction

This STORM RECOVERY PROPERTY PURCHASE AND SALE AGREEMENT, dated as of [ ], 2021, is by and between [DUKE ENERGY [CAROLINAS/PROGRESS] STORM RECOVERY FUNDING], LLC, a Delaware limited liability company, and Duke Energy [Carolinas/Progress], LLC (the "Seller"), a North Carolina limited liability company, and acknowledged and accepted by [ ], a national banking association, as indenture trustee.

RECITALS

WHEREAS, the Issuer desires to purchase the Series Property created pursuant to the Storm Recovery Law;

WHEREAS, the Seller is willing to sell its rights and interests under the Financing Order to the Issuer, whereupon such rights and interests will become the Series Property;

WHEREAS, the Issuer, in order to finance the purchase of the Series Property, will issue the [Series A] Storm Recovery Bonds under the Indenture;

WHEREAS, the Issuer, to secure its obligations under the [Series A] Storm Recovery Bonds and the Indenture, will pledge, among other things, all right, title and interest of the Issuer in and to the Series Property and this Sale Agreement to the Indenture Trustee for the benefit of the Secured Parties; and

WHEREAS, the Issuer will sell the Storm Recovery Bonds to a special purpose Delaware Trust, which will issue SRB Notes secured by the Storm Recovery Bonds under the Note Indenture.

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the parties hereto agree as follows:

ARTICLE I
DEFINITIONS AND RULES OF CONSTRUCTION

SECTION 1.01. Definitions and Rules of Construction. Capitalized terms used but not otherwise defined in this Sale Agreement shall have the respective meanings given to such terms in Appendix A, which is hereby incorporated by reference into this Sale Agreement as if set forth fully in this Sale Agreement. Not all terms defined in Appendix A are used in this Sale Agreement. The rules of construction set forth in Appendix A shall apply to this Sale Agreement and are hereby incorporated by reference into this Sale Agreement as if set forth fully in this Sale Agreement, however for purposes of this Sale Agreement, unless otherwise indicated herein, the terms Series Charges, Series Closing Date, Series Collateral and Series Property mean the Series Charges, Series Closing Date, Series Collateral and Series Property for the [Series A] Storm Recovery Bonds.

ARTICLE II
CONVEYANCE OF STORM RECOVERY PROPERTY

SECTION 2.01. Conveyance of Series Property.

(a) In consideration of the Issuer's delivery to or upon the order of the Seller of $[ ], subject to the conditions specified in Section 2.02, the Seller does hereby irrevocably sell, transfer, assign, set over and otherwise convey to the Issuer, without recourse or warranty, except as set forth herein, all right, title and interest of the Seller in, to and under the Series Property (such sale, transfer, assignment, setting over and conveyance of the Series Property includes, to the fullest extent permitted by the Storm Recovery Law and the North Carolina UCC, the assignment of all revenues, collections, claims, rights to payments, payments, money or proceeds arising from the rights and interests specified in the Financing Order, including the right to impose, bill, charge, collect, and receive Series Charges related to the Series Property, as the same may be adjusted from time to time). Such sale, assignment, or other absolute transfer of the Series Property or other absolute transfer is hereby expressly stated to be a sale or other absolute transfer and, pursuant to N.C. Gen. Stat. § 62-172(e)(3), shall be treated as an absolute transfer and true sale and not as a pledge of or secured transaction relating to the Seller's right, title, and interest in, to, and under the Series Property. The Seller and the Issuer agree that after giving effect to the sale, transfer, assignment, setting over and conveyance contemplated hereby the Seller has no right, title or interest in, to or under the Series Property to which a security interest could attach because (i) it has sold, transferred, assigned, set over and conveyed all right, title and interest in and to the Series Property to the Issuer, (ii) as provided in N.C. Gen. Stat. § 62-172(e)(3), all right, title and interest shall have passed to the Issuer and (iii) as provided in N.C. Gen. Stat. § 62-172(e)(3)d., appropriate financing statements shall have been filed and such transfer is perfected against all third parties, including subsequent judicial or other lien creditors. If such sale, transfer, assignment, setting over and conveyance is held by any court of competent jurisdiction not to be a true sale as provided in N.C. Gen. Stat. § 62-172(e)(3), then such sale, transfer, assignment, setting over and conveyance shall be treated as a pledge of the Series Property and as the creation of a security interest (within the meaning of the Storm Recovery Law and the UCC) in the Series Property and, without prejudice to its position that it has absolutely transferred all of its rights in the Series Property to the Issuer, the Seller hereby grants a security interest in the Series Property to the Issuer (and to the Indenture Trustee for the benefit of the Secured Parties) to secure their respective rights under the Basic Documents to receive the Series Charges and all other Series Property.

(b) Subject to Section 2.02, the Issuer does hereby purchase the Series Property from the Seller for the consideration set forth in Section 2.01(a).

SECTION 2.02. Conditions to Conveyance of Series Property. The obligation of the Seller to sell, and the obligation of the Issuer to purchase, Series Property on the Series Closing Date shall be subject to the satisfaction or waiver of each of the following conditions:

(a) on or prior to the Series Closing Date, the Seller shall have delivered to the Issuer a duly executed Bill of Sale identifying and conveying the Series Property on the Series Closing Date;

(b) on or prior to the Series Closing Date, the Seller shall have obtained the Financing Order creating the Series Property;

(c) as of the Series Closing Date, the Seller is not insolvent and will not have been made insolvent by such sale and the Seller is not aware of any pending insolvency with respect to itself;

(d) as of the Series Closing Date, (i) the representations and warranties of the Seller in this Sale Agreement must be true and correct with the same force and effect as if made on that date (except to the extent they relate to an earlier date), (ii) on and as of the Series Closing Date no breach of any covenant or agreement of the Seller contained in this Sale Agreement has occurred and is continuing and (iii) no Servicer Default shall have occurred and be continuing;

(e) as of the Series Closing Date, (i) the Issuer shall have sufficient funds available to pay the purchase price for the Series Property to be conveyed on such date and (ii) all conditions to the issuance of the [Series A] Storm Recovery Bonds intended to provide such funds set forth in the Indenture and the applicable Series Supplement shall have been satisfied or waived;

(f) on or prior to the Series Closing Date, the Seller shall have taken all action required to transfer to the Issuer ownership of the Series Property on such date, free and clear of all Liens other than Liens created by the Issuer pursuant to the Basic Documents and the SRB Documents and to perfect such transfer, including filing any statements or filings under the Storm Recovery Law or the North Carolina UCC; and the Issuer or the Servicer, on behalf of the Issuer, shall have taken any action required for the Issuer to grant the Indenture Trustee a Lien and first priority perfected security interest in the Series Collateral and maintain such security interest as of the Series Closing Date;

(g) the Seller shall have received and delivered to the Rating Agencies and the Issuer any Opinions of Counsel required by the Rating Agencies;

(h) the Seller shall have received and delivered to the Issuer and the Indenture Trustee an opinion or opinions of outside tax counsel (as selected by the Seller, and in form and substance reasonably satisfactory to the Issuer and the Indenture Trustee) to the effect that (i) the Issuer will not be subject to U.S. federal income tax as an entity separate from its sole owner and that the [Series A] Storm Recovery Bonds will be treated as debt of the Issuer's sole owner for U.S. federal income tax purposes and (ii) for U.S. federal income tax purposes, the issuance of the [Series A] Storm Recovery Bonds will not result in gross income to the Seller;

(i) on and as of the Series Closing Date, each of the Certificate of Formation, the LLC Agreement, the Servicing Agreement, this Sale Agreement, the Indenture, the applicable Series Supplement, the Financing Order and the Storm Recovery Law shall be in full force and effect;

(j) the [Series A] Storm Recovery Bonds shall have received the highest credit ratings possible, as evidenced by a certification from the Seller;

(k) the Seller shall have delivered to the Indenture Trustee, the SRB Trustee, the Issuer and the SRB Issuer an Officer's Certificate confirming the satisfaction of each condition precedent specified in this Section 2.02;

(l) the Seller shall have received the purchase price for the Series Property.

ARTICLE III
REPRESENTATIONS AND WARRANTIES OF SELLER

Subject to Section 3.09, the Seller makes the following representations and warranties, as of the Series Closing Date, and the Seller acknowledges that the Issuer has relied thereon in acquiring the Series Property. The representations and warranties shall survive the sale and transfer of Series Property to the Issuer and the pledge thereof to the Indenture Trustee pursuant to the Indenture or further pledge thereon to the SRB Trustee pursuant to the SRB Indenture. The Seller agrees that (i) the Issuer may assign the right to enforce the following representations and warranties to the Indenture Trustee, (ii) the Indenture Trustee may assign the right to enforce the following representations and warranties to the SRB Trustee and (iii) the following representations and warranties inure to the benefit of the Issuer, the Indenture Trustee and the SRB Trustee.

SECTION 3.01. Organization and Good Standing. The Seller is a limited liability company duly organized, validly existing and in good standing under the laws of the state of North Carolina, with requisite power and authority to own its properties and conduct its business as of the Series Closing Date.

SECTION 3.02. Due Qualification. The Seller is duly qualified to do business and is in good standing, and has obtained all necessary licenses and approvals, in all jurisdictions in which the ownership or lease of property or the conduct of its business shall require such qualifications, licenses or approvals (except where the failure to so qualify or obtain such licenses and approvals would not be reasonably likely to have a material adverse effect on the Seller's business, operations, assets, revenues or properties, the Series Property, the Issuer or the [Series A] Storm Recovery Bonds).

SECTION 3.03. Power and Authority. The Seller has the requisite power and authority to execute and deliver this Sale Agreement and to carry out its terms. The Seller has full power and authority to own the Series Property and to sell and assign the Series Property to the Issuer and the Seller has duly authorized such sale and assignment to the Issuer by all necessary action. The execution, delivery and performance of obligations under this Sale Agreement have been duly authorized by all necessary action on the part of the Seller under its organizational documents and laws.

SECTION 3.04. Binding Obligation. This Sale Agreement constitutes a legal, valid and binding obligation of the Seller, enforceable against the Seller in accordance with its terms, subject to bankruptcy, receivership, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally from time to time in effect and to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

SECTION 3.05. No Violation. The consummation of the transactions contemplated

by this Sale Agreement and the fulfillment of the terms hereof do not conflict with, result in any breach of any of the terms and provisions of, or constitute (with or without notice or lapse of time) a default under, the Seller's organizational documents or any indenture, or other material agreement or instrument to which the Seller is a party or by which it is bound, result in the creation or imposition of any Lien upon any of the Seller's properties pursuant to the terms of any such indenture, agreement or other instrument (other than any Lien that may be granted in the Issuer's favor or any Lien under the Basic Documents or any Liens created by the Issuer pursuant to the Storm Recovery Law) or violate any existing law or any order, rule or regulation applicable to the Seller issued by any Governmental Authority having jurisdiction over the Seller or its properties. The Series Property is not subject to any Lien thereon, other than the Liens created by the Indenture and the Storm Recovery Law.

SECTION 3.06. No Proceedings. Except as disclosed in Schedule 3.06, there are no proceedings or, to the Seller's knowledge, investigations pending or proceedings threatened, before any Governmental Authority having jurisdiction over the Seller or its properties: (a) asserting the invalidity of the Basic Documents, the [Series A] Storm Recovery Bonds, the Storm Recovery Law or the Financing Order; (b) seeking to prevent the issuance of the [Series A] Storm Recovery Bonds or the consummation of any of the transactions contemplated by the Basic Documents; (c) seeking a determination or ruling that could reasonably be expected to materially and adversely affect the performance by the Seller of its obligations under, or the validity or enforceability of, the Basic Documents, the related series of [Series A] Storm Recovery Bonds or the Financing Order; or (d) challenging the Seller's treatment of the [Series A] Storm Recovery Bonds as debt of the Seller for U.S. federal income tax purposes.

SECTION 3.07. Approvals. No governmental approvals, authorizations, consents, orders or other actions or filings, other than filings under the Storm Recovery Law or with the Secretary of State of the State of North Carolina or the UCC of Delaware, are required for the Seller to execute, deliver and perform its obligations under this Sale Agreement except those which have previously been obtained or made or are required to be made by the Servicer in the future pursuant to the Servicing Agreement.

SECTION 3.08. The Series Property.

(a) Information. Subject to Section 3.08(h), at the Series Closing Date, all written information, as amended or supplemented from time to time, provided by the Seller to the Issuer with respect to the Series Property (including the Expected Sinking Fund Schedule and the Financing Order) is true and correct in all material respects and does not omit any material facts and all historical data for the purpose of calculating the initial storm recovery charges in the issuance advice letter and initial routine true-up adjustment request are true and correct, and the assumptions used for such calculations are reasonable and made in good faith.

(b) True-Sale and Absolute Transfer. The transfer, sale, assignment and conveyance of the Series Property constitutes a sale or other absolute transfer of all of the Seller's right, title and interest in the Series Property to the Issuer; upon the execution and delivery of this Sale Agreement and the Bill of Sale on the Series Closing Date, the Series Property shall be validly transferred and sold to the Issuer and the Seller will have no right, title or interest in the Series Property and the Series Property would not be part of the estate of the Seller as debtor in

the event of a filing of a bankruptcy petition by or against the Seller under any bankruptcy law. The Seller hereby represents that no portion of the Series Property has been sold, transferred, assigned, pledged or otherwise conveyed by the Seller to any person other than the Issuer, and, to the Seller's knowledge (after due inquiry), no security agreement, financing statement or equivalent security or lien instrument listing the Seller as debtor covering all or a portion of the Series Property is on file or of record in any jurisdiction, except such as may have been file or recorded in favor of the Issuer, the Indenture Trustee or the SRB Trustee in connection with the Basic Documents.

(c) Title. The Seller is the sole owner of the Series Property sold to the Issuer on the Series Closing Date and such sale is made free and clear of all Liens other than Liens created by the Issuer pursuant to Indenture. All actions or filings, including filings under the Storm Recovery Law and the UCC, necessary to give the Issuer a valid ownership interest in the Series Property and to grant the Indenture Trustee a first priority perfected security interest in the Series Property, free and clear of all Liens of the Seller or any other Person have been taken or made.

(d) Financing Order; Other Approvals. On the Series Closing Date, under the laws of the State of North Carolina (including the Storm Recovery Law) and the United States in effect on the Series Closing Date: (i) The Financing Order has been issued by the Commission in accordance with the Storm Recovery Law, and such order and the process by which it was issued comply with all applicable laws, rules and regulations. The Financing Order has become effective pursuant to the Storm Recovery Law and is, and as of the date of issuance of the [Series A] Storm Recovery Bonds will be, in full force and effect and final and non-appealable; (ii) the [Series A] Storm Recovery Bonds will be entitled to the protections provided by the Storm Recovery Law and, accordingly, the Financing Order and the Series Charges are irrevocable and not subject to reduction by the Commission, except for the True-Up Adjustments to the Series Charges provided for in the Financing Order; (iii) revisions to Duke Energy [Carolinas/Progress]'s electric tariff to implement the Series Charges have been filed and are in full force and effect, such revisions are consistent with the Financing Order, and any electric tariff implemented consistent with a Financing Order issued by the Commission is not subject to modification by the Commission except for True-Up Adjustments made in accordance with the Storm Recovery Law; (iv) the process by which the Financing Order was adopted and approved complies with all applicable laws, rules and regulations; (v) the Financing Order is not subject to appeal and is legally enforceable, and the process by which it was issued complied with all applicable laws, rules and regulations and (vi) no Governmental Approvals, authorizations, consents, orders or other actions or filings, other than filings under the Storm Recovery Law or the UCC of North Carolina or Delaware, are required for the Seller to executed, deliver and perform its obligations under this Sale Agreement except those which have previously been obtained or made or are required to be made by the Servicer in the future pursuant to the Servicing Agreement.

(e) State Action. Under the Storm Recovery Law, the State of North Carolina may not take or permit any action that would impair the value of the Series Property or the Series Collateral or, except for the True-Up Adjustment, reduce, alter, or impair the Series Charges to be imposed, charged, collected and remitted to the Issuer, for the benefit of the Holders of the [Series A] Storm Recovery Bonds [and Holders of the SRB Notes] until the principal, interest

or other charges incurred or contracts to be performed in connection with the [Series A] Storm Recovery Bonds are paid or performed in full. Furthermore, under the contract clauses of the Constitution of the State of North Carolina and the United States Constitution, any action taken by the State of North Carolina, including the Commission that substantially impairs the rights of the Holders of the [Series A] Storm Recovery Bonds [and Holders of the SRB Notes] are likely to be found by a court of competent jurisdiction to be an impairment of contract with respect to the State Pledge, unless such action is a reasonable exercise of the State of North Carolina's sovereign powers and of a character reasonable and appropriate to further a significant and legitimate public purpose and, under the takings clauses of the constitution of the State of North Carolina and the United States Constitution, any action taken by the State of North Carolina to repeal or amend the Storm Recovery Law or take any other action in contravention of the State Pledge if such action constitutes a permanent appropriation of a substantial property interest of the Holders of the [Series A] Storm Recovery Bonds in the Series Property or substantially impairs the value of the Series Property so as to unduly interfere with the reasonable expectations of the Holders arising from their investments in the [Series A] Storm Recovery Bonds [or the SRB Notes], could be reasonably be concluded by a court of competent jurisdiction to be a compensable taking, unless such court finds that just compensation has been provided to the Holders of the [Series A] Storm Recovery Bonds [and Holders of the SRB Notes]; but nothing in this paragraph precludes any limitation or alteration if full compensation is made by law for the full protection of the Series Charges and of the Holders of the [Series A] Storm Recovery Bonds [and the Holders of SRB Notes] or any assignee or party entering into a contract with the Seller.

(f) No Repeal of the Storm Recovery Law. Apart from amending the Constitution of the State of North Carolina by initiative, the voters of the State of North Carolina do not have initiative powers to amend, repeal or revoke the Storm Recovery Law.

(g) Tax Liens. After due inquiry, the Seller is not aware of any judgment or tax lien filing against the Issuer or the Seller.

(h) Assumptions. On the Series Closing Date, based upon the information available to the Seller on such date, the assumptions used in calculating the Series Charges are reasonable and are made in good faith. Notwithstanding the foregoing, the Seller makes no representation or warranty, express or implied, that amounts actually collected arising from those Series Charges will in fact be sufficient to meet the payment obligations on the related [Series A] Storm Recovery Bonds or that the assumptions used in calculating such Series Charges will in fact be realized.

(i) Creation of Series Property.

(i) For purposes of the Storm Recovery Law, the Series Property constitutes a present property right that will continue to exist until the [Series A] Storm Recovery Bonds issued pursuant to the Financing Order are paid in full and all Financing Costs of the [Series A] Storm Recovery Bonds have been recovered in full; and

(ii) the Series Property consists of (A) all rights and interest of the Seller under the Financing Order, including the right to impose, bill, charge, collect and receive Series Charges; (B) the right under the Financing Order to obtain True-Up

Adjustments of the Series Charges; and (C) all revenues, collections, claims, rights to payments, payments, money and proceeds arising out of the rights and interests described in (A) and (B).

(j) Nature of Representations and Warranties. The representations and warranties set forth in this Section 3.08, insofar as they involve conclusions of law, are made not on the basis that the Seller purports to be a legal expert or to be rendering legal advice, but rather to reflect the parties' good faith understanding of the legal basis on which the parties are entering into this Sale Agreement and the other Basic Documents and the basis on which the Holders are purchasing the [Series A] Storm Recovery Bonds [and the SRB Notes], and to reflect the parties' agreement that, if such understanding turns out to be incorrect or inaccurate, the Seller will be obligated to indemnify the Issuer, the SRB Trust and their permitted assigns (to the extent required by and in accordance with Section 5.01), and that the Issuer, the SRB Trust and their permitted assigns will be entitled to enforce any rights and remedies under the Basic Documents on account of such inaccuracy to the same extent as if the Seller had breached any other representations or warranties hereunder.

(k) Prospectus. As of the date hereof, the information describing the Seller under the caption "[DEC/DEP]'s Review of Storm Recovery Property" and "Duke Energy [Carolinas/Progress], LLC–The Depositor, Sponsor, Seller and Servicer" in the prospectus dated [ ], 2021 relating to the [Series A] Storm Recovery Bonds is true and correct in all material respects.

(l) Solvency. After giving effect to the sale of the Series Property hereunder, the Seller:

(i) is solvent and expects to remain solvent;

(ii) is adequately capitalized to conduct its business and affairs considering its size and the nature of its business and intended purpose;

(iii) is not engaged in nor does it expect to engage in a business for which its remaining property represents unreasonably small capital;

(iv) reasonably believes that it will be able to pay its debts as they come due; and

(v) is able to pay its debts as they mature and does not intend to incur, or believes that it will not incur, indebtedness that it will not be able to repay at its maturity.

(m) No Court Order. There is no order by any court providing for the revocation, alteration, limitation or other impairment of the Storm Recovery Law, the Financing Order, the Series Property or the Series Charges or any rights arising under any of them or that seeks to enjoin the performance of any obligations under the Financing Order.

(n) Survival of Representations and Warranties The representations and warranties set forth in this Section 3.08 shall survive the execution and delivery of this Sale Agreement and may not be waived by any party hereto except pursuant to a written agreement executed in accordance with Article VI and as to which the Rating Agency Condition has been satisfied.

SECTION 3.09. Limitations on Representations and Warranties. Without prejudice to any of the other rights of the parties, the Seller will not be in breach of any representation or warranty as a result of a change in law by means of any legislative enactment, constitutional amendment or voter initiative. **Notwithstanding anything in this Sale Agreement to the contrary, the Seller makes no representation that amounts collected will be sufficient to meet the obligations on the [Series A] Storm Recovery Bonds or the Issuer's allocable portion of the SRB Notes.**

ARTICLE IV
COVENANTS OF THE SELLER

SECTION 4.01. Existence. Subject to Section 5.02, so long as any of the [Series A] Storm Recovery Bonds are Outstanding, the Seller (a) will keep in full force and effect its existence and remain in good standing or equivalent status under the laws of the jurisdiction of its organization and (b) will obtain and preserve its qualifications to do business in each jurisdiction in which such qualification is or will be necessary to protect the validity and enforceability of this Sale Agreement and each other instrument or agreement to which the Seller is a party necessary to the proper administration of this Sale Agreement and the transactions contemplated thereby.

SECTION 4.02. No Liens. Except for the conveyances under this Sale Agreement or any Lien for the benefit of the Issuer, the Holders of the [Series A] Storm Recovery Bonds or the Indenture Trustee, [the Holders of the SRB Notes or the SRB Trustee] the Seller will not sell, pledge, assign or transfer to any other person, or grant, create, incur, assume or suffer to exist any Lien on, any of the Series Property, whether existing as of the transfer date or thereafter created, or any interest therein. The Seller will not at any time assert any Lien against or with respect to any Series Property, and will defend the right, title and interest of the Issuer and of the Indenture Trustee [and the SRB Issuer and SRB Trustee], on behalf of the Secured Parties, in, to and under the Series Property against all claims of third parties claiming through or under the Seller.

SECTION 4.03. Use of Proceeds. The Seller will use the proceeds of the sale of the related Series Property in accordance with the Financing Order.

SECTION 4.04. Delivery of Collections. In the event that the Seller receives any Storm Recovery Charge Collections or other payments in respect of the Series Charges or the proceeds thereof, other than in its capacity as the Servicer, the Seller agrees to pay to the Servicer, on behalf of the Issuer, all payments received by it in respect thereof, but in no event later than two Business Days after the Seller becomes aware of such receipt.

SECTION 4.05. Notice of Liens. The Seller shall notify the Issuer and the Indenture Trustee promptly after becoming aware of any Lien on any of the Series Property,

other than the conveyances hereunder and any Lien pursuant to the Basic Documents, including the Lien in favor of the Indenture Trustee for the benefit of the Holders of the [Series A] Storm Recovery Bonds or the SRB Trustee for the benefit of the Holders of the SRB Notes.

SECTION 4.06. Compliance with Law. The Seller will materially comply with its organizational or governing documents and all laws, treaties, rules, regulations and determinations of any Governmental Authority applicable to it, except to the extent that failure to so comply would not materially adversely affect the Issuer's or the Indenture Trustee's [or the SRB Issuer's or the SRB Trustee's] interests in the Series Property under any of the Basic Documents, the timing or amount of Series Charges payable by Customers or of Seller's performance of its material obligations under this Sale Agreement.

SECTION 4.07. Covenants Related to [Series A] Storm Recovery Bonds and Series Property.

(a) So long as any of the [Series A] Storm Recovery Bonds are Outstanding, the Seller shall treat the Series Property as the Issuer's property for all purposes other than financial accounting, U.S. federal income tax purposes and state income and franchise tax purposes.

(b) So long as any of the [Series A] Storm Recovery Bonds are Outstanding, the Seller shall treat such [Series A] Storm Recovery Bonds as debt of the Issuer and not that of the Seller, except for financial accounting and U.S. federal income tax purposes. For U.S. federal income tax purposes, so long as any of the [Series A] Storm Recovery Bonds are Outstanding, the Seller agrees to treat such [Series A] Storm Recovery Bonds as indebtedness of the Seller (as the sole owner of the Issuer) secured by the related Series Collateral unless otherwise required by appropriate taxing authorities.

(c) So long as any of the [Series A] Storm Recovery Bonds are Outstanding, the Seller shall disclose in its financial statements that the Issuer and not the Seller is the owner of the Series Property and that the assets of the Issuer are not available to pay creditors of the Seller or its Affiliates (other than the Issuer).

(d) So long as any of the [Series A] Storm Recovery Bonds are Outstanding, the Seller shall not own or purchase any [Series A] Storm Recovery Bonds.

(e) So long as the [Series A] Storm Recovery Bonds are Outstanding, the Seller shall disclose the effects of all transactions between the Seller and the Issuer in accordance with generally accepted accounting principles.

(f) The Seller agrees that, upon the sale by the Seller of the Series Property to the Issuer pursuant to this Sale Agreement, (i) to the fullest extent permitted by law, including applicable Commission Regulations and the Storm Recovery Law, the Issuer shall have all of the rights originally held by the Seller with respect to the Series Property, including the right (subject to the terms of the Servicing Agreement) to exercise any and all rights and remedies to collect any amounts payable by any Customer in respect of the Series Property, notwithstanding any objection or direction to the contrary by the Seller (and the Seller agrees not to make any such objection or to take any such contrary action) and (ii) any payment by

any Customer directly to the Issuer shall discharge such Customer's obligations, if any, in respect of the Series Property to the extent of such payment, notwithstanding any objection or direction to the contrary by the Seller.

(g) So long as any of the [Series A] Storm Recovery Bonds are Outstanding, (i) in all proceedings relating directly or indirectly to the Series Property, the Seller shall affirmatively certify and confirm that it has sold all of its rights and interests in and to such property (other than for financial accounting or tax purposes), (ii) the Seller shall not make any statement or reference in respect of the Series Property that is inconsistent with the ownership interest of the Issuer (other than for financial accounting or tax purposes), (iii) the Seller shall not take any action in respect of the Series Property except solely in its capacity as the Servicer thereof pursuant to the Servicing Agreement or as otherwise contemplated by the Basic Documents, (iv) neither the Seller nor the Issuer shall take any action, file any tax return or make any election inconsistent with the treatment of the Issuer, for U.S. federal income tax purposes and, to the extent consistent with applicable state tax law, state income and franchise tax purposes, as a disregarded entity that is not separate from the Seller (or, if relevant, from another sole owner of the Issuer) and (v) the Seller shall not sell any additional Property pursuant to the Storm Recovery Law unless the Rating Agency Condition has been satisfied.

SECTION 4.08. Protection of Title. The Seller shall execute and file such filings, including filings with the Secretary of State of the State of North Carolina pursuant to the Storm Recovery Law, and cause to be executed and filed such filings, all in such manner and in such places as may be required by law to fully preserve, maintain, protect and perfect the ownership interest of the Issuer, and the back-up precautionary security interest of the Issuer pursuant to Section 2.01, and the first priority security interest of the Indenture Trustee in the Series Property, including all filings (including but not limited to continuation statements) required under the Storm Recovery Law and the UCC relating to the transfer of the ownership of the rights and interest in the Series Property by the Seller to the Issuer or the pledge of the Issuer's interest in the Series Property to the Indenture Trustee. The Seller shall deliver or cause to be delivered to the Issuer and the Indenture Trustee file-stamped copies of, or filing receipts for, any document filed as provided above, as soon as available following such filing. The Seller shall institute any action or proceeding necessary to compel performance by the Commission, the State of North Carolina or any of their respective agents of any of their obligations or duties under the Storm Recovery Law, the Financing Order, or any issuance advice letter for the [Series A] Storm Recovery Bonds and the Seller agrees to take such legal or administrative actions, including defending against or instituting and pursuing legal actions and appearing or testifying at hearings or similar proceedings, in each case as may be reasonably necessary (a) to seek to protect the Issuer and the Secured Parties from claims, state actions or other actions or proceedings of third parties that, if successfully pursued, would result in a breach of any representation set forth in Article III or any covenant set forth in Article IV and (b) to seek to block or overturn any attempts to cause a repeal of, modification of or supplement to the Storm Recovery Law, the Financing Order or any issuance advice letter for the [Series A] Storm Recovery Bonds, or the rights of Holders of the [Series A] Storm Recovery Bonds by legislative enactment or constitutional amendment that would be materially adverse to the Issuer or the Secured Parties or that would otherwise cause an impairment of the rights of the Issuer or the Secured Parties. The costs of any such actions or proceedings undertaken by the Seller will be reimbursed by the Issuer as an Operating Expense.

SECTION 4.09. Nonpetition Covenants. Notwithstanding any prior termination of this Sale Agreement or the Indenture, the Seller shall not, prior to the date that is one year and one day after the termination of the Indenture and payment in full of the [Series A] Storm Recovery Bonds or any other amounts owed under the Indenture, petition or otherwise invoke or cause the Issuer to invoke the process of any Governmental Authority for the purpose of commencing or sustaining a voluntary case against the Issuer under any U.S. federal or state bankruptcy, insolvency or similar law, appointing a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official or any substantial part of the property of the Issuer, or ordering the winding up or liquidation of the affairs of the Issuer.

SECTION 4.10. Taxes. So long as any of the [Series A] Storm Recovery Bonds are outstanding, the Seller shall, and shall cause each of its Affiliates to, pay all material taxes, assessments and governmental charges imposed upon it or any of its properties or assets or with respect to any of its franchises, business, income or property before any penalty accrues thereon if the failure to pay any such taxes, assessments and governmental charges would, after any applicable grace periods, notices or other similar requirements, result in a Lien on the Series Property; provided, that no such tax need be paid if the Seller or one of its Affiliates is contesting the same in good faith by appropriate proceedings promptly instituted and diligently conducted and if the Seller or such Affiliate has established appropriate reserves as shall be required in conformity with generally accepted accounting principles.

SECTION 4.11. Notice of Breach to Rating Agencies, Etc. Promptly after obtaining knowledge thereof, in the event of a breach in any material respect (without regard to any materiality qualifier contained in such representation, warranty or covenant) of any of the Seller's representations, warranties or covenants contained herein, the Seller shall promptly notify the Issuer, the Indenture Trustee, the Commission and the Rating Agencies of such breach. For the avoidance of doubt, any breach that would adversely affect scheduled payments on the [Series A] Storm Recovery Bonds will be deemed to be a material breach for purposes of this Section 4.11.

SECTION 4.12. Filing Requirements. The Seller shall comply with all filing requirements, including any post-closing filings, in accordance with the Financing Order.

SECTION 4.13. Further Assurances. Upon the request of the Issuer, the Seller shall execute and deliver such further instruments and do such further acts as may be reasonably necessary to carry out the provisions and purposes of this Sale Agreement.

SECTION 4.14. Intercreditor Agreement. The Seller shall not continue as or become a party to any (i) trade receivables purchase and sale agreement or similar arrangement under which it sells all or any portion of its accounts receivables owing from North Carolina electric distribution customers unless the Indenture Trustee, the Seller and the other parties to such additional arrangement shall have entered into the Intercreditor Agreement in connection therewith and the terms of the documentation evidencing such trade receivables purchase and sale arrangement or similar arrangement shall expressly exclude Series Property (including Series Charges) from any receivables or other assets pledged or sold under such arrangement or (ii) sale agreement selling to any other Affiliate property consisting of charges similar to the

Charges sold pursuant to this Sale Agreement, payable by Customers pursuant to the Storm Recovery Law or any similar law, unless the Seller and the other parties to such arrangement shall have entered into an Intercreditor Agreement in connection with any agreement or similar arrangement described in this Section 4.14.

SECTION 4.15. Additional Sales of Storm Recovery Property. So long as any of the [Series A] Storm Recovery Bonds [or SRB Notes] are outstanding, the Seller shall not sell any "storm recovery property" (as defined in the Storm Recovery Law) [or similar property] to secure another issuance of Storm Recovery Bonds or similar bond if it would cause the then current ratings or the SRB Notes from the Rating Agencies to be downgraded.

ARTICLE V
THE SELLER

SECTION 5.01. Liability of Seller; Indemnities.

(a) The Seller shall be liable in accordance herewith only to the extent of the obligations specifically undertaken by the Seller under this Sale Agreement.

(b) The Seller shall indemnify the Issuer and the Indenture Trustee (for itself and the benefit of the Holders of the [Series A] Storm Recovery Bonds) and the SRB Issuer and SRB Trustee (for itself and the benefit of the Holders of the SRB Notes) and each of their respective officers, directors, employees, trustees, managers and agents for, and defend and hold harmless each such Person from and against, any and all taxes (other than taxes imposed on Holders as a result of their ownership of a SRB Note) that may at any time be imposed on or asserted against any such Person as a result of the sale and assignment of the Series Property to the Issuer, including any franchise, sales, gross receipts, general corporation, tangible personal property, privilege or license taxes, but excluding any taxes imposed as a result of a failure of such Person to withhold or remit taxes with respect to payments on any [Series A] Storm Recovery Bond or SRB Note, it being understood that the Holders of either a [Series A] Storm Recovery Bonds or SRB Note shall be entitled to enforce their rights against the Seller under this Section 5.01(b) solely through a cause of action brought for their benefit by the Indenture Trustee as set forth in the Indenture.

(c) The Seller shall indemnify the Issuer and the Indenture Trustee (for itself and the benefit of the Holders of the [Series A] Storm Recovery Bonds) and the SRB Issuer and SRB Trustee (for itself and the benefit of the Holders of the SRB Notes) and each of their respective officers, directors, employees, trustees, managers and agents for, and defend and hold harmless each such Person from and against, any and all taxes (other than taxes imposed on Holders as a result of their ownership of a SRB Note) that may at any time be imposed on or asserted against any such Person as a result of the Issuer's ownership and assignment of the Series Property, the issuance and sale by the Issuer of the [Series A] Storm Recovery Bonds or the other transactions contemplated in the Basic Documents, including any franchise, sales, gross receipts, general corporation, tangible personal property, privilege or license taxes, but excluding any taxes imposed as a result of a failure of such Person to withhold or remit taxes with respect to payments on any Series A Bond.

(d) Indemnification under Sections 5.01(b), 5.01(c), 5.01(d) and 5.01(e) shall include reasonable out-of-pocket fees and expenses of investigation and litigation (including reasonable attorneys' fees and expenses), except as otherwise expressly provided in this Sale Agreement.

(e) The Seller shall indemnify the Issuer and the Indenture Trustee (for itself and for the benefit of the Holders of the [Series A] Storm Recovery Bonds) and the SRB Issuer and the SRB Trustee (for itself and for the benefit of the Holders of SRB Notes), and each of their respective officers, directors, managers, employees and agents for, and defend and hold harmless each such Person from and against, (i) any and all amounts of principal of and interest on the [Series A] Storm Recovery Bonds or the Issuer's allocable portion of the SRB Notes not paid when due or when scheduled to be paid in accordance with their terms and the amount of any deposits to the Issuer required to have been made in accordance with the terms of the Basic Documents which are not made when so required, in each case as a result of the Seller's breach of any of its representations, warranties or covenants contained in this Sale Agreement, and (ii) any and all Losses that may be imposed on or asserted against any such Person, other than any liabilities, obligations or claims for or payments of principal of or interest on the [Series A] Storm Recovery Bonds, together with any reasonable costs and expenses actually incurred by such Person, as a result of the Seller's material breach of any of its representations, warranties or covenants contained in this Sale Agreement, except to the extent of Losses either resulting from the willful misconduct, bad faith or gross negligence of such Indemnified Person or resulting from a breach of a representation or warranty made by such Indemnified Person in any of the Basic Documents that gives rise to Seller's breach, and provided that, with respect to a material breach of a representation, warranty or covenant, the Seller has first had a 30-day opportunity to cure such breach beginning with the receipt of a notice of breach from the Issuer, the Indenture Trustee, the SRB Issuer and SRB Trustee and has failed to cure such breach within such period; and provided further that (i) the Holders of the [Series A] Storm Recovery Bonds shall be entitled to enforce their rights against the Seller under this Section 5.01(e) solely through a cause of action brought for their benefit by the Indenture Trustee and (ii) the Holders of the SRB Notes shall be entitled to enforce their rights against the Seller under this Section 5.01(e) solely through a cause of action brought for their benefit by the SRB Trustee.

(f) The Seller shall indemnify the Servicer (if the Servicer is not the Seller) for the costs of any action instituted by the Servicer pursuant to Section 5.02(d) of the Servicing Agreement that are not paid as Operating Expenses in accordance with the priorities set forth in Section 8.02(e) of the Indenture.

(g) The remedies provided in this Sale Agreement are the sole and exclusive remedies against the Seller for breach of its representations and warranties in this Sale Agreement.

(h) If the Seller remains an entity subject to the Commission's regulatory authority as a public utility (or otherwise for ratemaking purposes), the Seller acknowledges and agrees that the Commission may, subject to the outcome of an appropriate Commission proceeding, take such action as it deems necessary or appropriate under its regulatory authority to require the Seller to make Customers whole for any Losses they incur by reason of

(i) any failure of the Seller's material representations or warranties set forth in this Agreement (other than the Seller's representations and warranties set forth in Sections 3.08(d), 3.08(e) and 3.08(i)), or

(ii) any material breach of the Seller's covenants contained in this Agreement (other than the Seller's covenant set forth in the third sentence of Section 4.08),

including in each case (without limitation) Losses attributable to higher Series Charges imposed on Customers. The Seller acknowledges and agrees that such action by the Commission may include, but is not limited to, adjustments to the Seller's other regulated rates and charges or credits to Customers.

(i) If the Seller does not remain an entity subject to the Commission's regulatory authority as a public utility (or otherwise for ratemaking purposes), the Seller shall indemnify the Commission, on behalf of Customers, for any Losses Customers incur by reason of

(i) any failure of the Seller's material representations or warranties set forth in this Agreement (other than the Seller's representations and warranties set forth in Sections 3.08(d), 3.08(e) and 3.08(i)), or

(ii) any material breach of the Seller's covenants contained in this Agreement (other than the Seller's covenant set forth in the third sentence of Section 4.08),

including without limitation Losses attributable to higher Series Charges imposed on Customers.

(j) Indemnification under this Section 5.01 shall survive any repeal of, modification of, or supplement to, or judicial invalidation of, the Storm Recovery Law or the Financing Order and shall survive the resignation or removal of the Indenture Trustee or the termination of this Sale Agreement and will rank pari passu with other general, unsecured obligations of the Seller. The Seller shall not indemnify any party under this Section 5.01 for any changes in law after the Series Closing Date, whether such changes in law are effected by means of any legislative enactment, any constitutional amendment or any final and non-appealable judicial decision.

SECTION 5.02. Merger, Conversion or Consolidation of, or Assumption of the Obligations of, Seller. Any Person (a) into which the Seller may be merged or consolidated and which succeeds to all or substantially all of the electric distribution business of the Seller, (b) which results from the division of the Seller into two or more Persons and which succeeds to all or substantially all of the electric distribution business of the Seller, (c) which may result from any merger or consolidation to which the Seller shall be a party and which succeeds to all or substantially all of the electric distribution business of the Seller, (d) which may succeed to the properties and assets of the Seller substantially as a whole and which succeeds to all or substantially all of the electric distribution business of the Seller, or (e) which may otherwise succeed to all or substantially all of the electric distribution business of the Seller, which Person in any of the foregoing cases executes an agreement of assumption to perform every obligation

of the Seller under this Sale Agreement, shall be the successor to the Seller hereunder without the execution or filing of any document or any further act by any of the parties to this Sale Agreement; provided, however, that: (i) immediately after giving effect to such transaction, no representation or warranty made pursuant to Article III shall have been breached and no Servicer Default, and no event that, after notice or lapse of time, or both, would become a Servicer Default, shall have occurred and be continuing, (ii) the Seller shall have delivered to the Issuer and the Indenture Trustee and the SRB Trustee an Officer's Certificate and an Opinion of Counsel each stating that such consolidation, reorganization, merger or succession and such agreement of assumption comply with this Section 5.02 and that all conditions precedent, if any, provided for in this Sale Agreement relating to such transaction have been complied with, (iii) the Seller shall have delivered to the Issuer, the Indenture Trustee, the SRB Issuer and SRB Trustee an Opinion of Counsel stating that, in the opinion of such counsel, either (A) all filings to be made by the Seller or the Seller, in its capacity as Seller or as Servicer, including filings under the Storm Recovery Law with the Secretary of the State of the State of North Carolina and the UCC, that are necessary or advisable to fully preserve and protect the respective interests of the Issuer and the Indenture Trustee in the Series Property have been executed and filed, and reciting the details of such filings, or (B) no such action is necessary to preserve and protect such interests, (iv) the Seller shall have given the Rating Agencies prior written notice of such transaction and (v) the Seller shall have delivered to the Issuer, the Indenture Trustee, the SRB Issuer, SRB Trustee and the Rating Agencies an Opinion of Counsel from external tax counsel stating that, for U.S. federal income tax purposes, such consolidation, conversion, merger or succession and such agreement of assumption will not result in a material U.S. federal income tax consequence to the Issuer, the Seller, the Indenture Trustee, the Holders of [Series A] Storm Recovery Bonds, the SRB Trustee or the Holders of SRB Notes. When any Person (or more than one Person) acquires the properties and assets of the Seller substantially as a whole or otherwise becomes the successor, whether by merger, conversion, consolidation, sale, transfer, lease, management contract or otherwise, to all or substantially all of the assets of the Seller in accordance with the terms of this Section 5.02, then, upon satisfaction of all of the other conditions of this Section 5.02, the preceding Seller shall automatically and without further notice be released from all of its obligations hereunder.

SECTION 5.03. Limitation on Liability of Seller and Others. The Seller and any director, officer, employee or agent of the Seller may rely in good faith on the advice of counsel or on any document of any kind, prima facie properly executed and submitted by any Person, respecting any matters arising hereunder. Subject to Section 4.08, the Seller shall not be under any obligation to appear in, prosecute or defend any legal action that is not incidental to its obligations under this Sale Agreement and that in its opinion may involve it in any expense or liability.

ARTICLE VI
MISCELLANEOUS PROVISIONS

SECTION 6.01. Amendment.

(a) Subject to Section 6.01(b), this Sale Agreement may be amended in writing by the Seller and the Issuer with (a) the prior written consent of the Indenture Trustee (b) the satisfaction of the Rating Agency Condition and (c) if any amendment would adversely affect

in any material respect the interest of any Holder of the [Series A] Storm Recovery Bonds, the consent of a majority of the Holders of each affected tranche of [Series A] Storm Recovery Bonds. Promptly after the execution of any such amendment or consent, the Issuer shall furnish copies of such amendment or consent to each of the Rating Agencies.

Prior to the execution of any amendment to this Sale Agreement, the Issuer and the Indenture Trustee shall be entitled to receive and rely upon (i) an Opinion of Counsel, which counsel may be an employee of or counsel to the Issuer or the Seller and which shall be reasonably satisfactory to the Indenture Trustee, or, in the Indenture Trustee's sole judgment, external counsel of the Seller stating that the execution of such amendment is authorized and permitted by this Sale Agreement and that all conditions precedent provided for in this Sale Agreement relating to such amendment have been complied with and (ii) the Opinion of Counsel referred to in Section 3.01(c)(i) of the Servicing Agreement. The Issuer and the Indenture Trustee may, but shall not be obligated to, enter into any such amendment that affects the Indenture Trustee's own rights, duties or immunities under this Sale Agreement or otherwise.

(b) [Notwithstanding anything to the contrary in this Section 6.01, no amendment or modification of this Agreement shall be effective except upon satisfaction of the conditions precedent in this paragraph (b).

(i) At least 15 days prior to the effectiveness of any such amendment or modification and after obtaining the other necessary approvals set forth in Section 6.01(a) (except that the consent of the Indenture Trustee may be subject to the consent of the Holders of the [Series A] Storm Recovery Bonds if such consent is required or sought by the Indenture Trustee in connection with such amendment or modification) the Seller shall have delivered to the Commission's Staff Director of Accounting & Finance written notification of any proposed amendment, which notification shall contain:

A. a reference to Docket Nos. [ ];

B. an Officer's Certificate stating that the proposed amendment or modification has been approved by all parties to this Sale Agreement; and

C. a statement identifying the person to whom the Commission is to address any response to the proposed amendment or to request additional time.

(ii) If the Commission or an authorized representative of the Commission, within 15 days (subject to extension as provided in clause (iii)) of receiving a notification complying with subparagraph (i), shall have delivered to the office of the person specified in clause (i)(C) a written statement that the Commission might object to the proposed amendment or modification, then, except as provided in clause (iv) below, such proposed amendment or modification shall not be effective unless and until the Commission subsequently delivers a written statement that it does not object to such proposed amendment or modification; or

(iii) If the Commission or an authorized representative of the Commission, within 15 days of receiving a notification complying with subparagraph (i), shall have delivered to the office of the person specified in clause (i)(C) a written statement requesting an additional amount of time not to exceed thirty days in which to consider such proposed amendment or modification, then such proposed amendment or modification shall not be effective if, within such extended period, the Commission shall have delivered to the office of the person specified in clause (i)(C) a written statement as described in subparagraph (ii), unless and until the Commission subsequently delivers a written statement that it does not object to such proposed amendment or modification.

(iv) If (A) the Commission or an authorized representative of the Commission, shall not have delivered written notice that the Commission might object to such proposed amendment or modification within the time periods described in subparagraphs (ii) or (iii), whichever is applicable, or (B) the Commission or authorized representative of the Commission, has delivered such written notice but does not within 60 days of the delivery of the notification in (a) above, provide subsequent written notice confirming that it does in fact object and the reasons therefore or advise that it has initiated a proceeding to determine what action it might take with respect to the matter, then the Commission shall be conclusively deemed not to have any objection to the proposed amendment or modification and such amendment or modification may subsequently become effective upon satisfaction of the other conditions specified in Section 6.01(a).

(v) Following the delivery of a statement from the Commission or an authorized representative of the Commission to the Seller under subparagraph (ii), the Seller and the Issuer shall have the right at any time to withdraw from the Commission further consideration of any proposed amendment.

(c) For the purpose of this Section 6.01, an "authorized representative of the Commission" means any person authorized to act on behalf of the Commission, as evidenced by an Opinion of Counsel (which may be the general counsel) to the Commission.]

SECTION 6.02. Notices. Any notice, report or other communication given hereunder shall be in writing and shall be effective (i) upon receipt when sent through the mails, registered or certified mail, return receipt requested, postage prepaid, with such receipt to be effective the date of delivery indicated on the return receipt, (ii) upon receipt when sent by an overnight courier, (iii) on the date personally delivered to an authorized officer of the party to which sent or (iv) on the date transmitted by facsimile or other electronic transmission with a confirmation of receipt in all cases, addressed as follows:

(a) in the case of the Seller, to Duke Energy [Carolinas/Progress], LLC at (i) [ADDRESS], Attention: Director, Rates and Regulatory Strategy, Telephone: [727-820-4560] in care of (c/o): Director, Rates and Regulatory Planning and (ii) 550 South Tryon Street, Charlotte, North Carolina 28202, Attention: Treasurer, Telephone: 704-382-3853 c/o Assistant Treasurer;

(b) in the case of the Issuer, to [DUKE ENERGY [CAROLINAS/PROGRESS] STORM RECOVERY FUNDING], LLC, at [ADDRESS], Attention: Managers, Telephone: [ ];

(c) in the case of the Indenture Trustee, to the Corporate Trust Office;

(d) in the case of the SRB Trustee, to the SRB Trustee Corporate Trust Office;

(e) in the case of Fitch, to Fitch Ratings, 33 Whitehall Street, New York, New York 10004, Attention: ABS Surveillance, Telephone: (212) 908-0500, Facsimile: (212) 908-0355;

(f) in the case of S&P, to Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business, Structured Credit Surveillance, 55 Water Street, New York, New York 10041, Telephone: (212) 438-8991, Email: servicer_reports@standardandpoors.com (all such notices to be delivered to S&P in writing by email);

(g) in the case of Moody's, to Moody's Investors Service, Inc., ABS/RMBS Monitoring Department, 25th Floor, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007, Email: ServicerReports@moodys.com (all such notices to be delivered to Moody's in writing by email), and solely for purposes of Rating Agency Condition communications: abscormonitoring@moodys.com; and

(h) in the case of the Commission, at North Carolina Utilities Commission, [4325 Mail Service Center, Raleigh, NC 27603-5918], Attention: Staff Director of Accounting & Finance.

Each party hereto may, by notice given in accordance herewith to the other party or parties hereto, designate any further or different address to which subsequent notices, reports and other communications shall be sent.

SECTION 6.03. Assignment. Notwithstanding anything to the contrary contained herein, except as provided in Section 5.02, this Sale Agreement may not be assigned by the Seller.

SECTION 6.04. Limitations on Rights of Third Parties. The provisions of this Sale Agreement are solely for the benefit of the Seller, the Issuer, the SRB Issuer, [the Commission (on behalf of itself and Customers),] the Indenture Trustee (for the benefit of the Secured Parties), the SRB Trustee (for the benefit of the Holders of SRB Notes) and the other Persons expressly referred to herein, and such Persons shall have the right to enforce the relevant provisions of this Sale Agreement. Nothing in this Sale Agreement, whether express or implied, shall be construed to give to any other Person any legal or equitable right, remedy or claim in the Series Property or under or in respect of this Sale Agreement or any covenants, conditions or provisions contained herein.

SECTION 6.05. Severability. Any provision of this Sale Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remainder of such

provision (if any) or the remaining provisions hereof (unless such construction shall be unreasonable), and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

SECTION 6.06. Separate Counterparts. This Sale Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

SECTION 6.07. Governing Law. **This Sale Agreement shall be construed in accordance with the laws of the State of North Carolina, without reference to its conflict of law provisions, and the obligations, rights and remedies of the parties hereunder shall be determined in accordance with such laws.**

SECTION 6.08. Assignment to Indenture Trustee. The Seller hereby acknowledges and consents to any mortgage, pledge, assignment and grant of a security interest by the Issuer to the Indenture Trustee pursuant to the Indenture for the benefit of the Secured Parties of all right, title and interest of the Issuer in, to and under this Sale Agreement, the Series Property and the proceeds thereof and the assignment of any or all of the Issuer's rights hereunder to the Indenture Trustee for the benefit of the Secured Parties and to the subsequent grant of a security interest and collateral assignment by the Holders of [Series A] Storm Recovery Bonds to the SRB Trustee pursuant to the SRB Indenture for the benefit of the Holders of SRB Notes in all of the Holders of [Series A] Storm Recovery Bonds' right, title and interest in the [Series A] Storm Recovery Bonds in and to the Collateral of the Issuer and any proceeds thereof, including without limitation, all of the Issuer's rights hereunder.

SECTION 6.09. Limitation of Liability. It is expressly understood and agreed by the parties hereto that this Sale Agreement is executed and delivered by the Indenture Trustee, not individually or personally but solely as Indenture Trustee on behalf of the Secured Parties, in the exercise of the powers and authority conferred and vested in it. The Indenture Trustee in acting hereunder is entitled to all rights, benefits, protections, immunities and indemnities accorded to it under the Indenture.

SECTION 6.10. Waivers. Any term or provision of this Sale Agreement may be waived, or the time for its performance may be extended, by the party or parties entitled to the benefit thereof; provided, however, that no such waiver delivered by the Issuer shall be effective unless the Indenture Trustee has given its prior written consent thereto. Any such waiver shall be validly and sufficiently authorized for the purposes of this Sale Agreement if, as to any party, it is authorized in writing by an authorized representative of such party, with prompt written notice of any such waiver to be provided to the Rating Agencies. The failure of any party hereto to enforce at any time any provision of this Sale Agreement shall not be construed to be a waiver of such provision, nor in any way to affect the validity of this Sale Agreement or any part hereof or the right of any party thereafter to enforce each and every such provision. No waiver of any breach of this Sale Agreement shall be held to constitute a waiver of any other or subsequent breach.

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IN WITNESS WHEREOF, the parties hereto have caused this Sale Agreement to be duly executed by their respective officers as of the day and year first above written.

[DUKE ENERGY [CAROLINAS/PROGRESS] STORM RECOVERY FUNDING], LLC
as Issuer

By:_____
Name: [ ]
Title: President, Chief Financial Officer and Treasurer

Duke Energy [Carolinas/Progress], LLC
as Seller

By:_____
Name: [ ]
Title: Senior Vice President, Tax and Treasurer

ACKNOWLEDGED AND ACCEPTED:

[ ],
as Indenture Trustee

By:_____
Name:
Title:

EXHIBIT A

FORM OF BILL OF SALE

See attached

BILL OF SALE

This Bill of Sale is being delivered pursuant to the Storm Recovery Property Purchase and Sale Agreement, dated as of [ ], 2021 (the "Sale Agreement"), by and between Duke Energy [Carolinas/Progress], LLC (the "Seller") and [Duke Energy [Carolinas/Progress] Storm Recovery Funding], LLC (the "Issuer"). All capitalized terms used but not otherwise defined herein shall have the respective meanings ascribed to such terms in the Sale Agreement.

In consideration of the Issuer's delivery to or upon the order of the Seller of $[ ], the Seller does hereby irrevocably sell, transfer, assign, set over and otherwise convey to the Issuer, without recourse or warranty, except as set forth in the Sale Agreement, all right, title and interest of the Seller in and to the Series Property created or arising under the Financing Order dated [ ], 2021 issued by the North Carolina Utilities Commission under the Storm Recovery Law (such sale, transfer, assignment, setting over and conveyance of the Series Property includes, to the fullest extent permitted by the Storm Recovery Law, the rights and interests of the Seller under the Financing Order, including the right of the Seller and any Successor or assignee of the Seller to impose, bill, charge, collect and receive Series Charges, the right to obtain True-Up Adjustments and all revenue, collections, claims, rights to payments, payments, moneys and proceeds arising from the rights and interests specified in the Financing Order). Such sale, transfer, assignment, setting over and conveyance is hereby expressly stated to be a sale or other absolute transfer and, pursuant to N.C. Gen. Stat. § 62-172(e)(3)a., shall be treated as a true sale and not as a pledge of or secured transaction relating to the Seller's right, title, and interest in, to, and under the Series Property. The Seller and the Issuer agree that after giving effect to the sale, transfer, assignment, setting over and conveyance contemplated hereby the Seller has no right, title or interest in, to, or under the Series Property to which a security interest could attach because (i) it has sold, transferred, assigned, set over and conveyed all right, title and interest in and to the Series Property to the Issuer, (ii) as provided in N.C. Gen. Stat. § 62-172(e)(3), all right, title and interest shall have passed to the Issuer and (iii) as provided in N.C. Gen. Stat. § 62-172(e)(3)d., appropriate financing statements have been filed and such transfer is perfected against all third parties, including subsequent judicial or other lien creditors. If such sale, transfer, assignment, setting over and conveyance is held by any court of competent jurisdiction not to be a true sale as provided in N.C. Gen. Stat. § 62-172(e)(3), then such sale, transfer, assignment, setting over and conveyance shall be treated as a pledge of the Series Property and as the creation of a security interest (within the meaning of the Storm Recovery Law and the UCC) in the Series Property and, without prejudice to its position that it has absolutely transferred all of its rights in the Series Property to the Issuer, the Seller hereby grants a security interest in the Series Property to the Issuer (and to the Indenture Trustee for the benefit of the Secured Parties) to secure their respective rights under the Basic Documents to receive the Series Charges and all other Series Property.

The Issuer does hereby purchase the Series Property from the Seller for the consideration set forth in the preceding paragraph.

Each of the Seller and the Issuer acknowledges and agrees that the purchase price for the Series Property sold pursuant to this Bill of Sale and the Sale Agreement is equal to its fair market value at the time of sale.

The Seller confirms that (i) each of the representations and warranties on the part of the Seller contained in the Sale Agreement are true and correct in all respects on the date hereof as if made on the date hereof and (ii) each condition precedent that must be satisfied under Section 2.02 of the Sale Agreement has been satisfied upon or prior to the execution and delivery of this Bill of Sale by the Seller.

This Bill of Sale may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

This Bill of Sale shall be construed in accordance with the laws of the State of North Carolina, without reference to its conflict of law provisions, and the obligations, rights and remedies of the parties hereunder shall be determined in accordance with such law.

IN WITNESS WHEREOF, the Seller and the Issuer have duly executed this Bill of Sale as of this [ ] day of [ ], 2021.

[DUKE ENERGY [CAROLINAS/PROGRESS] STORM RECOVERY FUNDING], LLC,
as Issuer

By:_____
Name:
Title:

Duke Energy [Carolinas/Progress], LLC,
as Seller

By:_____
Name:
Title:

APPENDIX A

DEFINITIONS AND RULES OF CONSTRUCTION

A. Defined Terms. The following terms have the following meanings:

"17g-5 Website" is defined in Section 10.18(a) of the Indenture.

"Account Records" is defined in Section 1(a)(i) of the Administration Agreement.

"Act" is defined in Section 10.03(a) of the Indenture.

"Additional Series" means issuance by the Issuer of any series of Storm Recovery Bonds issued after the date hereof, that will be undertaken only if (i) such issuance has been authorized by the Commission, (ii) the Rating Agency Condition has been satisfied and it is a condition of issuance for each Series of Storm Recovery Bonds that the new Series receive a rating or ratings as required by the Financing Order or a Subsequent Financing Order, (iii) the Issuer has delivered to the Indenture Trustee an Opinion of Counsel of a nationally recognized firm experienced in such matters to the effect that after such issuance, in the opinion of such counsel, if either or both of Duke Energy [Carolinas/Progress] or the Seller were to become a debtor in a case under the United States Bankruptcy Code (Title 11, U.S.C.), a federal court exercising bankruptcy jurisdiction and exercising reasonable judgment after full consideration of all relevant factors would not order substantive consolidation of the assets and liabilities of the Issuer with those of the bankruptcy estate of Duke Energy [Carolinas/Progress] or the Seller, subject to the customary exceptions, qualifications and assumptions contained therein.

"Administration Agreement" means the Administration Agreement, dated as of the date hereof, by and between Duke Energy [Carolinas/Progress] and the Issuer.

"Administration Fee" is defined in Section 2 of the Administration Agreement.

"Administrator" means Duke Energy [Carolinas/Progress], as Administrator under the Administration Agreement, or any successor Administrator to the extent permitted under the Administration Agreement.

"Affiliate" means, with respect to any specified Person, any other Person controlling or controlled by or under common control with such specified Person. For the purposes of this definition, "control" when used with respect to any specified Person means the power to direct the management and policies of such specified Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise, and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Amendatory Schedule" means a revision to service riders or any other notice filing filed with the Commission in respect of the Storm Recovery Rate Schedule pursuant to a True-Up Adjustment.

"Annual Accountant's Report" is defined in Section 3.04(a) of the Servicing Agreement.

"Authorized Denomination" means, with respect to any Storm Recovery Bond, the authorized denomination therefor specified in the Series Supplement, which shall be at least $2,000 and, except as otherwise provided in the Series Supplement, integral multiples of $1,000 in excess thereof, except for one Storm Recovery bond which may be of a smaller denomination.

"Bankruptcy Code" means Title 11 of the United States Code (11 U.S.C. §§ 101 et seq.).

"Basic Documents" means the Indenture, each Series Supplement, the Certificate of Formation, the LLC Agreement, the Declaration of Trust, the SRB Indenture, the Administration Agreement, and, with respect to each Series, the applicable Sale Agreement, Bill of Sale, Servicing Agreement, Intercreditor Agreement, Letter of Representations, Underwriting Agreement and all other documents and certificates delivered in connection therewith.

"Bill of Sale" means a bill of sale substantially in the form of Exhibit A to the Sale Agreement delivered pursuant to Section 2.02(a) of the Sale Agreement.

"Billed Storm Recovery Charges" means the amounts of Storm Recovery Charges billed by the Servicer.

"Billing Period" means the period created by dividing the calendar year into 12 consecutive periods of approximately 21 Servicer Business Days.

"Bills" means each of the regular monthly bills, summary bills, opening bills and closing bills issued to Customers by Duke Energy [Carolinas/Progress] in its capacity as Servicer.

"Bond Interest Rate" means, with respect to any Series or Tranche of Storm Recovery Bonds, the rate at which interest accrues on the Storm Recovery Bonds of such Series or Tranche, as specified in the applicable Series Supplement.

"Book-Entry Form" means, with respect to any Storm Recovery Bond, that such Storm Recovery Bond is not certificated and the ownership and transfers thereof shall be made through book entries by a Clearing Agency as described in Section 2.11 of the Indenture and the Series Supplement pursuant to which such Storm Recovery Bond was issued.

"Book-Entry Storm Recovery Bonds" means any Storm Recovery Bonds issued in Book-Entry Form; provided, however, that, after the occurrence of a condition

whereupon book-entry registration and transfer are no longer permitted and Definitive Storm Recovery Bonds are to be issued to the Holder of such Storm Recovery Bonds, such Storm Recovery Bonds shall no longer be "Book-Entry Storm Recovery Bonds".

"Business Day" means any day other than a Saturday, a Sunday or a day on which banking institutions in Raleigh, North Carolina, Charlotte, North Carolina or New York, New York are, or DTC or the Corporate Trust Office is, authorized or obligated by law, regulation or executive order to be closed.

"Capital Contribution" means the amount of cash contributed to the Issuer by Duke Energy [Carolinas/Progress] as specified in the LLC Agreement.

"Capital Subaccount" is defined in Section 8.02(a) of the Indenture.

"Certificate of Compliance" means the certificate referred to in Section 3.03 of the Servicing Agreement and substantially in the form of Exhibit E to the Servicing Agreement.

"Certificate of Formation" means the Certificate of Formation filed with the Secretary of State of the State of Delaware on [ ], 20[21] pursuant to which the Issuer was formed.

"Charge" means any storm-recovery charges as defined in Section 62-172(a)(13) of the Storm Recovery Law that are authorized by the Financing Order or any Subsequent Financing Order.

"Claim" means a "claim" as defined in Section 101(5) of the Bankruptcy Code.

"Clearing Agency" means an organization registered as a "clearing agency" pursuant to Section 17A of the Exchange Act.

"Clearing Agency Participant" means a securities broker, dealer, bank, trust company, clearing corporation or other financial institution or other Person for whom from time to time a Clearing Agency effects book entry transfers and pledges of securities deposited with such Clearing Agency.

"Code" means the Internal Revenue Code of 1986.

"Collateral" is defined in the preamble of the Indenture.

"Collection Account" is defined in Section 8.02(a) of the Indenture for such Series.

"Collection in Full of the Charges" means the day on which the aggregate amounts on deposit in the General Subaccount and the Excess Funds Subaccount are sufficient to pay in full all the Outstanding Storm Recovery Bonds and to replenish any shortfall in the Capital Subaccount.

"Collection Period" means any period commencing on the first Servicer Business Day of any Billing Period and ending on the last Servicer Business Day of such Billing Period.

"Commission" means the North Carolina Utilities Commission.

["Commission Condition" means the satisfaction of any precondition to any amendment or modification to or action under any Basic Documents through the obtaining of Commission consent or acquiescence, as described in the related Basic Document.]

"Commission Regulations" means any regulations, including temporary regulations, promulgated by the North Carolina Utilities Commission pursuant to North Carolina law.

"Company Minutes" is defined in Section 1(a)(iv) of the Administration Agreement.

"Corporate Trust Office" means the office of the Indenture Trustee at which, at any particular time, its corporate trust business shall be administered, which office as of the date hereof is located at [BNY Mellon Global Corporate Trust, 10161 Centurion Parkway North, Jacksonville, Florida 32256]; Telephone: [904-998-4714]; Facsimile: [904-645-1930], or at such other address as the Indenture Trustee may designate from time to time by notice to the Holders of Storm Recovery Bonds and the Issuer, or the principal corporate trust office of any successor trustee designated by like notice.

"Covenant Defeasance Option" is defined in Section 4.01(b) of the Indenture.

"Customer" means any existing or future customer (including individuals, corporations, other businesses, and federal, state and local governmental entities) receiving transmission or distribution service from Duke Energy [Carolinas/Progress] or its successors or assignees under Commission-approved rate schedules or under special contracts, even if such customer elects to purchase electricity from an AES following a fundamental change in regulation of public utilities in North Carolina.

"Daily Remittance" is defined in Section 6.11(a) of the Servicing Agreement.

"Declaration of Trust" means the Declaration of Trust filed with the Secretary of State of the State of Delaware on [ ]. 20[21] pursuant to which the SRB Trust was formed.

"Default" means any occurrence that is, or with notice or the lapse of time or both would become, an Event of Default.

"Definitive Storm Recovery Bonds" is defined in Section 2.11 of the Indenture.

"Delaware Trustee" means the Person acting as Delaware trustee under the Declaration of Trust.

"Delaware UCC" means the Uniform Commercial Code as in effect on the Series Closing Date in the State of Delaware.

"DTC" means The Depository Trust Company.

["Duke Energy Carolinas" means Duke Energy Carolinas, LLC, a North Carolina limited liability company.

"Duke Energy Progress" means Duke Energy Progress, LLC, a North Carolina limited liability company.]

"[Duke Energy Carolinas/Progress Storm Recovery Funding], LLC" means the Issuer.

"Eligible Account" means a segregated non-interest-bearing trust account with an Eligible Institution.

"Eligible Institution" means:

(a) the corporate trust department of the Indenture Trustee or a subsidiary thereof, so long as any of the securities of the Indenture Trustee has a credit rating from each Rating Agency in one of its generic rating categories that signifies investment grade; or

(b) a depository institution organized under the laws of the United States of America or any State (or any domestic branch of a foreign bank) (i) that has either (A) a long-term issuer rating of "AA-" or higher by S&P, "A2" or higher by Moody's and "AA" or higher by Fitch, if rated by Fitch, or (B) a short-term issuer rating of "A-1+" or higher by S&P, "P-1" or higher by Moody's and "F1" or higher by Fitch, if rated by Fitch, or any other long-term, short-term or certificate of deposit rating acceptable to the Rating Agencies, and (ii) whose deposits are insured by the Federal Deposit Insurance Corporation.

If so qualified under clause (b) of this definition, the Indenture Trustee may be considered an Eligible Institution for the purposes of clause (a) of this definition.

"Eligible Investments" means instruments or investment property that evidence:

(a) direct obligations of, or obligations fully and unconditionally guaranteed as to timely payment by, the United States of America;

(b) demand or time deposits of, unsecured certificates of deposit of, money market deposit accounts of, bank deposit products of or bankers' acceptances issued by, any depository institution (including, but not limited to, bank deposit products of the Indenture Trustee, acting in its commercial capacity) incorporated or organized under the laws of the United States of America or any State thereof and subject to supervision and examination by U.S. federal or state banking authorities, so long as the commercial paper or other short-term debt obligations of such depository institution are, at the time of deposit, rated at least "A-1" and "P-1" or their equivalents by each of S&P and Moody's and, if Fitch provides ratings thereon by Fitch, or such lower rating as will not result in the downgrading or withdrawal of the ratings of the Storm Recovery Bonds;

(c) commercial paper (including commercial paper of the Indenture Trustee, acting in its commercial capacity, and other than commercial paper of Duke Energy [Carolinas/Progress] or any of its Affiliates), which at the time of purchase is rated at least "A-1" and "P-1" or their equivalents by each of S&P and Moody's or such lower rating as will not result in the downgrading or withdrawal of the ratings of the Storm Recovery Bonds;

(d) investments in money market funds having a rating in the highest investment category granted thereby (including funds for which the Indenture Trustee or any of its Affiliates is investment manager or advisor) from Moody's, S&P and Fitch, if rated by Fitch;

(e) repurchase obligations with respect to any security that is a direct obligation of, or fully guaranteed by, the United States of America or its agencies or instrumentalities, entered into with Eligible Institutions;

(f) repurchase obligations with respect to any security or whole loan entered into with an Eligible Institution or with a registered broker/dealer acting as principal and that meets the ratings criteria set forth below:

(i) a broker/dealer (acting as principal) registered as a broker or dealer under Section 15 of the Exchange Act (any such broker/dealer being referred to in this definition as a "broker/dealer"), the unsecured short-term debt obligations of which are rated at least "P-1" by Moody's, "A-1+" by S&P and, if Fitch provides a rating thereon, "F-1+" by Fitch at the time of entering into such repurchase obligation; or

(ii) an unrated broker/dealer, acting as principal, that is a wholly-owned subsidiary of a non-bank or bank holding company the unsecured short-term debt obligations of which are rated at least "P-1" by Moody's, "A-1+" by S&P and, if Fitch provides a rating thereon, "F-1+" by Fitch at the time of purchase so long as the obligations of such unrated broker/dealer are unconditionally guaranteed by such non-bank or bank holding company; and

(g) any other investment permitted by each of the Rating Agencies;

in each case maturing not later than the Business Day preceding the next Payment Date or Special Payment Date, if applicable (for the avoidance of doubt, investments in money market funds or similar instruments that are redeemable on demand shall be deemed to satisfy the foregoing requirement). Notwithstanding the foregoing: (1) no securities or investments that mature in 30 days or more shall be "Eligible Investments" unless the issuer thereof has either a short-term unsecured debt rating of at least "P-1" from Moody's or a long-term unsecured debt rating of at least "A1" from Moody's and also has a long-term unsecured debt rating of at least "A" from S&P; (2) no securities or investments described in clauses (b) through (d) above that have maturities of more than 30 days but less than or equal to 3 months shall be "Eligible Investments" unless the issuer thereof has a long-term unsecured debt rating of at least "A1" from Moody's and a short-term unsecured debt rating of at least "P-1" from Moody's; and (3) no securities or investments described in clauses (b) through (d) above that have maturities of more than 3 months shall be "Eligible Investments" unless the issuer thereof has a long-term unsecured debt rating of at least "A1" from Moody's and a short-term unsecured debt rating of at least "P-1" from Moody's.

"Event of Default" is defined in Section 5.01 of the Indenture.

"Excess Funds Subaccount" is defined in Section 8.02(a) of the Indenture.

"Exchange Act" means the Securities Exchange Act of 1934.

"Expected Sinking Fund Schedule" means, with respect to any Tranche, the expected sinking fund schedule related thereto set forth in the applicable Series Supplement.

"Federal Book-Entry Regulations" means 31 C.F.R. Part 357 et seq. (Department of Treasury).

"Final" means, with respect to the Financing Order or Subsequent Financing Order, that the Financing Order has become final, that the Financing Order is not being appealed and that the time for filing an appeal thereof has expired.

"Final Maturity Date" means, with respect to each Series of Tranche of Storm Recovery Bonds, the final maturity date therefor as specified in the applicable Series Supplement.

"Financing Costs" means all financing costs as defined in Section 62-172(a)(4)of the Storm Recovery Law allowed to be recovered by Duke Energy [Carolinas/Progress] under the Financing Order.

"Financing Order" means the financing order issued by the Commission to Duke Energy [Carolinas/Progress] on [ ], 20[21], Docket No. [ ], authorizing the creation of the Storm Recovery Property.

"Financing Party" means any and all of the following: the Holders, the Indenture Trustee, Duke Energy [Carolinas/Progress], collateral agents, any party under the Basic Documents, or any other person acting for the benefit of the Holders.

"Fitch" means Fitch Ratings or any successor thereto. References to Fitch are effective so long as Fitch is a Rating Agency.

"North Carolina Secured Transactions Registry" means the centralized database in which all initial financing statements, amendments, assignments, and other statements of charge authorized to be filed under N.C. Gen. Stat. 25- [ ].

"North Carolina UCC" means the Uniform Commercial Code as in effect on the Series Closing Date in the State of North Carolina.

"General Subaccount" is defined in Section 8.02(a) of the Indenture for such Series.

"Global Storm Recovery Bond" means a Storm Recovery Bond to be issued to the Holders thereof in Book-Entry Form, which Global Storm Bond shall be issued to the Clearing Agency, or its nominee, in accordance with Section 2.11 of the Indenture and the Series Supplement.

"Governmental Authority" means any nation or government, any U.S. federal, state, local or other political subdivision thereof and any court, administrative agency or other instrumentality or entity exercising executive, legislative, judicial, regulatory or administrative functions of government.

"Grant" means mortgage, pledge, bargain, sell, warrant, alienate, remise, release, convey, grant, transfer, create, grant a lien upon, a security interest in and right of set-off against, deposit, set over and confirm pursuant to the Indenture and the Series Supplement. A Grant of the Collateral shall include all rights, powers and options (but none of the obligations) of the granting party thereunder, including the immediate and continuing right to claim for, collect, receive and give receipt for payments in respect of the Collateral and all other moneys payable thereunder, to give and receive notices and other communications, to make waivers or other agreements, to exercise all rights and options, to bring Proceedings in the name of the granting party or otherwise and generally to do and receive anything that the granting party is or may be entitled to do or receive thereunder or with respect thereto.

"Holder" means the Person in whose name a Storm Recovery Bond is registered on the Storm Recovery Bond Register.

"Indemnified Losses" is defined in Section 5.03 of the Servicing Agreement.

"Indemnified Party" is defined in Section 6.02(a) of the Servicing Agreement.

"Indemnified Person" is defined in Section 5.01(f) of the Sale Agreement.

"Indenture" means the Indenture, dated as [ ], by and between the Issuer and [ ], as Indenture Trustee and as Securities Intermediary.

"Indenture Trustee" means [ ], a national banking association, as indenture trustee for the benefit of the Secured Parties, or any successor indenture trustee for the benefit of the Secured Parties, under the Indenture.

"Independent" means, when used with respect to any specified Person, that such specified Person (a) is in fact independent of the Issuer, any other obligor on the Storm Recovery Bonds, the Seller, the Servicer and any Affiliate of any of the foregoing Persons, (b) does not have any direct financial interest or any material indirect financial interest in the Issuer, any such other obligor, the Seller, the Servicer or any Affiliate of any of the foregoing Persons and (c) is not connected with the Issuer, any such other obligor, the Seller, the Servicer or any Affiliate of any of the foregoing Persons as an officer, employee, promoter, underwriter, trustee, partner, director (other than as an independent director or manager) or person performing similar functions.

"Independent Certificate" means a certificate to be delivered to the Indenture Trustee under the circumstances described in, and otherwise complying with, the applicable requirements of Section 10.01 of the Indenture, made by an Independent appraiser or other expert appointed by an Issuer Order and consented to by the Indenture Trustee, and such certificate shall state that the signer has read the definition of "Independent" in the Indenture and that the signer is Independent within the meaning thereof.

"Independent Manager" is defined in Section 4.01(a) of the LLC Agreement.

"Independent Manager Fee" is defined in Section 4.01(a) of the LLC Agreement.

"Insolvency Event" means, with respect to a specified Person: (a) the filing of a decree or order for relief by a court having jurisdiction in the premises in respect of such specified Person or any substantial part of its property in an involuntary case under any applicable U.S. federal or state bankruptcy, insolvency or other similar law in effect as of the date hereof or thereafter, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official for such specified Person or for any substantial part of its property, or ordering the winding-up or liquidation of such specified Person's affairs, and such decree or order shall remain unstayed and in effect for a period of 60 consecutive days; or (b) the commencement by such specified Person of a voluntary case under any applicable U.S. federal or state bankruptcy, insolvency or other similar law in effect as of the Series Closing Date or thereafter, or the consent by such specified Person to the entry of an order for relief in an involuntary case under any

such law, or the consent by such specified Person to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official for such specified Person or for any substantial part of its property, or the making by such specified Person of any general assignment for the benefit of creditors, or the failure by such specified Person generally to pay its debts as such debts become due, or the taking of action by such specified Person in furtherance of any of the foregoing.

"Intercreditor Agreement" means the Intercreditor Agreement, dated as of the date hereof, by and among the Issuer, the Indenture Trustee, Duke Energy [Carolinas/Progress] and the parties to the accounts receivables sale program Duke Energy [Carolinas/Progress] Receivables LLC, and any subsequent such agreement.

"Investment Company Act" means the Investment Company Act of 1940.

"Investment Earnings" means investment earnings on funds deposited in the Collection Account net of losses and investment expenses.

"Issuer" means [Duke Energy [Carolinas/Progress] Storm Recovery Funding], LLC, a Delaware limited liability company, named as such in the Indenture until a successor replaces it and, thereafter, means the successor and, for purposes of any provision contained herein and required by the Trust Indenture Act, each other obligor on the Storm Recovery Bonds.

"Issuer Documents" is defined in Section 1(a)(iv) of the Administration Agreement.

"Issuer Order" means a written order signed in the name of the Issuer by any one of its Responsible Officers and delivered to the Indenture Trustee or Paying Agent, as applicable.

"Issuer Request" means a written request signed in the name of the Issuer by any one of its Responsible Officers and delivered to the Indenture Trustee or Paying Agent, as applicable.

"Legal Defeasance Option" is defined in Section 4.01(b) of the Indenture.

"Letter of Representations" means any applicable agreement between the Issuer and the applicable Clearing Agency, with respect to such Clearing Agency's rights and obligations (in its capacity as a Clearing Agency) with respect to any Book-Entry Storm Recovery Bonds.

"Lien" means a security interest, lien, mortgage, charge, pledge, claim or encumbrance of any kind.

"LLC Agreement" means the Amended and Restated Limited Liability Company Agreement of [Duke Energy [Carolinas/Progress] Storm Recovery Funding], LLC, dated as of [ ], 20[21].

"Losses" means (a) any and all amounts of principal of and interest on the Storm Recovery Bonds not paid when due or when scheduled to be paid in accordance with their terms and the amounts of any deposits by or to the Issuer required to have been made in accordance with the terms of the Basic Documents or the Financing Order or Subsequent that are not made when so required and (b) any and all other liabilities, obligations, losses, claims, damages, payments, costs or expenses of any kind whatsoever.

"Manager" means each manager of the Issuer under the LLC Agreement.

"Member" has the meaning specified in the first paragraph of the LLC Agreement.

"Monthly Servicer's Certificate" is defined in Section 3.01(b)(i) of the Servicing Agreement.

"Moody's" means Moody's Investors Service, Inc. References to Moody's are effective so long as Moody's is a Rating Agency.

"North Carolina UCC" means the Uniform Commercial Code as in effect on the Series Closing Date in the State of North Carolina.

"NRSRO" is defined in Section 10.19(b) of the Indenture.

"NY UCC" means the Uniform Commercial Code as in effect on the date hereof in the State of New York.

"Officer's Certificate" means a certificate signed by a Responsible Officer of the Issuer under the circumstances described in, and otherwise complying with, the applicable requirements of Section 10.01 of the Indenture, and delivered to the Indenture Trustee.

"Ongoing Financing Costs" means the Financing Costs described as such in the Financing Order, including Operating Expenses and any other costs identified in the Basic Documents; provided, however, that Ongoing Financing Costs do not include the Issuer's costs of issuance of the Storm Recovery Bonds.

"Operating Expenses" means all unreimbursed fees, costs and out-of-pocket expenses of the Issuer, including all amounts owed by the Issuer to the Indenture Trustee (including indemnities, legal, audit fees and expenses), the Delaware Trustee, the SRB Trustee or any Manager, the Servicing Fee, the Administration Fee, legal and accounting fees, Rating Agency fees, any Regulatory Assessment Fees and related fees (i.e. website provider fees) and any franchise or other taxes owed by the Issuer, including on investment income in the Collection Account.

"Opinion of Counsel" means one or more written opinions of counsel, who may, except as otherwise expressly provided in the Basic Documents, be employees of or counsel to the party providing such opinion of counsel, which counsel shall be

reasonably acceptable to the party receiving such opinion of counsel, and shall be in form and substance reasonably acceptable to such party.

"Optional Interim True-Up Adjustment" means any Optional Interim True-Up Adjustment made pursuant to Section 4.01(b)(ii) of the Servicing Agreement.

"Outstanding" means, as of the date of determination, all Storm Recovery Bonds theretofore authenticated and delivered under the Indenture, except:

(a) Storm Recovery Bonds theretofore canceled by the Storm Recovery Bond Registrar or delivered to the Storm Recovery Bond Registrar for cancellation;

(b) Storm Recovery Bonds or portions thereof the payment for which money in the necessary amount has been theretofore deposited with the Indenture Trustee or any Paying Agent in trust for the Holders of such Storm Recovery Bonds; and

(c) Storm Recovery Bonds in exchange for or in lieu of other Storm Recovery Bonds that have been issued pursuant to the Indenture unless proof satisfactory to the Indenture Trustee is presented that any such Storm Recovery Bonds are held by a Protected Purchaser; provided, that, in determining whether the Holders of the requisite Outstanding Amount of the Storm Recovery Bonds or any Series or Tranche thereof have given any request, demand, authorization, direction, notice, consent or waiver under any Basic Document, Storm Recovery Bonds owned by the Issuer, any other obligor upon the Storm Recovery Bonds, the Member, the Seller, the Servicer or any Affiliate of any of the foregoing Persons shall be disregarded and deemed not to be Outstanding (unless one or more such Persons owns 100% of such Storm Recovery Bonds), except that, in determining whether the Indenture Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Storm Recovery Bonds that the Indenture Trustee actually knows to be so owned shall be so disregarded. Storm Recovery Bonds so owned that have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Indenture Trustee the pledgee's right so to act with respect to such Storm Recovery Bonds and that the pledgee is not the Issuer, any other obligor upon the Storm Recovery Bonds, the Member, the Seller, the Servicer or any Affiliate of any of the foregoing Persons.

"Outstanding Amount" means the aggregate principal amount of all Storm Recovery Bonds, or, if the context requires, all Storm Recovery Bonds of a Series or Tranche, Outstanding at the date of determination.

"Paying Agent" means, with respect to the Indenture, the Indenture Trustee and any other Person appointed as a paying agent for the Storm Recovery Bonds pursuant to the Indenture.

"Payment Date" means, with respect to any Series or Tranche of Storm Recovery Bonds, the dates specified in the applicable Series Supplement; provided, that if any such date is not a Business Day, the Payment Date shall be the Business Day succeeding such date.

"Periodic Billing Requirement" means, for any Remittance Period, the aggregate amount of Charges calculated by the Servicer as necessary to be billed during such period in order to collect the Periodic Payment Requirement on a timely basis.

"Periodic Interest" means, with respect to any Payment Date, the periodic interest for such Payment Date as specified in the Series Supplement.

"Periodic Payment Requirement" for any Remittance Period means the total dollar amount of Storm Recovery Charge Collections reasonably calculated by the Servicer in accordance with Section 4.01 of the Servicing Agreement as necessary to be received during such Remittance Period (after giving effect to the allocation and distribution of amounts on deposit in the Excess Funds Subaccount at the time of calculation and that are projected to be available for payments on the Storm Recovery Bonds at the end of such Remittance Period and including any shortfalls in Periodic Payment Requirements for any prior Remittance Period) in order to ensure that, as of the last Payment Date occurring in such Remittance Period, (a) all accrued and unpaid principal of and interest on the Storm Recovery Bonds then due shall have been paid in full on a timely basis, (b) the Outstanding Amount of the Storm Recovery Bonds is equal to the Projected Unpaid Balance on each Payment Date during such Remittance Period, (c) the balance on deposit in the Capital Subaccount equals the Required Capital Level and (d) all other fees and expenses due and owing and required or allowed to be paid under Section 8.02 of the Indenture as of such date shall have been paid in full; provided, that, with respect to any Semi-Annual True-Up Adjustment or Optional Interim True-Up Adjustment occurring after the date that is one year prior to the last Scheduled Final Payment Date for the Storm Recovery Bonds, the Periodic Payment Requirements shall be calculated to ensure that sufficient Storm Recovery Charges will be collected to retire the Storm Recovery Bonds in full as of the next Payment Date.

"Periodic Principal" means, with respect to any Payment Date, the excess, if any, of the Outstanding Amount of Storm Recovery Bonds over the outstanding principal balance specified for such Payment Date on the Expected Sinking Fund Schedule.

"Permitted Lien" means the Lien created by the Indenture.

"Permitted Successor" is defined in Section 5.02 of the Sale Agreement.

"Person" means any individual, corporation, limited liability company, estate, partnership, joint venture, association, joint stock company, trust (including any beneficiary thereof), unincorporated organization or Governmental Authority.

"Predecessor Storm Recovery Bond" means, with respect to any particular Storm Recovery Bond, every previous Storm Recovery Bond evidencing all or a portion

of the same debt as that evidenced by such particular Storm Recovery Bond, and, for the purpose of this definition, any Storm Recovery Bond authenticated and delivered under Section 2.06 of the Indenture in lieu of a mutilated, lost, destroyed or stolen Storm Recovery Bond shall be deemed to evidence the same debt as the mutilated, lost, destroyed or stolen Storm Recovery Bond.

"Premises" is defined in Section 1(g) of the Administration Agreement.

"Proceeding" means any suit in equity, action at law or other judicial or administrative proceeding.

"Projected Unpaid Balance" means, as of any Payment Date, the sum of the projected outstanding principal amount of each Tranche of Storm Recovery Bonds for such Payment Date set forth in the Expected Sinking Fund Schedule.

"Protected Purchaser" has the meaning specified in Section 8-303 of the UCC.

"Rating Agency" means, with respect to any Tranche of Storm Recovery Bonds, any of Moody's, S&P or Fitch that provides a rating with respect to the Storm Recovery Bonds. If no such organization (or successor) is any longer in existence, "Rating Agency" shall be a nationally recognized statistical rating organization or other comparable Person designated by the Issuer, notice of which designation shall be given to the Indenture Trustee and the Servicer.

"Rating Agency Condition" means, with respect to any action, at least ten Business Days' prior written notification to each Rating Agency of such action, and written confirmation from each of S&P and Moody's to the Servicer, the Indenture Trustee and the Issuer that such action will not result in a suspension, reduction or withdrawal of the then current rating by such Rating Agency of any Tranche of Storm Recovery Bonds; provided, that, if, within such ten Business Day period, any Rating Agency (other than S&P) has neither replied to such notification nor responded in a manner that indicates that such Rating Agency is reviewing and considering the notification, then (a) the Issuer shall be required to confirm that such Rating Agency has received the Rating Agency Condition request and, if it has, promptly request the related Rating Agency Condition confirmation and (b) if the Rating Agency neither replies to such notification nor responds in a manner that indicates it is reviewing and considering the notification within five Business Days following such second request, the applicable Rating Agency Condition requirement shall not be deemed to apply to such Rating Agency. For the purposes of this definition, any confirmation, request, acknowledgment or approval that is required to be in writing may be in the form of electronic mail or a press release (which may contain a general waiver of a Rating Agency's right to review or consent).

"Record Date" means one Business Day prior to the applicable Payment Date.

"Registered Holder" means the Person in whose name a Storm Recovery Bond is registered on the Storm Recovery Bond Register.

"Regulation AB" means the rules of the SEC promulgated under Subpart 229.1100 – Asset Backed Securities (Regulation AB), 17 C.F.R. §§229.1100-229.1123.

"Reimbursable Expenses" is defined in Section 2 of the Administration Agreement and Section 6.06(a) of the Servicing Agreement.

"Released Parties" is defined in Section 6.02(d) of the Servicing Agreement.

"Remittance Period" means, with respect to any True-Up Adjustment, the period comprised of 6 consecutive Collection Periods beginning with the Collection Period three months prior to when such True-Up Adjustment would go into effect, from the Series Closing Date to the first Scheduled Payment Date, and for each subsequent period between Scheduled Payment Dates.

"Required Capital Level" means, with respect to any Series of Storm Recovery Bonds, the amount specified as such in the Series Supplement therefor.

"Requirement of Law" means any foreign, U.S. federal, state or local laws, statutes, regulations, rules, codes or ordinances enacted, adopted, issued or promulgated by any Governmental Authority or common law.

"Responsible Officer" means, with respect to: (a) the Issuer, any Manager or any duly authorized officer; (b) the Indenture Trustee, any officer within the Corporate Trust Office of such trustee (including the President, any Vice President, any Assistant Vice President, any Secretary, any Assistant Treasurer or any other officer of the Indenture Trustee customarily performing functions similar to those performed by persons who at the time shall be such officers, respectively, and that has direct responsibility for the administration of the Indenture and also, with respect to a particular matter, any other officer to whom such matter is referred to because of such officer's knowledge and familiarity with the particular subject); (c) any corporation (other than the Indenture Trustee), the Chief Executive Officer, the President, any Vice President, the Chief Financial Officer, the Treasurer, any Assistant Treasurer or any other duly authorized officer of such Person who has been authorized to act in the circumstances; (d) any partnership, any general partner thereof; and (e) any other Person (other than an individual), any duly authorized officer or member of such Person, as the context may require, who is authorized to act in matters relating to such Person.

"Return on Invested Capital" means, for any Payment Date with respect to any Remittance Period, the sum of (i) rate of return, payable to Duke Energy [Carolinas/Progress], on its Capital Contribution equal to the rate of interest payable on the longest maturing Tranche of Storm Recovery Bonds plus (ii) any Return on Invested Capital not paid on any prior Payment Date.

"S&P" means Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business. References to S&P are effective so long as S&P is a Rating Agency.

"Sale Agreement" means the Storm Recovery Property Purchase and Sale Agreement, dated as of the date hereof, or any subsequent Storm Recovery Property Purchase and Sale Agreement relating to another Series of Storm Recovery Bonds by and between the Issuer and Duke Energy [Carolinas/Progress] , and acknowledged and accepted by the Indenture Trustee.

"Scheduled Final Payment Date" means, with respect to each Series of Storm Recovery Bonds, the date when all interest and principal is scheduled to be paid with respect to that applicable Series in accordance with the Expected Sinking Fund Schedule, as specified in the Series Supplement. For the avoidance of doubt, the Scheduled Final Payment Date with respect to any Series shall be the last Scheduled Payment Date set forth in the Expected Sinking Fund Schedule relating to such Series. The "last Scheduled Final Payment Date" means the Scheduled Final Payment Date of the latest maturing Tranche of a Series of Storm Recovery Bonds.

"Scheduled Payment Date" means, with respect to each Series or Tranche of Storm Recovery Bonds, each Payment Date on which principal for such Series or Tranche is to be paid in accordance with the Expected Sinking Fund Schedule for such Series or Tranche.

"SEC" means the Securities and Exchange Commission.

"Secured Obligations" means the payment of principal of and premium, if any, interest on, and any other amounts owing in respect of, the Storm Recovery Bonds and all fees, expenses, counsel fees and other amounts due and payable to the Indenture Trustee.

"Secured Parties" means the Indenture Trustee, the Holders and any credit enhancer described in a Series Supplement.

"Securities Act" means the Securities Act of 1933.

"Securities Intermediary" means [ ], a national banking association, solely in the capacity of a "securities intermediary" as defined in the NY UCC and Federal Book-Entry Regulations or any successor securities intermediary under the Indenture.

"Seller" is defined in the preamble to the Sale Agreement.

"Semi-Annual Servicer's Certificate" is defined in Section 4.01(c)(ii) of the Servicing Agreement.

"Semi-Annual True-Up Adjustment" means each adjustment to the Storm Recovery Charges made in accordance with Section 4.01(b)(i) of the Servicing Agreement.

"Semi-Annual True-Up Adjustment Date" means the first billing cycle of [January and July] of each year, commencing in [ ], 2021.

"Series" means any series of Storm Recovery Bonds.

"Series A Storm Recovery Bonds" means the Series A Senior Secured Storm Recovery Bonds issued by the Issuer on [ ].

"Series Charges" means Charges for the benefit of a particular Series of Storm Recovery Bonds.

"Series Closing Date" means the date on which a Series of the Storm Recovery Bonds are originally issued in accordance with Section 2.10 of the Indenture and the respective Series Supplement.

"Series Collateral" means Collateral for the benefit of a particular Series of Storm Recovery Bonds.

"Series Property" means Property for the benefit of a particular Series of Storm Recovery Bonds.

"Series Supplement" means an indenture supplemental to the Indenture in the form attached as Exhibit B to the Indenture that authorizes the issuance of Storm Recovery Bonds.

"Servicer" means Duke Energy [Carolinas/Progress], as Servicer under the Servicing Agreement.

"Servicer Business Day" means any day other than a Saturday, a Sunday or a day on which banking institutions in St. Petersburg, Florida, Charlotte, North Carolina or New York, New York are authorized or obligated by law, regulation or executive order to be closed, on which the Servicer maintains normal office hours and conducts business.

"Servicer Default" is defined in Section 7.01 of the Servicing Agreement.

"Servicer Policies and Practices" means, with respect to the Servicer's duties under Exhibit A to the Servicing Agreement, the policies and practices of the Servicer applicable to such duties that the Servicer follows with respect to comparable assets that it services for itself and, if applicable, others.

"Servicing Agreement" means the Storm Recovery Property Servicing Agreement, dated as of the date hereof, or any subsequent Storm Recovery Property Servicing Agreement relating to another Series of Storm Recovery Bonds by and between the Issuer and Duke Energy [Carolinas/Progress], and acknowledged and accepted by the Indenture Trustee.

"Servicing Fee" is defined in Section 6.06(a) of the Servicing Agreement.

"Servicing Standard" means the obligation of the Servicer to calculate, apply, remit and reconcile proceeds of the Property, including Storm Recovery Charge Payments, and all other Collateral for the benefit of the Issuer and the Holders (a) with the same degree of care and diligence as the Servicer applies with respect to payments owed to it for its own account, (b) in accordance with all applicable procedures and requirements established by the Commission for collection of electric utility tariffs and (c) in accordance with the other terms of the Servicing Agreement.

"Special Payment Date" means the date on which, with respect to any Series or Tranche of Storm Recovery Bonds, any payment of principal of or interest (including any interest accruing upon default) on, or any other amount in respect of, the Storm Recovery Bonds of such Series or Tranche that is not actually paid within five days of the Payment Date applicable thereto is to be made by the Indenture Trustee to the Holders.

"Special Record Date" means, with respect to any Special Payment Date, the close of business on the fifteenth day (whether or not a Business Day) preceding such Special Payment Date.

"Sponsor" means Duke Energy [Carolinas/Progress], in its capacity as "sponsor" of the Storm Recovery Bonds within the meaning of Regulation AB.

"SRB Indenture" means the indenture, as from time to time supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof, as so supplemented or amended or both, and shall include the forms and terms of the SRB Notes established hereunder.

"SRB Issuer" means the issuer of the SRB Notes.

"SRB Noteholder" means any holders of the SRB Notes.

"SRB Notes" means the notes issued by the SRB Issuer pursuant to the SRB Indenture.

"SRB Securities Intermediary" means [ ], solely in its capacity as a "securities intermediary" as defined in Section 8-102(a)(14) of the UCC, or any successor securities intermediary.

"SRB Trustee" means [ ], as SRB Trustee under the SRB Indenture, and its successors in interest, and any successor SRB Trustee appointed as provided herein. "State" means any one of the fifty states of the United States of America or the District of Columbia.

"State Pledge" means the pledge of the State of North Carolina as set forth in Section 62-172(k) of the Storm Recovery Law.

"Storms" means Hurricanes Florence[,Dorian] and Michael and Winter Storm Diego.

"Storm Recovery Bond Register" is defined in Section 2.05 of the Indenture.

"Storm Recovery Bond Registrar" is defined in Section 2.05 of the Indenture.

"Storm Recovery Bonds" means all Series of the Storm recovery bonds issued under the Indenture.

"Storm Recovery Charge Collections" means Charges actually received by the Servicer to be remitted to the Collection Account.

"Storm Recovery Charge Payments" means the payments made by Customers based on the Charges.

"Storm Recovery Costs" means (i) Duke Energy [Carolinas'/Progress's] deferred asset balance associated with the Storms, including a return on the unrecovered balance, and with respect to the capital investments, including a deferral of depreciation expense and a return on the investment determined by the Commission to be prudently incurred in Docket No. [E-7, Sub 1214/E-2, Sub 1219] including carrying costs in the amount of X through the projected issuances date of the [Series A] Storm Recovery Bonds, calculated at the Company's approved weighted average cost of capital, (ii) plus up-front Financing Costs "Storm Recovery Law" means the laws of the State of North Carolina adopted in 2019 enacted as Section 62-172, North Carolina Statutes.

"Storm Recovery Property" means all storm recovery property as defined in Section 62-172(a)(15)a. of the Storm Recovery Law created pursuant to the Financing Order or a Subsequent Financing Order and under the Storm Recovery Law, including the right to impose, bill, charge, collect and receive the Charges authorized under the Financing Order and to obtain periodic adjustments of the Charges and all revenue, collections, claims, rights to payments, payments, money, or proceeds arising from the rights and interests specified in Section 62-172(a)(15)b., regardless of whether such revenues, collections, claims, rights to 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.

"Storm Recovery Property Records" is defined in Section 5.01 of the Servicing Agreement.

"Storm Recovery Rate Class" means one of the [five] separate rate classes to whom Charges are allocated for ratemaking purposes in accordance with the Financing Order.

"Storm Recovery Rate Schedule" means the Tariff sheets to be filed with the Commission stating the amounts of the Charges, as such Tariff sheets may be amended or modified from time to time pursuant to a True-Up Adjustment.

"Subaccounts" is defined in Section 8.02(a) of the Indenture.

"Subsequent Financing Order" means, a financing order of the Commission under the Storm Recovery Law issued to Duke Energy [Carolinas/Progress] subsequent to the Financing Order.

"Successor" means any successor to Duke Energy [Carolinas/Progress] under the Storm Recovery Law, whether pursuant to any bankruptcy, reorganization or other insolvency proceeding or pursuant to any merger, conversion, acquisition, sale or transfer, by operation of law, as a result of electric utility restructuring, or otherwise.

"Successor Servicer" is defined in Section 3.07(e) of the Indenture.

"Tariff" means the most current version on file with the Commission of [ ], 2021.

"Tax Returns" is defined in Section 1(a)(iii) of the Administration Agreement.

"Temporary Storm Recovery Bonds" means Storm Recovery Bonds executed and, upon the receipt of an Issuer Order, authenticated and delivered by the Indenture Trustee pending the preparation of Definitive Storm Recovery Bonds pursuant to Section 2.04 of the Indenture.

"Termination Notice" is defined in Section 7.01 of the Servicing Agreement.

"TPS" means a third party supplier which is authorized by law to sell electric service to a customer using the transmission or distribution system of Duke Energy [Carolinas/Progress].

"Tranche Maturity Date" means, with respect to any Tranche of Storm Recovery Bonds, the maturity date therefor, as specified in the Series Supplement therefor.

"True-Up Adjustment" means any Semi-Annual True-Up Adjustment or Optional Interim True-Up Adjustment, as the case may be.

"Trust Indenture Act" means the Trust Indenture Act of 1939 as in force on the Series Closing Date, unless otherwise specifically provided.

"UCC" means the Uniform Commercial Code as in effect in the relevant jurisdiction.

"Underwriters" means the underwriters who purchase Storm Recovery Bonds of any Series from the Issuer and sell such Storm Recovery Bonds in a public offering.

"Underwriting Agreement" means the Underwriting Agreement, dated [ ], 2020, by and among Duke Energy [Carolinas/Progress], the representatives of the several Underwriters named therein and the Issuer.

"U.S. Government Obligations" means direct obligations (or certificates representing an ownership interest in such obligations) of the United States of America (including any agency or instrumentality thereof) for the payment of which the full faith and credit of the United States of America is pledged and that are not callable at the option of the issuer thereof.

"Weighted Average Days Outstanding" means the weighted average number of days Duke Energy [Carolinas/Progress] monthly bills to Customers remain outstanding during the calendar year preceding the calculation thereof pursuant to Section 4.01(b)(i) of the Servicing Agreement.

B. Rules of Construction. Unless the context otherwise requires, in each Basic Document to which this Appendix A is attached:

(a) All accounting terms not specifically defined herein shall be construed in accordance with United States generally accepted accounting principles. To the extent that the definitions of accounting terms in any Basic Document are inconsistent with the meanings of such terms under generally accepted accounting principles or regulatory accounting principles, the definitions contained in such Basic Document shall control.

(b) The term "including" means "including without limitation", and other forms of the verb "include" have correlative meanings.

(c) All references to any Person shall include such Person's permitted successors and assigns, and any reference to a Person in a particular capacity excludes such Person in other capacities.

(d) Unless otherwise stated in any of the Basic Documents, in the computation of a period of time from a specified date to a later specified date, the word "from" means "from and including" and each of the words "to" and "until" means "to but excluding".

(e) The words "hereof", "herein" and "hereunder" and words of similar import when used in any Basic Document shall refer to such Basic Document as a whole and not to any particular provision of such Basic Document. References to Articles, Sections, Appendices and Exhibits in any Basic Document are references to Articles, Sections, Appendices and Exhibits in or to such Basic Document unless otherwise specified in such Basic Document.

(f) The various captions (including the tables of contents) in each Basic Document are provided solely for convenience of reference and shall not affect the meaning or interpretation of any Basic Document.

(g) The definitions contained in this Appendix A apply equally to the singular and plural forms of such terms, and words of the masculine, feminine or neuter gender shall mean and include the correlative words of other genders.

(h) Unless otherwise specified, references to an agreement or other document include references to such agreement or document as from time to time amended, restated, reformed, supplemented or otherwise modified in accordance with the terms thereof (subject to any restrictions on such amendments, restatements, reformations, supplements or modifications set forth in such agreement or document) and include any attachments thereto.

(i) References to any law, rule, regulation or order of a Governmental Authority shall include such law, rule, regulation or order as from time to time in effect, including any amendment, modification, codification, replacement or reenactment thereof or any substitution therefor.

(j) The word “will” shall be construed to have the same meaning and effect as the word “shall”.

(k) The word “or” is not exclusive.

(l) All terms defined in the relevant Basic Document to which this Appendix A is attached shall have the defined meanings when used in any certificate or other document made or delivered pursuant thereto unless otherwise defined therein.

(m) A term has the meaning assigned to it.

STORM RECOVERY PROPERTY SERVICING AGREEMENT

by and between

[DUKE ENERGY [CAROLINAS/PROGRESS] STORM RECOVERY FUNDING], LLC,

Issuer

and

DUKE ENERGY [CAROLINAS/PROGRESS], LLC,

Servicer

Acknowledged and Accepted by

[ ], as Indenture Trustee

Dated as of [ ], 2021

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APPENDIX

Appendix A Definitions and Rules of Construction

This SERIES PROPERTY SERVICING AGREEMENT, dated as of [ ], 2021, is by and between [DUKE ENERGY [CAROLINAS/PROGRESS] STORM RECOVERY FUNDING], LLC, a Delaware limited liability company, as Issuer, and DUKE ENERGY [CAROLINAS/ PROGRESS], LLC, a North Carolina limited liability company, as servicer, and acknowledged and accepted by [ ], a national banking association, as Indenture Trustee.

RECITALS

WHEREAS, pursuant to the Storm Recovery Law and the Financing Order, Duke Energy [Carolinas/Progress], in its capacity as seller (the "Seller"), and the Issuer are concurrently entering into the Sale Agreement pursuant to which the Seller is selling and the Issuer is purchasing certain Property created pursuant to the Storm Recovery Law and the Financing Order described therein;

WHEREAS, in connection with its ownership of the Series Property relating to the [Series A] Storm Recovery Bonds and in order to collect the associated Series Charges, the Issuer desires to engage the Servicer to carry out the functions described herein and the Servicer desires to be so engaged;

WHEREAS, the Issuer desires to engage the Servicer to act on its behalf in obtaining True-Up Adjustments from the Commission and the Servicer desires to be so engaged;

WHEREAS, the Storm Recovery Charge Collections initially may be commingled with other funds collected by the Servicer;

WHEREAS, certain parties may have an interest in such commingled collections, and such parties will have entered into the Intercreditor Agreement, which allows Duke Energy [Carolinas/Progress] to allocate the collected, commingled funds according to each party's interest; and

WHEREAS, the Commission or its attorney will enforce this Servicing Agreement for the benefit of the Customers to the extent permitted by law.

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the parties hereto agree as follows:

ARTICLE I
DEFINITIONS AND RULES OF CONSTRUCTION

Section 1.01. Definitions and Rules of Construction. Capitalized terms used but not otherwise defined in this Servicing Agreement shall have the respective meanings given to such terms in Appendix A, which is hereby incorporated by reference into this Servicing Agreement as if set forth fully in this Servicing Agreement. Not all terms defined in Appendix A are used in this Servicing Agreement. The rules of construction set forth in Appendix A shall apply to this Servicing Agreement and are hereby incorporated by reference into this Servicing Agreement as if set forth fully in this Servicing Agreement, however for purposes of this

Servicing Agreement, unless otherwise indicated herein, the terms Series Charges, Series Closing Date, Series Collateral and Series Property mean the Series Charges, Series Closing Date, Series Collateral and Series Property for the [Series A] Storm Recovery Bonds..

ARTICLE II
APPOINTMENT AND AUTHORIZATION

Section 2.01. Appointment of Servicer; Acceptance of Appointment. The Issuer hereby appoints the Servicer, as an independent contractor, and the Servicer hereby accepts such appointment, to perform the Servicer's obligations pursuant to this Servicing Agreement on behalf of and for the benefit of the Issuer or any assignee thereof in accordance with the terms of this Servicing Agreement and applicable law as it applies to the Servicer in its capacity as servicer hereunder. This appointment and the Servicer's acceptance thereof may not be revoked except in accordance with the express terms of this Servicing Agreement.

Section 2.02. Authorization. With respect to all or any portion of the Series Property, the Servicer shall be, and hereby is, authorized and empowered by the Issuer to (a) execute and deliver, on behalf of itself and/or the Issuer, as the case may be, any and all instruments, documents or notices, and (b) on behalf of itself and/or the Issuer, as the case may be, make any filing and participate in proceedings of any kind with any Governmental Authority, including with the Commission. The Issuer shall execute and deliver to the Servicer such documents as have been prepared by the Servicer for execution by the Issuer and shall furnish the Servicer with such other documents as may be in the Issuer's possession, in each case as the Servicer may determine to be necessary or appropriate to enable it to carry out its servicing and administrative duties hereunder. Upon the Servicer's written request, the Issuer shall furnish the Servicer with any powers of attorney or other documents necessary or appropriate to enable the Servicer to carry out its duties hereunder.

Section 2.03. Dominion and Control Over the Series Property. Notwithstanding any other provision herein, the Issuer shall have dominion and control over the Series Property, and the Servicer, in accordance with the terms hereof, is acting solely as the servicing agent and custodian for the Issuer with respect to the Series Property and the Series Property Records for the [Series A] Storm Recovery Bonds. The Servicer shall not take any action that is not authorized by this Servicing Agreement, that would contravene the Commission Regulations or the Financing Order, that is not consistent with its customary procedures and practices or that shall impair the rights of the Issuer or the Indenture Trustee (on behalf of the Holders) in the Series Property, in each case unless such action is required by applicable law or court or regulatory order.

ARTICLE III
ROLE OF SERVICER

Section 3.01. Duties of Servicer. The Servicer, as agent for the Issuer, shall have the following duties:

(a) Duties of Servicer Generally.

(i) The Servicer's duties in general shall include: management, servicing and administration of the Series Property; calculating consumption, billing the Series Charges, collecting the Series Charges from Customers and posting all collections, responding to inquiries by Customers, the Commission or any other Governmental Authority with respect to the Series Property or Series Charges; investigating and handling delinquencies (and furnishing reports with respect to such delinquencies to the Issuer), processing and depositing collections and making periodic remittances; furnishing periodic and current reports to the Issuer, the Commission, the Indenture Trustee, the SRB Trustee and the Rating Agencies; making all filings with the Commission and taking such other action as may be necessary to perfect the Issuer's ownership interests in and the Indenture Trustee's first priority Lien on the Series Property; making all filings and taking such other action as may be necessary to perfect and maintain the perfection and priority of the Indenture Trustee's Lien on all Series Collateral; selling as the agent for the Issuer, as its interests may appear, defaulted or written off accounts in accordance with the Servicer's usual and customary practices; taking all necessary action in connection with True-Up Adjustments as set forth herein; and performing such other duties as may be specified under the Financing Order to be performed by it. Anything to the contrary notwithstanding, the duties of the Servicer set forth in this Servicing Agreement shall be qualified in their entirety by any Commission Regulations, the Financing Order and the U.S. federal securities laws and the rules and regulations promulgated thereunder, including without limitation, Regulation AB, as in effect at the time such duties are to be performed. Without limiting the generality of this Section 3.01(a)(i), in furtherance of the foregoing, the Servicer hereby agrees that it shall also have, and shall comply with, the duties and responsibilities relating to data acquisition, consumption and bill calculation, billing, customer service functions, collections, posting, payment processing and remittance set forth in Exhibit A. Any processing and depositing of collections, making of periodic remittances and furnishing of periodic reports set forth in this Section 3.01(a)(i) shall be subject to the provisions of the Intercreditor Agreement.

(ii) Commission Regulations Control. Notwithstanding anything to the contrary in this Servicing Agreement, the duties of the Servicer set forth in this Servicing Agreement shall be qualified and limited in their entirety by the Storm Recovery Law, the Financing Order and any Commission Regulations as in effect at the time such duties are to be performed.

(b) Reporting Functions.

(i) Monthly Servicer's Certificate. On or before the last Servicer Business Day of each month, the Servicer shall prepare and deliver to the Issuer, the Indenture Trustee, the SRB Trustee, the Commission and the Rating Agencies a written report substantially in the form of Exhibit B (a "Monthly Servicer's Certificate") setting forth certain information relating to Storm Recovery Charge Payments in connection with the Series Charges received by the Servicer during

the Collection Period preceding such date; provided, however, that, for any month in which the Servicer is required to deliver a Semi-Annual Servicer's Certificate pursuant to Section 4.01(c)(ii), the Servicer shall prepare and deliver the Monthly Servicer's Certificate no later than the date of delivery of such Semi-Annual Servicer's Certificate.

(ii) Notification of Laws and Regulations. The Servicer shall immediately notify the Issuer, the Indenture Trustee, and the Rating Agencies in writing of any Requirement of Law or Commission Regulations hereafter promulgated that have a material adverse effect on the Servicer's ability to perform its duties under this Servicing Agreement.

(iii) Other Information. Upon the reasonable request of the Issuer, the Indenture Trustee, the SRB Trustee, the Commission or any Rating Agency, the Servicer shall provide to the Issuer, the Indenture Trustee, the SRB Trustee, the Commission or such Rating Agency, as the case may be, any public financial information in respect of the Servicer, or any material information regarding the Series Property to the extent it is reasonably available to the Servicer, as may be reasonably necessary and permitted by law to enable the Issuer, the Indenture Trustee, the SRB Trustee, the Commission or the Rating Agencies to monitor the performance by the Servicer hereunder; provided however, that any such request by the Indenture Trustee or the SRB Trustee shall not create any obligation for the Indenture Trustee or the SRB Trustee to monitor the performance of the Servicer. In addition, so long as any of the [Series A] Storm Recovery Bonds are outstanding, the Servicer shall provide the Issuer, the Commission, the Indenture Trustee, and SRB Trustee within a reasonable time after written request therefor, any information available to the Servicer or reasonably obtainable by it that is necessary to calculate the Series Charges applicable to each Storm Recovery Rate Class.

(iv) Preparation of Reports. The Servicer shall prepare and deliver such additional reports as required under this Servicing Agreement, including a copy of each Semi-Annual Servicer's Certificate described in Section 4.01(c)(ii), the annual Certificate of Compliance described in Section 3.03 and the Annual Accountant's Report described in Section 3.04. In addition, the Servicer shall prepare, procure, deliver and/or file, or cause to be prepared, procured, delivered or filed, any reports, attestations, exhibits, certificates or other documents required to be delivered or filed with the SEC (and/or any other Governmental Authority) by the Issuer or the Depositor under the U.S. federal securities or other applicable laws or in accordance with the Basic Documents, including but without limiting the generality of foregoing, filing with the SEC, if applicable and required by applicable law, a copy or copies of (A) the Monthly Servicer's Certificates described in Section 3.01(b)(i) (under Form 10-D or any other applicable form), (B) the Semi-Annual Servicer's Certificates described in Section 4.01(c)(ii) (under Form 10-D or any other applicable form), (C) the annual statements of compliance, attestation reports and other certificates described in Section 3.03 and

(D) the Annual Accountant's Report (and any attestation required under Regulation AB) described in Section 3.04. In addition, the appropriate officer or officers of the Servicer shall (in its separate capacity as Servicer) sign the Depositor's annual report on Form 10-K (and any other applicable SEC or other reports, attestations, certifications and other documents), to the extent that the Servicer's signature is required by, and consistent with, the U.S. federal securities laws and/or any other applicable law.

(c) Opinions of Counsel. The Servicer shall obtain on behalf of the Issuer and deliver to the Issuer, the Commission and the Indenture Trustee:

(i) promptly after the execution and delivery of this Servicing Agreement and of each amendment hereto, an Opinion of Counsel from external counsel of the Issuer either (A) to the effect that, in the opinion of such counsel, all filings, including filings with the Secretary of State of the State of North Carolina, the Secretary of State of the State of Delaware and all filings pursuant to the UCC, that are necessary under the UCC and the Storm Recovery Law to perfect or maintain, as applicable, the Liens of the Indenture Trustee in the Series Property have been authorized, executed and filed, and reciting the details of such filings or referring to prior Opinions of Counsel in which such details are given, or (B) to the effect that, in the opinion of such counsel, no such action shall be necessary to preserve, protect and perfect such Liens; and

(ii) within ninety (90) days after the beginning of each calendar year beginning with the first calendar year beginning more than three months after the date hereof, an Opinion of Counsel, which counsel may be an employee of or counsel to the Issuer or the Servicer and which shall be reasonably satisfactory to the Indenture Trustee, or, in the Indenture Trustee's sole judgment, external counsel of the Issuer, dated as of a date during such 90-day period, either (A) to the effect that, in the opinion of such counsel, all filings, including filings with the Secretary of State of the State of North Carolina, the Secretary of State of the State of Delaware and all filings pursuant to the UCC, have been authorized, executed and filed that are necessary under the UCC and the Storm Recovery Law to maintain the Liens of the Indenture Trustee in the Series Property, and reciting the details of such filings or referring to prior Opinions of Counsel in which such details are given, or (B) to the effect that, in the opinion of such counsel, no such action shall be necessary to preserve, protect and perfect such Liens.

Each Opinion of Counsel referred to in Section 3.01(c)(i) or Section 3.01(c)(ii) above shall specify any action necessary (as of the date of such opinion) to be taken in the following year to perfect or maintain, as applicable, such interest or Lien.

Section 3.02. Servicing and Maintenance Standards. The Servicer will monitor payments and impose collection policies on Customers, as permitted under the Financing Order and the rules of the Commission. On behalf of the Issuer, the Servicer shall: (a) manage, service, administer, bill, charge, collect, receive and post collections in respect of the Series Property with reasonable care and in material compliance with each applicable

Requirement of Law, including all applicable Commission Regulations and guidelines, using the same degree of care and diligence that the Servicer exercises with respect to similar assets for its own account and, if applicable, for others; (b) follow standards, policies and procedures in performing its duties as Servicer that are customary in the electric distribution industry; (c) use all reasonable efforts, consistent with its customary servicing procedures, to enforce, and maintain rights in respect of, the Series Property and to impose, bill, charge, collect, receive and post the Series Charges; (d) comply with each Requirement of Law, including all applicable Commission Regulations and guidelines, applicable to and binding on it relating to the Series Property; (e) file all reports with the Commission required by the Financing Order; (f) file and maintain the effectiveness of UCC financing statements filed with the Secretary of State of the State of North Carolina with respect to the property transferred under the Sale Agreement; and (g) take such other action on behalf of the Issuer to ensure that the Lien of the Indenture Trustee on the Series Collateral remains perfected and of first priority. The Servicer shall follow such customary and usual practices and procedures as it shall deem necessary or advisable in its servicing of all or any portion of the Series Property, which, in the Servicer's judgment, may include the taking of legal action, at the Issuer's expense but subject to the priority of payments set forth in Section 8.02(e) of the Indenture.

Section 3.03. Annual Reports on Compliance with Regulation AB.

(a) The Servicer shall deliver to the Issuer, the Indenture Trustee, the Commission and the Rating Agencies, on or before the earlier of (a) March 31 of each year or (b) with respect to each calendar year during which the Depositor's annual report on Form 10-K is required to be filed in accordance with the Exchange Act and the rules and regulations thereunder, the date on which such annual report on Form 10-K is required to be filed in accordance with the Exchange Act and the rules and regulations thereunder, certificates from a Responsible Officer of the Servicer (i) containing, and certifying as to, the statements of compliance required by Item 1123 (or any successor or similar items or rule) of Regulation AB, as then in effect, and (ii) containing, and certifying as to, the statements and assessment of compliance required by Item 1122(a) (or any successor or similar items or rule) of Regulation AB, as then in effect. These certificates may be in the form of, or shall include the forms attached as Exhibit D and Exhibit E, with, in the case of Exhibit D, such changes as may be required to conform to the applicable securities law.

(b) The Servicer shall use commercially reasonable efforts to obtain, from each other party participating in the servicing function, any additional certifications as to the statements and assessment required under Item 1122 (or any successor or similar items or rule) or Item 1123 of Regulation AB to the extent required in connection with the filing of the annual report on Form 10-K; provided, however, that a failure to obtain such certifications shall not be a breach of the Servicer's duties hereunder. The parties acknowledge that the Indenture Trustee's certifications shall be limited to the Item 1122 certifications described in Exhibit C of the Indenture.

(c) The initial Servicer, in its capacity as Depositor, shall post on its or its parent company's website and file with or furnish to the SEC, in periodic reports and other reports as are required from time to time under Section 13 or Section 15(d) of the Exchange Act,

the information described in Section 3.07(g) of the Indenture to the extent such information is reasonably available to the Depositor.

(d) Except to the extent permitted by applicable law, the Issuer, shall not voluntarily suspend or terminate its filing obligations as issuing entity with the SEC as described in Section 3.03(c).

Section 3.04. Annual Report by Independent Registered Public Accountants.

(a) The Servicer, at its own expense in partial consideration of the Servicing Fee paid to it, shall cause a firm of Independent registered public accountants (which may provide other services to the Servicer or the Seller) to prepare annually, and the Servicer shall deliver annually to the Issuer, the Indenture Trustee, SRB Trustee, the Commission and the Rating Agencies on or before the earlier of (i) March 31 of each year, beginning March 31, [2021], or (ii) with respect to each calendar year during which the Issuer's annual report on Form 10-K is required to be filed in accordance with the Exchange Act and the rules and regulations thereunder, the date on which such annual report on Form 10-K is required to be filed in accordance with the Exchange Act and the rules and regulations thereunder, a report (the "Annual Accountant's Report") regarding the Servicer's assessment of compliance with the servicing criteria set forth in Item 1122(d) of Regulation AB during the immediately preceding twelve (12) months ended December 31 (or, in the case of the first Annual Accountant's Report to be delivered on or before March 31, 2021, the period of time from the date of this Agreement until December 31, 2022), in accordance with paragraph (b) of Rule 13a-18 and Rule 15d-18 of the Exchange Act and Item 1122 of Regulation AB. Such report shall be signed by an authorized officer of the Servicer and shall at a minimum address each of the servicing criteria specified in Exhibit C-1. In the event that the accounting firm providing such report requires the Indenture Trustee to agree or consent to the procedures performed by such firm, the Issuer shall direct the Indenture Trustee in writing to so agree; it being understood and agreed that the Indenture Trustee will deliver such letter of agreement or consent in conclusive reliance upon the direction of the Issuer, and the Indenture Trustee will not make any independent inquiry or investigation as to, and shall have no obligation or liability in respect of the sufficiency, validity or correctness of such procedures.

(b) The Annual Accountant's Report delivered pursuant to Section 3.04(a) shall also indicate that the accounting firm providing such report is independent of the Servicer in accordance with the rules of the Public Company Accounting Oversight Board and shall include any attestation report required under Item 1122(b) of Regulation AB, as then in effect. The costs of the Annual Accountant's Report shall be reimbursable as an Operating Expense under the Indenture.

ARTICLE IV
SERVICES RELATED TO TRUE-UP ADJUSTMENTS

Section 4.01. True-Up Adjustments. From time to time, until the Collection in Full of the Charges for the [Series A] Storm Recovery Bonds, the Servicer shall identify the need for Semi-Annual True-Up Adjustments, and Optional Interim True-Up Adjustments and shall take all reasonable action to obtain and implement such True-Up Adjustments, all in accordance with the following:

(a) Expected Sinking Fund Schedule. The Expected Sinking Fund Schedule for the [Series A] Storm Recovery Bonds is attached hereto as Exhibit F. If the Expected Sinking Fund Schedule is revised, the Servicer shall send a copy of such revised Expected Sinking Fund Schedule to the Issuer, the Indenture Trustee, the Commission and the Rating Agencies promptly thereafter.

(b) True-Up Adjustments.

(i) Semi-Annual True-Up Adjustments and Filings. At the beginning of Duke Energy [Carolinas/Progress]'s billing cycle for [March] and [September], and at least every three months beginning twelve months prior to the Scheduled Final Payment Date for the latest maturing tranche, the Servicer shall: (A) update the data and assumptions underlying the calculation of the Series Charges, including projected electricity consumption during the next two Remittance Period for each Storm Recovery Rate Class and including Periodic Principal, interest and estimated expenses and fees of the Issuer to be paid during such period, the Weighted Average Days Outstanding and write-offs; (B) determine the Periodic Payment Requirements and Periodic Billing Requirement for the next two Remittance Period based on such updated data and assumptions; (C) determine the Series Charges to be allocated to each Storm Recovery Rate Class during the next two Remittance Period based on such Periodic Billing Requirement and the terms of the Financing Order, the Tariff and any other tariffs filed pursuant thereto; (D) make all required public notices and other filings with the Commission to reflect the revised Series Charges, including any Amendatory Schedule; and (E) take all reasonable actions and make all reasonable efforts to effect such Semi-Annual True-Up Adjustment and to enforce the provisions of the Storm Recovery Law and the Financing Order; provided, that, in the case of any Semi-Annual True-Up Adjustment following the Scheduled Final Payment Date for the latest maturing tranche of the [Series A] Storm Recovery Bonds, the Semi-Annual True-Up Adjustment will be calculated to ensure that the Series Charges are sufficient to pay the [Series A] Storm Recovery Bonds in full on the next Payment Date. The Servicer shall implement the revised Series Charges, if any, resulting from such Semi-Annual True-Up Adjustment as of the Semi-Annual True-Up Adjustment Date.

(ii) Optional Interim True-Up Adjustments and Filings. No later than 30 days prior to the first day of the applicable monthly billing cycle, the Servicer shall: (A) update the data and assumptions underlying the calculation of the

Series Charges, including projected electricity consumption during the next two Remittance Period for each Storm Recovery Rate Class and including Periodic Principal, interest and estimated expenses and fees of the Issuer and SRB Issuer to be paid during such period, the rate of delinquencies and write-offs; (B) determine the Periodic Payment Requirement and Periodic Billing Requirement for the next two Remittance Period based on such updated data and assumptions; and (C) based upon such updated data and requirements, project whether existing and projected Storm Recovery Charge Collections together with available fund balances in the Excess Funds Subaccount, will be sufficient (x) to make on a timely basis all scheduled payments of Periodic Principal and interest in respect of each Outstanding tranche of [Series A] Storm Recovery Bonds during such Remittance Period, (y) to pay other Ongoing Financing Costs on a timely basis and (z) to maintain the Capital Subaccount at the Required Capital Level. If the Servicer determines that Series Charges will not be sufficient for such purposes, the Servicer shall, no later than the date described in the first sentence of this Section 4.01(b)(ii): (1) determine the Series Charges to be allocated to each Storm Recovery Rate Class during the next two Remittance Period based on such Periodic Billing Requirement and the terms of the Financing Order, the Tariff and other tariffs filed pursuant thereto; (2) make all required public notices and other filings with the Commission to reflect the revised Series Charges, including any Amendatory Schedule; and (3) take all reasonable actions and make all reasonable efforts to effect such Optional Interim True-Up Adjustment and to enforce the provisions of the Storm Recovery Law and the Financing Order.

(c) Reports.

(i) Notification of Amendatory Schedule Filings and True-Up Adjustments. Whenever the Servicer files an Amendatory Schedule with the Commission or implements revised Series Charges with notice to the Commission without filing an Amendatory Schedule [if permitted by the Financing Order], the Servicer shall send a copy of such filing or notice (together with a copy of all notices and documents that, in the Servicer's reasonable judgment, are material to the adjustments effected by such Amendatory Schedule or notice) to the Issuer, the Indenture Trustee, the SRB Trustee and the Rating Agencies concurrently therewith. If, for any reason any revised Series Charges are not implemented and effective on the applicable date set forth herein, the Servicer shall notify the Issuer, the Indenture Trustee, the SRB Trustee and each Rating Agency by the end of the second Servicer Business Day after such applicable date.

(ii) Semi-Annual Servicer's Certificate. Not later than five (5) Servicer Business Days prior to each Payment Date or Special Payment Date, the Servicer shall deliver a written report substantially in the form of Exhibit C (the "Semi-Annual Servicer's Certificate") to the Issuer, the Indenture Trustee, the SRB Trustee, the Commission and the Rating Agencies, which shall include all of the following information (to the extent applicable and including any other information so specified in the Series Supplement) as to the [Series A] Storm

Recovery Bonds with respect to such Payment Date or Special Payment Date or the period since the previous Payment Date, as applicable:

(A) the amount of the payment to Holders allocable to principal, if any;

(B) the amount of the payment to Holders allocable to interest;

(C) the aggregate Outstanding Amount of the [Series A] Storm Recovery Bonds, before and after giving effect to any payments allocated to principal reported under Section 4.01(c)(ii)(A);

(D) the difference, if any, between the amount specified in Section 4.01(c)(ii)(C) and the Outstanding Amount specified in the Expected Sinking Fund Schedule;

(E) any other transfers and payments to be made on such Payment Date or Special Payment Date, including amounts paid to the Indenture Trustee and to the Servicer; and

(F) the amounts on deposit in the Capital Subaccount and the Excess Funds Subaccount, after giving effect to the foregoing payments.

(iii) Reports to Customers.

(A) After each revised Series Charge has gone into effect pursuant to a True-Up Adjustment, the Servicer shall, to the extent and in the manner and time frame required by any applicable Commission Regulations, cause to be prepared and delivered to Customers any required notices announcing such revised Series Charges.

(B) The Servicer shall comply with the requirements of the Financing Order with respect to the filing of the Storm Recovery Rate Schedule to ensure that the Series Charges are separate and apart from the Servicer's other charges and appear as a separate line item on the Bills sent to Customers.

Section 4.02. Limitation of Liability.

(a) The Issuer and the Servicer expressly agree and acknowledge that:

(i) In connection with any True-Up Adjustment, the Servicer is acting solely in its capacity as the servicing agent hereunder.

(ii) None of the Servicer, the Issuer or the Indenture Trustee is responsible in any manner for, and shall have no liability whatsoever as a result of, any action, decision, ruling or other determination made or not made, or any delay (other than any delay resulting from the Servicer's failure to make any

filings required by Section 4.01 in a timely and correct manner or any breach by the Servicer of its duties under this Servicing Agreement that adversely affects the Series Property or the True-Up Adjustments), by the Commission in any way related to the Series Property or in connection with any True-Up Adjustment, the subject of any filings under Section 4.01, any proposed True-Up Adjustment or the approval of any revised Series Charges and the scheduled adjustments thereto.

(iii) Except to the extent that the Servicer is liable under Section 6.02, the Servicer shall have no liability whatsoever relating to the calculation of any revised Series Charges and the scheduled adjustments thereto, including as a result of any inaccuracy of any of the assumptions made in such calculation regarding expected energy consumption volume and the Weighted Average Days Outstanding, write-offs and estimated expenses and fees of the Issuer and the SRB Issuer, so long as the Servicer has acted in good faith and has not acted in a negligent manner in connection therewith, nor shall the Servicer have any liability whatsoever as a result of any Person, including the Holders, not receiving any payment, amount or return anticipated or expected or in respect of any [Series A] Storm Recovery Bond.

(b) Notwithstanding the foregoing, this Section 4.02 shall not relieve the Servicer of liability for any misrepresentation by the Servicer under Section 6.01 or for any breach by the Servicer of its other obligations under this Servicing Agreement.

ARTICLE V
THE SERIES PROPERTY

Section 5.01. Custody of Storm Recovery Property Records. To assure uniform quality in servicing the Series Property and to reduce administrative costs, the Issuer hereby revocably appoints the Servicer, and the Servicer hereby accepts such appointment, to act as the agent of the Issuer as custodian of any and all documents and records that the Seller shall keep on file, in accordance with its customary procedures, relating to the Series Property, including copies of the Financing Order and Amendatory Schedules relating thereto and all documents filed with the Commission in connection with any True-Up Adjustment and computational records relating thereto (collectively for the [Series A] Storm Recovery Bonds, the "Storm Recovery Property Records"), which are hereby constructively delivered to the Indenture Trustee, as pledgee of the Issuer with respect to all Series Property.

Section 5.02. Duties of Servicer as Custodian.

(a) Safekeeping. The Servicer shall hold the Storm Recovery Property Records on behalf of the Issuer and the Indenture Trustee and maintain such accurate and complete accounts, records and computer systems pertaining to the Series Property Records as shall enable the Issuer and the Indenture Trustee, as applicable, to comply with this Servicing Agreement, the Sale Agreement and the Indenture. In performing its duties as custodian, the Servicer shall act with reasonable care, using that degree of care and diligence that the Servicer exercises with respect to comparable assets that the Servicer services for itself or, if applicable, for others. The Servicer shall promptly report to the Issuer, the Indenture Trustee, the

Commission and the Rating Agencies any failure on its part to hold the Storm Recovery Property Records and maintain its accounts, records and computer systems as herein provided and promptly take appropriate action to remedy any such failure. Nothing herein shall be deemed to require an initial review or any periodic review by the Issuer or the Indenture Trustee of the Storm Recovery Property Records. The Servicer's duties to hold the Storm Recovery Property Records set forth in this Section 5.02, to the extent the Storm Recovery Property Records have not been previously transferred to a successor Servicer pursuant to ARTICLE VII, shall terminate one year and one day after the earlier of (i) the date on which the Servicer is succeeded by a successor Servicer in accordance with ARTICLE VII and (ii) the first date on which no [Series A] Storm Recovery Bonds are Outstanding.

(b) Maintenance of and Access to Records. The Servicer shall maintain the Storm Recovery Property Records at [550 South Tryon Street, Charlotte, North Carolina 28202 or at its facility located at Iron Mountain, 3125 Parkside Drive, Charlotte, North Carolina 28208 and [ADDRESS], or at such other office as shall be specified to the Issuer, the Commission and the Indenture Trustee by written notice at least 30 days prior to any change in location. The Servicer shall make available for inspection, audit and copying to the Issuer, the Commission and the Indenture Trustee or their respective duly authorized representatives, attorneys or auditors the Storm Recovery Property Records at such times during normal business hours as the Issuer, the Commission or the Indenture Trustee shall reasonably request and that do not unreasonably interfere with the Servicer's normal operations. Nothing in this Section 5.02(b) shall affect the obligation of the Servicer to observe any applicable law (including any Commission Regulation) prohibiting disclosure of information regarding Customers, and the failure of the Servicer to provide access to such information as a result of such obligation shall not constitute a breach of this Section 5.02(b).

(c) Release of Documents. Upon instruction from the Indenture Trustee in accordance with the Indenture, the Servicer shall release any Series Property Records to the Indenture Trustee, the Indenture Trustee's agent or the Indenture Trustee's designee, as the case may be, at such place or places as the Indenture Trustee may designate, as soon as practicable. Nothing in this Section 5.02(c) shall affect the obligation of the Servicer to observe any applicable law (including any Commission Regulation) prohibiting disclosure of information regarding Customers, and the failure of the Servicer to provide access to such information as a result of such obligation shall not constitute a breach of this Section 5.02(c).

(d) Defending Series Property Against Claims. To the extent not undertaken by the Seller pursuant to Section 4.08 of the Sale Agreement, the Servicer shall negotiate for the retention of legal counsel and such other experts as may be needed to institute and maintain any action or proceeding, on behalf of and in the name of the Issuer, necessary to compel performance by the Commission or the State of North Carolina of any of their obligations or duties under the Storm Recovery Law and the Financing Order, and the Servicer agrees to assist the Issuer and its legal counsel in taking such legal or administrative actions, including defending against or instituting and pursuing legal actions and appearing or testifying at hearings or similar proceedings, as may be reasonably necessary to attempt to block or overturn any attempts to cause a repeal of, modification of or supplement to the Storm Recovery Law or the Financing Order, or the rights of holders of Series Property by legislative enactment, constitutional

amendment or other means that would be adverse to Holders or any series of additional [Series A] Storm Recovery Bonds. In any proceedings related to the exercise of the power of eminent domain by any municipality to acquire a portion of Duke Energy [Carolinas/Progress]'s electric distribution facilities, the Servicer will assert that that the court ordering such condemnation must treat such municipality as a successor to Duke Energy [Carolinas/Progress] under the Storm Recovery Law and the Financing Order. The costs of any such action shall be payable as an Operating Expense in accordance with the priorities set forth in Section 8.02(d) of the Indenture and any additional indenture. The Servicer's obligations pursuant to this Section 5.02 shall survive and continue notwithstanding the fact that the payment of Operating Expenses pursuant to Section 8.02 of the Indenture and any supplemental indenture may be delayed; provided, that, the Servicer is obligated to institute and maintain such action or proceedings only if it is being reimbursed on a current basis for its costs and expenses in taking such actions in accordance with Section 8.02 of the Indenture and any additional indenture, and is not required to advance its own funds to satisfy these obligations.

Section 5.03. Custodian's Indemnification. The Servicer as custodian shall indemnify the Issuer, any Independent Manager and the Indenture Trustee (for itself and for the benefit of the Holders) and each of their respective officers, directors, employees and agents for, and defend and hold harmless each such Person from and against, any and all liabilities, obligations, losses, damages, payments and claims, and reasonable costs or expenses, of any kind whatsoever (collectively, "Indemnified Losses") that may be imposed on, incurred by or asserted against each such Person as the result of any negligent act or omission in any way relating to the maintenance and custody by the Servicer, as custodian, of the Series Property Records; provided, however, that the Servicer shall not be liable for any portion of any such amount resulting from the willful misconduct, bad faith or gross negligence of the Issuer, any Independent Manager or the Indenture Trustee, as the case may be.

Indemnification under this Section 5.03 shall survive resignation or removal of the Indenture Trustee or any Independent Manager and shall include reasonable out-of-pocket fees and expenses of investigation and litigation (including reasonable attorneys' fees and expenses).

Section 5.04. Effective Period and Termination. The Servicer's appointment as custodian shall become effective as of the Series Closing Date and shall continue in full force and effect until terminated pursuant to this Section 5.04. If the Servicer shall resign as Servicer in accordance with the provisions of this Servicing Agreement or if all of the rights and obligations of the Servicer shall have been terminated under Section 7.01, the appointment of the Servicer as custodian shall be terminated effective as of the date on which the termination or resignation of the Servicer is effective. Additionally, if not sooner terminated as provided above, the Servicer's obligations as custodian shall terminate one year and one day after the date on which no [Series A] Storm Recovery Bonds are Outstanding. Duke Energy [Carolinas/Progress] shall not resign as Servicer if such resignation does not satisfy the Rating Agency Condition.

Section 5.05. Third-Party Suppliers. So long as any of the [Series A] Storm Recovery Bonds are Outstanding, the Servicer shall take reasonable efforts to assure that no TPS bills or collects Series Charges on behalf of the Issuer unless required by applicable law or

regulation and, to the extent permitted by applicable law or regulation, the Rating Agency Condition is satisfied. If an TPS does bill or collect Series Charges on behalf of the Issuer, upon the reasonable request of the Issuer, the Commission, the Indenture Trustee, or any Rating Agency, the Servicer shall take reasonable steps to assure that such a TPS provides to the Issuer, the Commission, the Indenture Trustee or the Rating Agencies, as the case may be, any public financial information in respect of such TPS, or any material information regarding the Series Property to the extent it is reasonably available to such TPS, as may be reasonably necessary and permitted by law for the Issuer, the Commission, the Indenture Trustee or the Rating Agencies to monitor such TPS' performance hereunder. In addition, so long as any of the [Series A] Storm Recovery Bonds are Outstanding, Servicer will use commercially reasonable efforts to ensure that such TPS provide to the Issuer and to the Indenture Trustee, within a reasonable time after written request therefor, any information available to the TPS or reasonably obtainable by it that is necessary to calculate the Series Charges.

ARTICLE VI
THE SERVICER

Section 6.01. Representations and Warranties of Servicer. The Servicer makes the following representations and warranties, as of the Series Closing Date, and as of such other dates as expressly provided in this Section 6.01, on which the Issuer, the Indenture Trustee and the Commission (for the benefit of the Customers) are deemed to have relied in entering into this Servicing Agreement relating to the servicing of the Series Property. The representations and warranties shall survive the execution and delivery of this Servicing Agreement, the sale of the Series Property and the pledge thereof to the Indenture Trustee pursuant to the Indenture.

(a) Organization and Good Standing. The Servicer is duly organized, validly existing and is in good standing under the laws of the state of its organization, with requisite power and authority to own its properties, to conduct its business as such properties are currently owned and such business is presently conducted by it, to service the Series Property and hold the records related to the Series Property, and to execute, deliver and carry out the terms of this Servicing Agreement and the Intercreditor Agreement.

(b) Due Qualification. The Servicer is duly qualified to do business, is in good standing and has obtained all necessary licenses and approvals in all jurisdictions in which the ownership or lease of property or the conduct of its business (including the servicing of the Series Property as required under this Servicing Agreement) requires such qualifications, licenses or approvals (except where a failure to qualify would not be reasonably likely to have a material adverse effect on the Servicer's business, operations, assets, revenues or properties or to its servicing of the Series Property).

(c) Power and Authority. The execution, delivery and performance of the terms of this Servicing Agreement and the Intercreditor Agreement have been duly authorized by all necessary action on the part of the Servicer under its organizational or governing documents and laws.

(d) Binding Obligation. Each of this Servicing Agreement and the Intercreditor Agreement constitutes a legal, valid and binding obligation of the Servicer

enforceable against the Servicer in accordance with its respective terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer and other laws relating to or affecting creditors' rights generally from time to time in effect and to general principles of equity (including concepts of materiality, reasonableness, good faith and fair dealing), regardless of whether considered in a proceeding in equity or at law.

(e) No Violation. The consummation of the transactions contemplated by the Servicing Agreement and the Intercreditor Agreement do not conflict with, result in any breach of or constitute (with or without notice or lapse of time) a default under the Servicer's organizational documents or any indenture or other agreement or instrument to which the Servicer is a party or by which it or any of its property is bound, result in the creation or imposition of any Lien upon the Servicer's properties pursuant to the terms of any such indenture or agreement or other instrument (other than any Lien that may be granted in favor of the Indenture Trustee for the benefit of Holders under the Basic Documents) or violate any existing law or any existing order, rule or regulation applicable to the Servicer of any Governmental Authority having jurisdiction over the Servicer or its properties.

(f) No Proceedings. To the Servicer's knowledge, there are no proceedings or investigations pending or, to the Servicer's knowledge, threatened against the Servicer before any court, federal or state regulatory body, administrative agency or other governmental instrumentality having jurisdiction over the Servicer or its properties: (i) seeking to prevent issuance of the [Series A] Storm Recovery Bonds or the consummation of the transactions contemplated by this Servicing Agreement or any of the other Basic Documents, or, if applicable, any supplement to the Indenture or amendment to the Sale Agreement; (ii) seeking any determination or ruling that might materially and adversely affect the performance by the Servicer of its obligations under, or the validity or enforceability against the Servicer of, this Servicing Agreement or any of the other Basic Documents or, if applicable, any supplement to the Indenture or amendment to the Sale Agreement; or (iii) relating to the Servicer and which might materially and adversely affect the treatment of the [Series A] Storm Recovery Bonds for federal or state income, gross receipts or franchise tax purposes;

(g) Approvals. No governmental approvals, authorizations, consents, orders or other actions or filings with any Governmental Authority are required for the Servicer to execute, deliver and perform its obligations under the Servicing Agreement except those that have previously been obtained or made, those that are required to be made by the Servicer in the future pursuant to Article IV or the Intercreditor Agreement and those that the Servicer may need to file in the future to continue the effectiveness of any financing statements; and

(h) Reports and Certificates. Each report and certificate delivered in connection with any filing made to the Commission by the Servicer on behalf of the Issuer with respect to the Series Charges or True-Up Adjustments will constitute a representation and warranty by the Servicer that each such report or certificate, as the case may be, is true and correct in all material respects; provided, however, that, to the extent any such report or certificate is based in part upon or contains assumptions, forecasts or other predictions of future events, the representation and warranty of the Servicer with respect thereto will be limited to the representation and warranty that such assumptions, forecasts or other predictions of future events

are reasonable based upon historical performance (and facts known to the Servicer on the date such report or certificate is delivered).

The Servicer, the Indenture Trustee and the Issuer are not responsible as a result of any action, decision, ruling or other determination made or not made, or any delay (other than any delay resulting from the Servicer's failure to make any filings with the North Carolina Commission required by this Servicing Agreement in a timely and correct manner or any breach by the Servicer of its duties under the Servicing Agreement that adversely affects the Series Property or the True-Up Adjustments), by the North Carolina Commission in any way related to the Series Property or in connection with any True-Up Adjustment, the subject of any such filings, any proposed True-Up Adjustment or the approval of any revised Series Charges and the scheduled adjustments thereto. Except to the extent that the Servicer otherwise is liable under the provisions of this Servicing Agreement, the Servicer shall have no liability whatsoever relating to the calculation of any revised storm recovery charges and the scheduled adjustments thereto, including as a result of any inaccuracy of any of the assumptions made in such calculations, so long as the Servicer has acted in good faith and has not acted in a negligent manner in connection therewith, nor shall the Servicer have any liability whatsoever as a result of any person or entity, including the Holders, not receiving any payment, amount or return anticipated or expected or in respect of any Storm Recovery Bond generally.

Section 6.02. Indemnities of Servicer; Release of Claims. The Servicer shall be liable in accordance herewith only to the extent of the obligations specifically undertaken by the Servicer under this Servicing Agreement.

(a) The Servicer shall indemnify the Issuer, the Indenture Trustee (for itself and for the benefit of the Holders), the SRB Issuer, the SRB Trustee (for itself and for the benefit of the SRB Noteholders) and the Independent Manager and each of their respective trustees, officers, directors, employees and agents (each, an "Indemnified Party"), for, and defend and hold harmless each such Person from and against, any and all Indemnified Losses imposed on, incurred by or asserted against any such Person as a result of (i) the Servicer's willful misconduct, bad faith or negligence in the performance of, or reckless disregard of, its duties or observance of its covenants under the Servicing Agreement and the Intercreditor Agreement, (ii) the Servicer's material breach of any of its representations or warranties that results in a Servicer Default under this Servicing Agreement or a default under the Intercreditor Agreement; and (iii) litigation and related expenses relating to the Servicer's status and obligations as Servicer (other than any proceeding the Servicer is required to institute under this Servicing Agreement), except to the extent of Indemnified Losses either resulting from the willful misconduct, bad faith or gross negligence of such Person seeking indemnification hereunder or resulting from a breach of a representation or warranty made by such Person seeking indemnification hereunder in any of the Basic Documents that gives rise to the Servicer's breach.

(b) For purposes of Section 6.02(a), in the event of the termination of the rights and obligations of Duke Energy [Carolinas/Progress] (or any successor thereto pursuant to Section 6.03) as Servicer pursuant to Section 7.01, or a resignation by such Servicer pursuant to this Servicing Agreement, such Servicer shall be deemed to be the Servicer pending appointment of a successor Servicer pursuant to Section 7.02.

(c) Indemnification under this Section 6.02 shall survive any repeal of, modification of, or supplement to, or judicial invalidation of, the Storm Recovery Law or the Financing Order and shall survive the resignation or removal of the Indenture Trustee or any Independent Manager or the termination of this Servicing Agreement and shall include reasonable out-of-pocket fees and expenses of investigation and litigation (including reasonable attorneys' fees and expenses).

(d) Except to the extent expressly provided in this Servicing Agreement or the other Basic Documents (including the Servicer's claims with respect to the Servicing Fee and the payment of the purchase price of Series Property), the Servicer hereby releases and discharges the Issuer, any Independent Manager and the Indenture Trustee, and each of their respective officers, directors and agents (collectively, the "Released Parties"), from any and all actions, claims and demands whatsoever, whenever arising, which the Servicer, in its capacity as Servicer or otherwise, shall or may have against any such Person relating to the Series Property or the Servicer's activities with respect thereto, other than any actions, claims and demands arising out of the willful misconduct, bad faith or gross negligence of the Released Parties.

(e) The Servicer shall indemnify the Commission, on behalf of the Customers, to the extent Customers incur Losses associated with higher servicing fees payable to a Successor Servicer as a result of the Servicer's negligence, recklessness or willful misconduct or termination of this Servicing Agreement for cause. Further, if the Servicer remains an entity subject to the Commission's regulatory authority as a public utility (or otherwise for ratemaking purposes), the Servicer hereby acknowledges and agrees that the Commission, subject to the outcome of an appropriate Commission proceeding, may take such action as the Commission deems necessary or appropriate under its regulatory authority to require the Servicer to make Customers whole for any Losses they incur in connection with the failure of any material representation, or warranty by the Servicer under this Agreement, or by reason of the Servicer's negligence, recklessness or willful misconduct or termination of this Servicing Agreement for cause, including without limitation Losses attributable to higher Series Charges imposed on Customers by reason of additional Operating Expenses. The Servicer hereby acknowledges and agrees that such action by the Commission may include, but is not limited to, adjustments to the Servicer's other regulated rates and charges or credits to Customers. If the Servicer does not remain, or is not, subject to the Commission's regulatory authority as a public utility (or otherwise for ratemaking purposes), such Servicer shall indemnify the Commission, on behalf of the Customers, for any Losses incurred by Customers by reason of the Servicer's negligence, recklessness or willful misconduct or termination of this Servicing Agreement for cause, including without limitation Losses attributable to higher Series Charges imposed on Customers by reason of additional Operating Expenses. The Servicer's indemnification under this Section 6.02(e) shall survive the termination of this Agreement, and any amounts paid with respect thereto shall be remitted and deposited with the Indenture Trustee for deposit in the Collection Account, unless otherwise directed by the Commission. Notwithstanding anything to the contrary in this Servicing Agreement or in any other Basic Document, so long as any [Series A] Storm Recovery Bonds are Outstanding, any indemnity payments to the Commission (for the benefit of Customers) pursuant to this Section 6.02(e) shall be promptly remitted to the Indenture Trustee for deposit in the applicable Collection Account.

(f) The Servicer shall not be required to indemnify an Indemnified Party for any amount paid or payable by such Indemnified Party in the settlement of any action, proceeding or investigation without the written consent of the Servicer, which consent shall not be unreasonably withheld. Promptly after receipt by an Indemnified Party of notice (or, in the case of the Indenture Trustee, receipt of notice by a Responsible Officer only) of the commencement of any action, proceeding or investigation, such Indemnified Party shall, if a claim in respect thereof is to be made against the Servicer under this Section 6.02, notify the Servicer in writing of the commencement thereof. Failure by an Indemnified Party to so notify the Servicer shall relieve the Servicer from the obligation to indemnify and hold harmless such Indemnified Party under this Section 6.02 only to the extent that the Servicer suffers actual prejudice as a result of such failure. With respect to any action, proceeding or investigation brought by a third party for which indemnification may be sought under this Section 6.02, the Servicer shall be entitled to conduct and control, at its expense and with counsel of its choosing that is reasonably satisfactory to such Indemnified Party, the defense of any such action, proceeding or investigation (in which case the Servicer shall not thereafter be responsible for the fees and expenses of any separate counsel retained by the Indemnified Party except as set forth below); provided, that the Indemnified Party shall have the right to participate in such action, proceeding or investigation through counsel chosen by it and at its own expense. Notwithstanding the Servicer's election to assume the defense of any action, proceeding or investigation, the Indemnified Party shall have the right to employ separate counsel (including local counsel), and the Servicer shall bear the reasonable fees, costs and expenses of such separate counsel, if (i) the defendants in any such action include both the Indemnified Party and the Servicer and the Indemnified Party shall have reasonably concluded that there may be legal defenses available to it that are different from or additional to those available to the Servicer, (ii) the Servicer shall not have employed counsel reasonably satisfactory to the Indemnified Party to represent the Indemnified Party within a reasonable time after notice of the institution of such action, (iii) the Servicer shall authorize the Indemnified Party to employ separate counsel at the expense of the Servicer or (iv) in the case of the Indenture Trustee, such action exposes the Indenture Trustee to a material risk of criminal liability or forfeiture or a Servicer Default has occurred and is continuing. Notwithstanding the foregoing, the Servicer shall not be obligated to pay for the fees, costs and expenses of more than one separate counsel for the Indemnified Parties other than one local counsel, if appropriate. The Servicer will not, without the prior written consent of the Indemnified Party, settle or compromise or consent to the entry of any judgment with respect to any pending or threatened claim, action, suit or proceeding in respect of which indemnification may be sought under this Section 6.02 (whether or not the Indemnified Party is an actual or potential party to such claim or action) unless such settlement, compromise or consent includes an unconditional release of the Indemnified Party from all liability arising out of such claim, action, suit or proceeding.

Section 6.03. Binding Effect of Servicing Obligations. The obligations to continue to provide service and to collect and account for Series Charges will be binding upon the Servicer, any Successor and any other entity that provides distribution services to a Person that is a North Carolina retail customer of Duke Energy [Carolinas/Progress]or any Successor so long as the Series Charges have not been fully collected and posted. Any Person (a) into which the Servicer may be merged, converted or consolidated and that is a Permitted Successor, (b) that may result from any merger, conversion or consolidation to which the Servicer shall be a party

and that is a Permitted Successor, (c) that may succeed to the properties and assets of the Servicer substantially as a whole and that is a Permitted Successor or (d) that otherwise is a Permitted Successor, which Person in any of the foregoing cases executes an agreement of assumption to perform all of the obligations of the Servicer hereunder, shall be the successor to the Servicer under this Servicing Agreement without further act on the part of any of the parties to this Servicing Agreement; provided, however, that (i) immediately after giving effect to such transaction, no representation or warranty made pursuant to Section 6.01 shall have been breached and no Servicer Default and no event that, after notice or lapse of time, or both, would become a Servicer Default shall have occurred and be continuing, (ii) the Servicer shall have delivered to the Issuer, the Commission, the SRB Trustee and the Indenture Trustee an Officer's Certificate and an Opinion of Counsel from external counsel stating that such consolidation, conversion, merger or succession and such agreement of assumption complies with this Section 6.03 and that all conditions precedent, if any, provided for in this Servicing Agreement relating to such transaction have been complied with, (iii) the Servicer shall have delivered to the Issuer, the Indenture Trustee, the Commission, the SRB Trustee and the Rating Agencies an Opinion of Counsel from external counsel of the Servicer either (A) stating that, in the opinion of such counsel, all filings to be made by the Servicer, including filings with the Commission pursuant to the Storm Recovery Law and the UCC, have been executed and filed and are in full force and effect that are necessary to fully preserve, perfect and maintain the priority of the interests of the Issuer and the Liens of the Indenture Trustee in the Series Property and reciting the details of such filings or (B) stating that, in the opinion of such counsel, no such action shall be necessary to preserve and protect such interests, (iv) the Servicer shall have delivered to the Issuer, the Indenture Trustee, the Commission, the SRB Trustee and the Rating Agencies an Opinion of Counsel from independent tax counsel stating that, for U.S. federal income tax purposes, such consolidation, conversion, merger or succession and such agreement of assumption will not result in a material adverse U.S. federal income tax consequence to the Issuer or the Holders of [Series A] Storm Recovery Bonds, (v) the Servicer shall have given the Rating Agencies prior written notice of such transaction and (vi) any applicable requirements of the Intercreditor Agreement have been satisfied. When any Person (or more than one Person) acquires the properties and assets of the Servicer substantially as a whole or otherwise becomes the successor, by merger, conversion, consolidation, sale, transfer, lease or otherwise, to all or substantially all the assets of the Servicer in accordance with the terms of this Section 6.03, then, upon satisfaction of all of the other conditions of this Section 6.03, the preceding Servicer shall automatically and without further notice be released from all its obligations hereunder (except for responsibilities for its actions prior to such release).

Section 6.04. Limitation on Liability of Servicer and Others.

(a) Except as otherwise provided under this Servicing Agreement, neither the Servicer nor any of the directors, officers, employees or agents of the Servicer shall be liable to the Issuer or any other Person for any action taken or for refraining from the taking of any action pursuant to this Servicing Agreement or for good faith errors in judgment; provided, however, that this provision shall not protect the Servicer or any such Person against any liability that would otherwise be imposed by reason of negligence, recklessness or willful misconduct in the performance of duties or by reason of reckless disregard of obligations and duties under this Servicing Agreement. The Servicer and any director, officer, employee or agent of the Servicer

may rely in good faith on the advice of counsel or on any document of any kind, prima facie properly executed and submitted by any Person, respecting any matters arising under this Servicing Agreement.

(b) [The Servicer acknowledges that the Commission, acting on its own behalf, has authority to enforce all provisions of this Servicing Agreement for the benefit of Customers, including without limitation the enforcement of Section 6.02(e).]

(c) Except as provided in this Servicing Agreement, including Section 5.02(d), the Servicer shall not be under any obligation to appear in, prosecute or defend any legal action relating to the Series Property that is not directly related to one of the Servicer's enumerated duties in this Servicing Agreement or related to its obligation to pay indemnification, and that in its reasonable opinion may cause it to incur any expense or liability; provided, however, that the Servicer may, in respect of any Proceeding, undertake any action that it is not specifically identified in this Servicing Agreement as a duty of the Servicer but that the Servicer reasonably determines is necessary or desirable in order to protect the rights and duties of the Issuer or the Indenture Trustee under this Servicing Agreement and the interests of the Holders and Customers under this Servicing Agreement.

Section 6.05. Duke Energy [Carolinas/Progress] Not to Resign as Servicer. Subject to the provisions of Section 6.03, Duke Energy [Carolinas/Progress] shall not resign from the obligations and duties imposed on it as Servicer under this Servicing Agreement except upon a determination that the performance of its duties under this Servicing Agreement shall no longer be permissible under applicable Requirements of Law. Notice of any such determination permitting the resignation of Duke Energy [Carolinas/Progress] shall be communicated to the Issuer, the Commission, the Indenture Trustee, the SRB Trustee and each Rating Agency at the earliest practicable time (and, if such communication is not in writing, shall be confirmed in writing at the earliest practicable time), and any such determination shall be evidenced by an Opinion of Counsel to such effect delivered to the Issuer, the Commission, the SRB Trustee and each Indenture Trustee concurrently with or promptly after such notice. No such resignation shall become effective until a Successor Servicer [has been approved by the Commission and] has assumed the servicing obligations and duties hereunder of the Servicer in accordance with Section 7.02.

Section 6.06. Servicing Compensation.

(a) In consideration for its services hereunder, until the Collection in Full of the Charges, the Servicer shall receive an annual fee (the "Servicing Fee") in an amount equal to (i) [0.05]% of the aggregate initial principal amount of all [Series A] Storm Recovery Bonds plus out-of-pocket expenses for so long as Duke Energy [Carolinas/Progress]or an Affiliate of Duke Energy [Carolinas/Progress]is the Servicer or (ii) if Duke Energy [Carolinas/Progress]or any of its Affiliates is not the Servicer, an amount agreed upon by the Successor Servicer and the Indenture Trustee, provided, that the annual Servicing Fee shall not exceed 0.60% of the aggregate initial principal amount of all [Series A] Storm Recovery Bonds, unless the Commission has approved the appointment of the Successor Servicer or the Commission does not act to either approve or disapprove such appointment on or before the date which is 45 days after notice of the proposed appointment of the Successor Servicer is provided to the

Commission in the same manner substantially as provided in Section 8.01(c). The Servicing Fee owing shall be calculated based on the initial principal amount of the [Series A] Storm Recovery Bonds and shall be paid semi-annually, with half of the Servicing Fee being paid on each Payment Date, except for the amount of the Servicing Fee to be paid on the first Payment Date in which the Servicing Fee then due will be calculated based on the number of days that this Servicing Agreement has been in effect. In addition, the Servicer shall be entitled to be reimbursed by the Issuer for filing fees and fees and expenses for attorneys, accountants, printing or other professional services retained by the Issuer and paid for by the Servicer (or procured by the Servicer on behalf of the Issuer and paid for by the Servicer) to meet the Issuer's obligations under the Basic Documents ("Reimbursable Expenses"). Except for such Reimbursable Expenses, the Servicer shall be required to pay all other costs and expenses incurred by the Servicer in performing its activities hereunder (but, for the avoidance of doubt, excluding any such costs and expenses incurred by Duke Energy [Carolinas/Progress] in its capacity as Administrator).

(b) The Servicing Fee set forth in Section 6.06(a) shall be paid to the Servicer by the Indenture Trustee, on each Payment Date in accordance with the priorities set forth in Section 8.02(e) of the Indenture, by wire transfer of immediately available funds from the Collection Account to an account designated by the Servicer. Any portion of the Servicing Fee not paid on any such date shall be added to the Servicing Fee payable on the subsequent Payment Date. In no event shall the Indenture Trustee be liable for the payment of any Servicing Fee or other amounts specified in this Section 6.06; provided, that this Section 6.06 does not relieve the Indenture Trustee of any duties it has to allocate funds for payment for such fees under Section 8.02 of the Indenture.

(c) The Servicer and the Issuer acknowledge and agree that the Servicer's actual collections of Series Charges on some days might exceed the Servicer's deemed collections, and that the Servicer's actual collections of Series Charges on other days might be less than the Servicer's deemed collections. The Servicer and the Issuer further acknowledge and agree that the amount of these variances are likely to be small and are not likely to be biased in favor of over-remittances or under-remittances. Consequently, so long as the Servicer faithfully makes all daily remittances based on weighted average days sales outstanding, as provided for herein, the Servicer and the Issuer agree that no actual or deemed investment earnings shall be payable in respect of such over-remittances or under-remittances. However, the Servicer shall remit at least annually to the Indenture Trustee, for the benefit of the Issuer, any late charges received from Customers in respect of Series Charges.

(d) The foregoing Servicing Fee constitutes a fair and reasonable compensation for the obligations to be performed by the Servicer. Such Servicing Fee shall be determined without regard to the income of the Issuer, shall not be deemed to constitute distributions to the recipient of any profit, loss or capital of the Issuer and shall be considered a fixed Operating Expense of the Issuer subject to the limitations on such expenses set forth in the Financing Order.

(e) Any services required for or contemplated by the performance of the above-referenced services by the Servicer to be provided by unaffiliated third parties may, if

provided for or otherwise contemplated by the Financing Order and if the Issuer deems it necessary or desirable, be arranged by the Issuer or by the Servicer at the direction (which may be general or specific) of the Issuer. Costs and expenses associated with the contracting for such third-party professional services may be paid directly by the Issuer or paid by the Servicer and reimbursed by the Issuer in accordance with Section 6.06(a), or otherwise as the Servicer and the Issuer may mutually arrange.

Section 6.07. Compliance with Applicable Law. The Servicer covenants and agrees, in servicing the Series Property, to comply in all material respects with all laws applicable to, and binding upon, the Servicer and relating to the Series Property, the noncompliance with which would have a material adverse effect on the value of the Series Property; provided, however, that the foregoing is not intended to, and shall not, impose any liability on the Servicer for noncompliance with any Requirement of Law that the Servicer is contesting in good faith in accordance with its customary standards and procedures. It is expressly acknowledged that the payment of fees to the Rating Agencies shall be at the expense of the Issuer and that, if the Servicer advances such payments to the Rating Agencies, the Issuer shall reimburse the Servicer for any such advances.

Section 6.08. Access to Certain Records and Information Regarding Series Property. The Servicer shall provide to the Indenture Trustee access to the Series Property Records for the [Series A] Storm Recovery Bonds as is reasonably required for the Indenture Trustee to perform its duties and obligations under the Indenture and the other Basic Documents and shall provide access to such records to the Holders as required by applicable law. Access shall be afforded without charge, but only upon reasonable request and during normal business hours at the offices of the Servicer. Nothing in this Section 6.08 shall affect the obligation of the Servicer to observe any applicable law (including any Commission Regulation) prohibiting disclosure of information regarding Customers, and the failure of the Servicer to provide access to such information as a result of such obligation shall not constitute a breach of this Section 6.08.

Section 6.09. Appointments. The Servicer may at any time appoint any Person to perform all or any portion of its obligations as Servicer hereunder, including a collection agent acting pursuant to the Intercreditor Agreement; provided, however, that, unless such Person is an Affiliate of Duke Energy [Carolinas/Progress], the Rating Agency Condition shall have been satisfied in connection therewith; provided, further, that the Servicer shall remain obligated and be liable under this Servicing Agreement for the servicing and administering of the Series Property in accordance with the provisions hereof without diminution of such obligation and liability by virtue of the appointment of such Person and to the same extent and under the same terms and conditions as if the Servicer alone were servicing and administering the Series Property. The fees and expenses of any such Person shall be as agreed between the Servicer and such Person from time to time, and none of the Issuer, the Indenture Trustee, the Holders or any other Person shall have any responsibility therefor or right or claim thereto. Any such appointment shall not constitute a Servicer resignation under Section 6.05.

Section 6.10. No Servicer Advances. The Servicer shall not make any advances of interest on or principal of the [Series A] Storm Recovery Bonds.

Section 6.11. Remittances.

(a) The Storm Recovery Charge Collections on any Servicer Business Day (the "Daily Remittance") shall be calculated according to the procedures set forth in Exhibit A and remitted by the Servicer as soon as reasonably practicable to the General Subaccount of the Collection Account but in no event later than two Servicer Business Days following such Servicer Business Day. Prior to each remittance to the General Subaccount of the Collection Account pursuant to this Section 6.11, the Servicer shall provide written notice (which may be via electronic means, including electronic mail) to the Indenture Trustee and, upon request, to the Issuer of each such remittance (including the exact dollar amount to be remitted). The Servicer shall also, promptly upon receipt, remit to the Collection Account any other proceeds of the Series Collateral that it may receive from time to time. Reconciliations of bank statements shall be as set forth in Exhibit A.

(b) The Servicer agrees and acknowledges that it holds all Storm Recovery Charge Payments collected by it and any other proceeds for the Series Collateral received by it for the benefit of the Indenture Trustee and the Holders and that all such amounts will be remitted by the Servicer in accordance with this Section 6.11 without any surcharge, fee, offset, charge or other deduction except for and interest earnings permitted by Section 6.06. The Servicer further agrees not to make any claim to reduce its obligation to remit all Storm Recovery Charge Payments collected by it in accordance with this Servicing Agreement.

(c) Unless otherwise directed to do so by the Issuer, the Servicer shall be responsible for selecting Eligible Investments in which the funds in the Collection Account shall be invested pursuant to Section 8.03 of the Indenture.

Section 6.12. Maintenance of Operations. Subject to Section 6.03, Duke Energy [Carolinas/Progress] agrees to continue, unless prevented by circumstances beyond its control, to operate its electric distribution system to provide service so long as it is acting as the Servicer under this Servicing Agreement.

ARTICLE VII
DEFAULT

Section 7.01. Servicer Default. If any one or more of the following events (a "Servicer Default") shall occur and be continuing:

(a) any failure by the Servicer to remit to the Collection Account on behalf of the Issuer any required remittance that shall continue unremedied for a period of five Business Days after written notice of such failure is received by the Servicer and the Commission from the Issuer or the Indenture Trustee or after discovery of such failure by a Responsible Officer of the Servicer;

(b) any failure on the part of the Servicer or, so long as the Servicer is Duke Energy [Carolinas/Progress]or an Affiliate thereof, any failure on the part of Duke Energy [Carolinas/Progress], as the case may be, duly to observe or to perform in any material respect any covenants or agreements of the Servicer or Duke Energy [Carolinas/Progress], as the case

may be, set forth in this Servicing Agreement (other than as provided in Section 7.01(a) or Section 7.01(c)) or any other Basic Document to which it is a party, which failure shall (i) materially and adversely affect the rights of the Holders and (ii) continue unremedied for a period of 60 days after the date on which (A) written notice of such failure, requiring the same to be remedied, shall have been given to the Servicer or Duke Energy [Carolinas/Progress], as the case may be, by the Issuer, the Commission (with a copy to the Indenture Trustee) or to the Servicer or Duke Energy [Carolinas/Progress], as the case may be, by the Indenture Trustee or (B) such failure is discovered by a Responsible Officer of the Servicer;

(c) any failure by the Servicer duly to perform its obligations under Section 4.01(b) in the time and manner set forth therein, which failure continues unremedied for a period of five Business Days;

(d) any representation or warranty made by the Servicer in this Servicing Agreement or any other Basic Document shall prove to have been incorrect in a material respect when made, which has a material adverse effect on the Holders and which material adverse effect continues unremedied for a period of 60 days after the date on which (i) written notice thereof, requiring the same to be remedied, shall have been delivered to the Servicer (with a copy to the Indenture Trustee) by the Issuer, the Commission or the Indenture Trustee or (ii) such failure is discovered by a Responsible Officer of the Servicer; or

(e) [an Insolvency Event occurs with respect to the Servicer or Duke Energy [Carolinas/Progress];

then, and in each and every case, so long as the Servicer Default shall not have been remedied, either the Indenture Trustee shall, upon the instruction of Holders evidencing a majority of the Outstanding Amount of the [Series A] Storm Recovery Bonds or by the Commission, subject to the terms of the Intercreditor Agreement, by notice then given in writing to the Servicer (and to the Indenture Trustee if given by the Holders) (a "Termination Notice"), terminate all the rights and obligations (other than the obligations set forth in Section 6.02 and the obligation under Section 7.02 to continue performing its functions as Servicer until a successor Servicer is appointed) of the Servicer under this Servicing Agreement and under the Intercreditor Agreement; *provided*, *however* the Indenture Trustee shall not give a Termination Notice upon instruction of the Commission unless the Rating Agency Condition is satisfied. In addition, upon a Servicer Default described in Section 7.01(a), the Holders and the Indenture Trustee as financing parties under the Storm Recovery Law (or any of their representatives) shall be entitled to apply to the Commission or a court of appropriate jurisdiction for an order for sequestration and payment of revenues arising with respect to the Series Property. On or after the receipt by the Servicer of a Termination Notice, all authority and power of the Servicer under this Servicing Agreement, whether with respect to the [Series A] Storm Recovery Bonds, the Series Property, the Series Charges or otherwise, shall, without further action, pass to and be vested in such successor Servicer as may be appointed under Section 7.02; and, without limitation, the Indenture Trustee is hereby authorized and empowered to execute and deliver, on behalf of the predecessor Servicer, as attorney-in-fact or otherwise, any and all documents and other

instruments, and to do or accomplish all other acts or things necessary or appropriate to effect the purposes of such Termination Notice, whether to complete the transfer of the Series Property Records and related documents, or otherwise. The predecessor Servicer shall cooperate with the successor Servicer, the Issuer and the Indenture Trustee in effecting the termination of the responsibilities and rights of the predecessor Servicer under this Servicing Agreement, including the transfer to the successor Servicer for administration by it of all Series Property Records and all cash amounts that shall at the time be held by the predecessor Servicer for remittance, or shall thereafter be received by it with respect to the Series Property or the Series Charges. As soon as practicable after receipt by the Servicer of such Termination Notice, the Servicer shall deliver the Series Property Records to the successor Servicer. In case a successor Servicer is appointed as a result of a Servicer Default, all reasonable costs and expenses (including reasonable attorneys' fees and expenses) incurred in connection with transferring the Series Property Records to the successor Servicer and amending this Servicing Agreement and the Intercreditor Agreement to reflect such succession as Servicer pursuant to this Section 7.01 shall be paid by the predecessor Servicer upon presentation of reasonable documentation of such costs and expenses. Termination of Duke Energy [Carolinas/Progress] as Servicer shall not terminate Duke Energy [Carolinas/Progress]'s rights or obligations under the Sale Agreement (except rights thereunder deriving from its rights as the Servicer hereunder).]

Section 7.02. Appointment of Successor.

(a) Upon the Servicer's receipt of a Termination Notice pursuant to Section 7.01 or the Servicer's resignation or removal in accordance with the terms of this Servicing Agreement, the predecessor Servicer shall continue to perform its functions as Servicer under this Servicing Agreement and shall be entitled to receive the requisite portion of the Servicing Fee, until a successor Servicer shall have assumed in writing the obligations of the Servicer hereunder as described below. In the event of the Servicer's removal or resignation hereunder, the Indenture Trustee may, at the written direction and with the consent of the Holders of a majority of the Outstanding Amount of the [Series A] Storm Recovery Bonds or of the Commission shall, but subject to the provisions of the Intercreditor Agreement, appoint a successor Servicer with the Issuer's prior written consent thereto (which consent shall not be unreasonably withheld), and the successor Servicer shall accept its appointment by a written assumption in form reasonably acceptable to the Issuer and the Indenture Trustee and provide prompt written notice of such assumption to the Issuer, the SRB Issuer, the SRB Trustee, the Commission and the Rating Agencies. If, within 30 days after the delivery of the Termination Notice, a new Servicer shall not have been appointed, the Indenture Trustee may, at the direction of the Holders of a majority of the [Series A] Storm Recovery Bonds, petition the Commission or a court of competent jurisdiction to appoint a successor Servicer under this Servicing Agreement. A Person shall qualify as a successor Servicer only if (i) such Person is permitted under Commission Regulations to perform the duties of the Servicer, (ii) the Rating Agency Condition shall have been satisfied, (iii) such Person enters into a servicing agreement with the Issuer having substantially the same provisions as this Servicing Agreement and (iv) such Person agrees to perform the obligations of the Servicer under the Intercreditor Agreement. In no event shall the Indenture Trustee be liable for its appointment of a successor Servicer. The Indenture

Trustee's expenses incurred under this Section 7.02(a) shall be at the sole expense of the Issuer and payable from the Collection Account as provided in Section 8.02 of the Indenture.

(b) Upon appointment, the successor Servicer shall be the successor in all respects to the predecessor Servicer and shall be subject to all the responsibilities, duties and liabilities arising thereafter placed on the predecessor Servicer and shall be entitled to the Servicing Fee and all the rights granted to the predecessor Servicer by the terms and provisions of this Servicing Agreement.

Section 7.03. Waiver of Past Defaults. The Indenture Trustee, with the written consent of the Commission and the consent of the Holders evidencing a majority of the Outstanding Amount of the [Series A] Storm Recovery Bonds, may waive in writing any default by the Servicer in the performance of its obligations hereunder and its consequences, except a default in making any required deposits to the Collection Account in accordance with this Servicing Agreement. Upon any such waiver of a past default, such default shall cease to exist, and any Servicer Default arising therefrom shall be deemed to have been remedied for every purpose of this Servicing Agreement. No such waiver shall extend to any subsequent or other default or impair any right consequent thereto. Promptly after the execution of any such waiver, the Servicer shall furnish copies of such waiver to each of the Rating Agencies.

Section 7.04. Notice of Servicer Default. The Servicer shall deliver to the Issuer, the Indenture Trustee, the SRB Issuer, the SRB Trustee, the Commission and the Rating Agencies, promptly after having obtained knowledge thereof, but in no event later than five Business Days thereafter, written notice of any event that, with the giving of notice or lapse of time, or both, would become a Servicer Default under Section 7.01.

Section 7.05. Cooperation with Successor. The Servicer covenants and agrees with the Issuer that it will, on an ongoing basis, cooperate with the successor Servicer and provide whatever information is, and take whatever actions are, reasonably necessary to assist the successor Servicer in performing its obligations hereunder.

ARTICLE VIII
MISCELLANEOUS PROVISIONS

Section 8.01. Amendment.

(a) Subject to Section 8.01(c), this Servicing Agreement may be amended in writing by the Servicer and the Issuer with the prior written consent of the Indenture Trustee and the satisfaction of the Rating Agency Condition; provided, that any such amendment may not adversely affect the interest of any Holder in any material respect without the consent of the Holders of a majority of the Outstanding Amount. Promptly after the execution of any such amendment or consent, the Issuer shall furnish copies of such amendment or consent to each of the Rating Agencies.

(b) Prior to the execution of any amendment to this Servicing Agreement, the Issuer and the Indenture Trustee shall be entitled to receive and conclusively rely upon an Opinion of Counsel of external counsel stating that such amendment is authorized and permitted

by this Servicing Agreement and all conditions precedent, if any, provided for in this Servicing Agreement relating to such amendment have been satisfied and upon the Opinion of Counsel from external counsel referred to in Section 3.01(c)(i). The Issuer and the Indenture Trustee may, but shall not be obligated to, enter into any such amendment that affects their own rights, duties, indemnities or immunities under this Servicing Agreement or otherwise.

(c) [Notwithstanding anything to the contrary in this Section 8.01, no amendment or modification of this Servicing Agreement, nor any waiver required by Section 7.03 hereof, shall be effective except upon satisfaction of the conditions precedent in this paragraph (c).

(i) At least 15 days prior to the effectiveness of any such amendment or modification and after obtaining the other necessary approvals set forth in Section 8.01(a) (except that the consent of the Indenture Trustee may be subject to the consent of the Holders if such consent is required or sought by the Indenture Trustee in connection with such amendment or modification) or prior to the effectiveness of any waiver of a default approved by the Holders of a majority of the Outstanding Amount of the [Series A] Storm Recovery Bonds, the Servicer shall have delivered to the Commission's executive director and general counsel written notification of any proposed amendment, which notification shall contain:

(A) a reference to Docket Nos. [ ];

(B) an Officer's Certificate stating that the proposed amendment or modification has been approved by all parties to this Servicing Agreement or alternatively, the waiver of default has been approved by the Holders of a majority of the Outstanding Amount of [Series A] Storm Recovery Bonds; and

(C) a statement identifying the person to whom the Commission is to address any response to the proposed amendment or to request additional time.

(ii) If the Commission or an authorized representative of the Commission, within 15 days (subject to extension as provided in clause (iii)) of receiving a notification complying with subparagraph (i), shall have delivered to the office of the person specified in clause (i)(C) a written statement that the Commission might object to the proposed amendment or modification, or to the waiver of default, then, subject to clause (iv) below, such proposed amendment or modification, or the waiver of default, shall not be effective unless and until the Commission subsequently delivers a written statement that it does not object to such proposed amendment or modification.

(iii) If the Commission or an authorized representative of the Commission, within 15 days of receiving a notification complying with subparagraph (i), shall have delivered to the office of the person specified in clause (i)(C) a written statement requesting an additional amount of time not to

exceed thirty days (or, in the case of a waiver of default, 15 days) in which to consider such proposed amendment or modification, then such proposed amendment or modification shall not be effective if, within such extended period, the Commission shall have delivered to the office of the person specified in clause (i)(C) a written statement as described in subparagraph (ii), unless and until the Commission subsequently delivers a written statement that it does not object to such proposed amendment or modification.

(iv) If (A) the Commission or an authorized representative of the Commission, shall not have delivered written notice that the Commission might object to such proposed amendment or modification, or the waiver of default, within the time periods described in subparagraphs (ii) or (iii), whichever is applicable, or (B) the Commission or authorized representative of the Commission, has delivered such written notice but does not within 60 days of the delivery of the notification in (a) above, provide subsequent written notice confirming that it does in fact object and the reasons therefore or advise that it has initiated a proceeding to determine what action it might take with respect to the matter, then the Commission shall be conclusively deemed not to have any objection to the proposed amendment or modification or waiver of default, as the case may be, and such amendment or modification or waiver of default, as the case may be, may subsequently become effective upon satisfaction of the other conditions specified in Section 8.01(a).

(v) Following the delivery of a statement from the Commission or an authorized representative of the Commission to the Servicer under subparagraph (ii), the Servicer and the Issuer shall have the right at any time to withdraw from the Commission further consideration of any proposed amendment, modification or waiver of default.]

(d) For the purpose of this Section 8.01(a), an "authorized representative of the Commission" means any person authorized to act on behalf of the Commission, as evidenced by an Opinion of Counsel (which may be the general counsel) to the Commission.

Section 8.02. Maintenance of Accounts and Records.

(a) The Servicer shall maintain accounts and records as to the Series Property accurately and in accordance with its standard accounting procedures and in sufficient detail to permit reconciliation between Storm Recovery Charge Payments received by the Servicer and Storm Recovery Charge Collections from time to time deposited in the Collection Account.

(b) The Servicer shall permit the Indenture Trustee and its agents at any time during normal business hours, upon reasonable notice to the Servicer and to the extent it does not unreasonably interfere with the Servicer's normal operations, to inspect, audit and make copies of and abstracts from the Servicer's records regarding the Series Property and the Series Charges. Nothing in this Section 8.02(b) shall affect the obligation of the Servicer to observe any applicable law (including any Commission Regulation) prohibiting disclosure of information

regarding Customers, and the failure of the Servicer to provide access to such information as a result of such obligation shall not constitute a breach of this Section 8.02(b).

Section 8.03. Notices. Any notice, report or other communication given hereunder shall be in writing and shall be effective (i) upon receipt when sent through the mails, registered or certified mail, return receipt requested, postage prepaid, with such receipt to be effective the date of delivery indicated on the return receipt, (ii) upon receipt when sent by an overnight courier, (iii) on the date personally delivered to an authorized officer of the party to which sent or (iv) on the date transmitted by facsimile or other electronic transmission with a confirmation of receipt in all cases, addressed as follows:

(a) in the case of the Servicer, to [Duke Energy [Carolinas/Progress]LLC, at (i) [ADDRESS], Attention: Director, Rates and Regulatory Strategy, Telephone: [727-820-4560] and (ii) 550 South Tryon Street, Charlotte, North Carolina 28202, Attention: Treasurer, Telephone: 704-382-3853 c/o Assistant Treasurer;

(b) in the case of the Issuer, to [Duke Energy [Carolinas/Progress] Storm Recovery Funding], LLC, at [ADDRESS] Attention: Managers, Telephone: [ ];

(c) in the case of the Indenture Trustee, to the Corporate Trust Office;

(d) in the case of the SRB Issuer, to [ ];

(e) in the case of the SRB Trustee, to [ ];

(f) in the case of Fitch, to Fitch Ratings, 33 Whitehall Street, New York, New York 10004, Attention: ABS Surveillance, Telephone: (212) 908-0500, Facsimile: (212) 908-0355;

(g) in the case of S&P, to S&P Global Ratings, a S&P Global Inc. business, [Structured Credit Surveillance], [55 Water Street, New York, New York 10041], Telephone: (212) 438-8991, Email: [servicer_reports@standardandpoors.com] (all such notices to be delivered to S&P in writing by email); and

(h) in the case of the Commission, North Carolina Utilities Commission, [4325 Mail Service Center, Raleigh, NC 27603-5918], Attention: Staff Director of Accounting & Finance.

Each party hereto may, by notice given in accordance herewith to the other party or parties hereto, designate any further or different address to which subsequent notices, reports and other communications shall be sent.

Section 8.04. Assignment. Notwithstanding anything to the contrary contained herein, except as provided in Section 6.03 and as provided in the provisions of this Servicing Agreement concerning the resignation of the Servicer, this Servicing Agreement may not be assigned by the Servicer. Any assignment of this Servicing Agreement is subject to satisfaction of any conditions set forth in the Intercreditor Agreement.

Section 8.05. Limitations on Rights of Others. The provisions of this Servicing Agreement are solely for the benefit of the Servicer, the Issuer, the SRB Issuer, the SRB Trustee, the Commission, on behalf of itself and Customers, and, to the extent provided herein or in the other Basic Documents, the Indenture Trustee and the Holders, and the other Persons expressly referred to herein, and such Persons shall have the right to enforce the relevant provisions of this Servicing Agreement. Nothing in this Servicing Agreement, whether express or implied, shall be construed to give to any other Person any legal or equitable right, remedy or claim in the Series Property or Series Collateral or under or in respect of this Servicing Agreement or any covenants, conditions or provisions contained herein. Notwithstanding anything to the contrary contained herein, for the avoidance of doubt, any right, remedy or claim to which any Customer may be entitled pursuant to the Financing Order and to this Servicing Agreement may be asserted or exercised only by the Commission (or by its counsel in the name of the Commission) for the benefit of such Customer.

Section 8.06. Severability. Any provision of this Servicing Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remainder of such provision (if any) or the remaining provisions hereof (unless such a construction shall be unreasonable), and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

Section 8.07. Separate Counterparts. This Servicing Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

Section 8.08. Governing Law. This Servicing Agreement shall be governed by and construed in accordance with the laws of the State of North Carolina, without reference to its conflict of law provisions, and the obligations, rights and remedies of the parties hereunder shall be determined in accordance with such laws.

Section 8.09. Assignment to Indenture Trustee. The Servicer hereby acknowledges and consents to the assignment by the Issuer to the Indenture Trustee of any or all of the Issuer's rights hereunder and the further assignment of such rights by the SRB Issuer to the SRB Trustee pursuant to the SRB Indenture for the benefit of the SRB Noteholders and the SRB Trustee in all of the Holder's rights in all rights of the SRB Trustee or the SRB Issuer, as holder of the [Series A] Storm Recovery Bonds, in and to this Servicing Agreement. In no event shall the Indenture Trustee have any liability for the representations, warranties, covenants, agreements or other obligations of the Issuer hereunder or in any of the certificates delivered pursuant hereto, as to all of which any recourse shall be had solely to the assets of the Issuer subject to the availability of funds therefor under Section 8.02 of the Indenture.

Section 8.10. Nonpetition Covenants. Notwithstanding any prior termination of this Servicing Agreement or the Indenture, the Servicer shall not, prior to the date that is one year and one day after the satisfaction and discharge of the Indenture, acquiesce, petition or otherwise invoke or cause the Issuer to invoke or join with any Person in provoking the process of any Governmental Authority for the purpose of commencing or sustaining an involuntary case

against the Issuer under any U.S. federal or state bankruptcy, insolvency or similar law or appointing a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official of the Issuer for any substantial part of the property of the Issuer or ordering the dissolution, winding up or liquidation of the affairs of the Issuer.

Section 8.11. Limitation of Liability. It is expressly understood and agreed by the parties hereto that this Servicing Agreement is executed and delivered by the Indenture Trustee, not individually or personally but solely as Indenture Trustee in the exercise of the powers and authority conferred and vested in it, and that the Indenture Trustee, in acting hereunder, is entitled to all rights, benefits, protections, immunities and indemnities accorded to it under the Indenture.

Section 8.12. Rule 17g-5 Compliance. The Servicer agrees that any notice, report, request for satisfaction of the Rating Agency Condition, document or other information provided by the Servicer to any Rating Agency under this Servicing Agreement or any other Basic Document to which it is a party for the purpose of determining the initial credit rating of the [Series A] Storm Recovery Bonds and SRB Notes or undertaking credit rating surveillance of the [Series A] Storm Recovery Bonds and SRB Notes with any Rating Agency, or satisfy the Rating Agency Condition, shall be substantially concurrently posted by the Servicer on the 17g-5 Website.

Section 8.13. Indenture Trustee Actions. In acting hereunder, the Indenture Trustee shall have the rights, protections and immunities granted to it under the Indenture.

{SIGNATURE PAGE FOLLOWS}

IN WITNESS WHEREOF, the parties hereto have caused this Servicing Agreement to be duly executed by their respective officers as of the day and year first above written.

[DUKE ENERGY [CAROLINAS/PROGRESS] STORM RECOVERY FUNDING], LLC,
as Issuer

By: _____
Name: [ ]
Title: President, Chief Financial Officer and Treasurer

DUKE ENERGY [CAROLINAS/ PROGRESS], LLC,
as Servicer

By: _____
Name: [ ]
Title: Senior Vice President, Tax and Treasurer

ACKNOWLEDGED AND ACCEPTED:

[ ],
as Indenture Trustee

By: _____
Name:
Title:

EXHIBIT A

SERVICING PROCEDURES

The Servicer agrees to comply with the following servicing procedures:

SECTION 1. **Definitions.**

Capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed to such terms in the Servicing Agreement (the "Agreement").

SECTION 2. **Data Acquisition**.

(a) Installation and Maintenance of Meters. The Servicer shall cause to be installed, replaced and maintained meters in accordance with the Servicer Policies and Practices.

(b) Meter Reading. In accordance with the Servicer Policies and Practices, the Servicer shall obtain consumption measurements for each Customer or determine any Customer's consumption on the basis of estimates in accordance with Commission Regulations.

(c) Cost of Metering. The Issuer shall not be obligated to pay any costs associated with the metering duties set forth in this Section 2, including the costs of installing, replacing and maintaining meters, nor shall the Issuer be entitled to any credit against the Servicing Fee for any cost savings realized by the Servicer as a result of new metering and/or billing technologies.

SECTION 3. **Consumption and Bill Calculation**.

The Servicer shall obtain a calculation of each Customer's consumption (which may be based on data obtained from such Customer's meter read or on consumption estimates determined in accordance with Commission Regulations) in accordance with the Servicer Policies and Practices and shall determine therefrom Billed Series Charges for the [Series A] Storm Recovery Bonds.

SECTION 4. **Billing**.

(a) Commencement of Billing. The Servicer shall implement the Series Charges as of the date following Series Closing Date for the [Series A] Storm Recovery Bonds and shall thereafter bill each Customer for each Customer's Billed Series Charges for the [Series A] Storm Recovery Bonds in accordance with the provisions of this Section 4.

(b) Frequency of Bills; Billing Practices. In accordance with the Servicer Policies and Practices, the Servicer shall generate and issue a Bill to each Customer. In the event that the Servicer makes any material modification to the Servicer Policies and Practices, it shall notify

the Issuer, the Indenture Trustee and the Rating Agencies as soon as practicable, and in no event later than 30 Servicer Business Days after such modification goes into effect, but the Servicer may not make any modification that will materially adversely affect the Holders.

(c) Format.

(i) The Customer's Bill will contain a separate line item identifying the monthly charge representing the Series Property. The Customer's Bill shall contain in text or in a footnote, text substantially to the effect that the monthly charge representing Series Property has been approved by the Financing Order, and that a portion of the monthly charge is being collected by the Servicer, as servicer, on behalf of the Issuer as owner of the Series Property.

(ii) The Servicer shall conform to such requirements in respect of the format, structure and text of Bills delivered to Customers as Commission Regulations shall from time to time prescribe. To the extent that Bill format, structure and text are not prescribed by applicable law or by Commission Regulations, the Servicer shall, subject to clause (i) of this subsection (c), determine the format, structure and text of all Bills in accordance with its reasonable business judgment, the Servicer Policies and Practices and historical practice.

(d) Delivery. Except as provided in the next sentence, the Servicer shall deliver all Bills to Customers (i) by United States mail in such class or classes as are consistent with the Servicer Policies and Practices or (ii) by any other means, whether electronic or otherwise, that the Servicer may from time to time use in accordance with the Servicer Policies and Practices. The Servicer shall pay from its own funds all costs of issuance and delivery of all Bills that it renders, including printing and postage costs as the same may increase or decrease from time to time.

SECTION 5. **Customer Service Functions**.

The Servicer shall handle all Customer inquiries and other Customer service matters according to the Servicer Policies and Practices.

SECTION 6. **Collections; Payment Processing; Remittance**.

(a) Collection Efforts, Policies, Procedures.

(i) The Servicer shall collect Billed Series Charges for the [Series A] Storm Recovery Bonds (including late charges in respect of Series Charges) from Customers as and when the same become due in accordance with such collection procedures as it follows with respect to comparable assets that it services for itself or others including, in accordance with Commission Regulations and the Servicer Policies and Practices, that:

(A) The Servicer shall prepare and deliver overdue notices to Customers.

(B) The Servicer shall deliver past-due and shut-off notices.

(C) The Servicer may employ the assistance of collection agents.

(D) The Servicer shall apply Customer deposits to the payment of delinquent accounts.

(ii) The Servicer shall not waive any late payment charge or any other fee or charge relating to delinquent payments, if any, or waive, vary or modify any terms of payment of any amounts payable by a Customer, in each case unless such waiver or action: (A) would be in accordance with the Servicer Policies and Practices and (B) would comply in all material respects with applicable law.

(iii) The Servicer shall accept payment from Customers in respect of Billed Storm Recovery Charges for the [Series A] Storm Recovery Bonds in such forms and methods and at such times and places in accordance with the Servicer Policies and Practices.

(b) Payment Processing; Allocation; Priority of Payments. The Servicer shall post all payments received to Customer accounts as promptly as practicable, and, in any event, substantially all payments shall be posted no later than two Servicer Business Days after receipt.

(c) Investment of Estimated Storm Recovery Charge Payments Received. Prior to remittance on the applicable remittance date, the Servicer may invest estimated Storm Recovery Charges Payments at its own risk and for its own benefit, and such investments and funds shall not be required to be segregated from the other investments and funds of the Servicer.

(d) Calculation of Daily Remittance.

(i) The Servicer will remit Series Charges directly to the Indenture Trustee pursuant to Section 6.11 of the Servicing Agreement. The Servicer will remit Series Charges based on estimated collections using a weighted average balance of days outstanding ("ADO") on Duke Energy [Carolinas/Progress]'s retail bills. Storm Recovery Charge Collections for the [Series A] Storm Recovery Bonds remitted will represent the charges estimated to be received for any period based upon the ADO and an estimated system-wide write-off percentage.

(ii) The Storm Recovery Charge Collections for the [Series A] Storm Recovery Bonds will be remitted by the Servicer to the Indenture Trustee as soon as reasonably practicable to the General Subaccount of the Collection Account on each Servicer Business Day, but in no event later than two Servicer Business Days following such Servicer Business Day. Estimated daily Storm Recovery Charge Collections for the [Series A] Storm Recovery Bonds will be remitted to the Indenture Trustee on each Servicer Business Day based upon the ADO and estimated write-offs. Each day on which those remittances are made is referred to as a daily remittance date.

(iii) No less often than semi-annually, the Servicer and the Indenture Trustee will reconcile remittances of estimated Storm Recovery Charge Collections for the [Series A] Storm Recovery Bonds with actual Storm Recovery Charge Payments for the [Series A]

Storm Recovery Bonds received by the Servicer to more accurately reflect the amount of Billed Series Charges for the [Series A] Storm Recovery Bonds that should have been remitted, based on ADO and the actual system-wide write-off percentage. To the extent the remittances of estimated payments arising from the Series Charges exceed the amounts that should have been remitted based on actual system-wide write-offs, the Servicer will be entitled to withhold the excess amount from any subsequent remittance to the Indenture Trustee until the balance of such excess is reduced to zero. To the extent the remittances of estimated payments arising from the Series Charges are less than the amount that should have been remitted based on actual system wide write-offs, the Servicer will remit the amount of the shortfall to the Indenture Trustee within two Servicer Business Days. Although the Servicer will remit estimated Storm Recovery Charge Collections for the [Series A] Storm Recovery Bonds to the Indenture Trustee, the Servicer will not be obligated to make any payments on the [Series A] Storm Recovery Bonds.

(iv) At least annually, the Servicer also will remit to the Indenture Trustee, for the benefit of the Issuer, any late charges received from Customers with respect to the Series Charges.

(v) The Servicer agrees and acknowledges that it holds all Storm Recovery Charge Collections for the [Series A] Storm Recovery Bonds received by it and any other proceeds for the Series Collateral received by it for the benefit of the Indenture Trustee and the Holders and that all such amounts will be remitted by the Servicer without any surcharge, fee, offset, charge or other deduction. The Servicer further agrees not to make any claim to reduce its obligation to remit all Storm Recovery Charge Payments for the [Series A] Storm Recovery Bonds collected by it in accordance with the Servicing Agreement.

(e) Partial Collections. Upon a partial payment of amounts billed, including amounts billed under special contracts, such partial payments shall be allocated ratably among the Series Charges and the Seller's other billed amounts (including any accrued interest and late fees) based on the ratio of each component of the bill to the total bill. If more than one Series of [Series A] Storm Recovery Bonds are Outstanding, partial payments allocable to Series Charges shall be allocated pro rata based upon the amount of Storm Recovery Charges owing with respect to each series.

(f) No Advances. The Servicer shall not be obligated to advance any of its own funds to the Issuer.

EXHIBIT B

FORM OF MONTHLY SERVICER'S CERTIFICATE

See Attached

MONTHLY SERVICER'S CERTIFICATE

[DUKE ENERGY [CAROLINAS/PROGRESS] STORM RECOVERY FUNDING], LLC
$[ ] Storm Recovery Senior Secured [Series A] Storm Recovery Bonds

Pursuant to Section 3.01(b) of the Series Property Servicing Agreement dated as of June 22, 2016 by and between **Duke Energy [Carolinas/Progress], LLC**, as Servicer, and [**Duke Energy [Carolinas/Progress] Storm Recovery Funding], LLC**, as Issuer (the "Servicing Agreement"), the Servicer does hereby certify as follows:

Capitalized terms used but not defined in this Monthly Servicer's Certificate have their respective meanings as set forth in the Servicing Agreement. References herein to certain sections and subsections are references to the respective sections or subsections of the Servicing Agreement.

Current BILLING MONTH: {_____}

Current BILLING MONTH: {__/__/20__} - {__/__/20__}

Standard Billing for prior BILLING MONTH

Residential Total Billed	${_____}	
Residential STORM RECOVERY CHARGE ("SRC") Billed	${_____}	{_.___}%
Small General Service Total Billed	${_____}	
Small General Service SRC Billed	${_____}	{_.___}%
Medium General Service Billed	${_____}	
Medium General Service SRC Billed[1]	${_____}	{_.___}%
Large General Service Total Billed	${_____}	
Large General Service SRC Billed	${_____}	{_.___}%
Lighting Total Billed	${_____}	
Lighting SRC Billed	${_____}	{_.___}%

YTD Net Write-offs as a % of Billed Revenue

Non-Residential Class Customer Write-offs	{_.___}%
Residential Class Customer Write-offs	{_.___}%
Total Write-offs	{_.___}%

Aggregate SRC Collections

[1] Customer classes shown above are for Duke Energy Progress. Duke Energy Carolinas has a single General Service customer class and a separate Industrial customer class.

Total SRC Remitted for BILLING MONTH	
Residential SRC Collected	${_____}
Small General Service SRC Collected	${_____}
Medium General Service SRC Collected	${_____}
Large General Service SRC Collected[2]	${_____}
Lighting SRC Collected	${_____}
Sub-Total of SRC Collected	${_____}
Total SRC Collected and Remitted	${_____}
Aggregate SRC Remittances for {_____ 20__} BILLING MONTH	${_____}
Aggregate SRC Remittances for {_____ 20__} BILLING MONTH	${_____}
Aggregate SRC Remittances for {_____ 20__} BILLING MONTH	${_____}
Total Current SRC Remittances	${_____}

Current BILLING MONTH: {__/__/20__} - {__/__/20__}

Executed as of this {____} day of {_____} 20{__}.

Duke Energy [Carolinas/Progress], LLC,
as Servicer

By: _____
Name:
Title:

CC: [DUKE ENERGY [CAROLINAS/PROGRESS] STORM RECOVERY FUNDING], LLC

[2] Customer classes shown above are for Duke Energy Progress. Duke Energy Carolinas has a single General Service customer class and a separate Industrial customer class.

EXHIBIT C

FORM OF SEMI-ANNUAL SERVICER'S CERTIFICATE

See attached

SEMI-ANNUAL SERVICER'S CERTIFICATE

Pursuant to Section 4.01(c)(ii) of the Series Property Servicing Agreement, dated as of [ ], 2021 (the "Servicing Agreement"), by and between **Duke Energy [Carolinas/Progress], LLC**, as servicer (the "Servicer"), and [**Duke Energy [Carolinas/Progress] Storm Recovery Funding], LLC**, the Servicer does hereby certify, for the {_____}, 20{__} Payment Date (the "Current Payment Date"), as follows:

Capitalized terms used but not defined herein have their respective meanings as set forth in the Servicing Agreement. References herein to certain sections and subsections are references to the respective sections of the Servicing Agreement or the Indenture, as the context indicates.

Collection Periods: {_____} to {_____}

Payment Date: {_____}, 20{__}

1. Collections Allocable and Aggregate Amounts Available for the Current Payment Date:

i.	Remittances for the {_____} Collection Period	${_____}
ii.	Remittances for the {_____} Collection Period	${_____}
iii.	Remittances for the {_____} Collection Period	${_____}
iv.	Remittances for the {_____} Collection Period	${_____}
v.	Remittances for the {_____} Collection Period	${_____}
vi.	Remittances for the {_____} Collection Period	${_____}
vii.	Investment Earnings on Capital Subaccount	${_____}
viii.	Investment Earnings on Excess Funds Subaccount	${_____}
ix.	Investment Earnings on General Subaccount	${_____}
x.	**General Subaccount Balance (sum of i through ix above)**	${_____}
xi.	Excess Funds Subaccount Balance as of prior Payment Date	${_____}
xii.	Capital Subaccount Balance as of prior Payment Date	${_____}
xiii.	**Collection Account Balance (sum of xi through xii above)**	${_____}

2. Outstanding Amounts of as of prior Payment Date:

i.	Storm Recovery [ ] {__} Outstanding Amount	${_____}
ii.	Storm Recovery [ ] {__} Outstanding Amount	${_____}
iii.	Storm Recovery [ ] {__} Outstanding Amount	${_____}
iv.	Storm Recovery [ ] {__} Outstanding Amount	${_____}
v.	Storm Recovery [ ] {__} Outstanding Amount	${_____}
vi.	**Aggregate Outstanding Amount of all [Series A] Storm Recovery Bonds**	${_____}

3. Required Funding/Payments as of Current Payment Date:

	Principal	***Principal Due***
i.	Storm Recovery [ ] {__}	${_____}
ii.	Storm Recovery [ ] {__}	${_____}
iii.	Storm Recovery [ ] {__}	${_____}
iv.	Storm Recovery [ ] {__}	${_____}
v.	Storm Recovery [ ] {__}	${_____}
vi.	**All [Series A] Storm Recovery Bonds**	${_____}

Interest

[Tranche/Class]	**Interest Rate**	**Days in Interest Period[3]**	**Principal Balance**	**Interest Due**
vii. Storm Recovery [ ] {__}	{__}%	{_____}	${_____}	${_____}
viii. Storm Recovery [ ] {__}	{__}%	{_____}	${_____}	${_____}
ix. Storm Recovery [ ] {__}	{__}%	{_____}	${_____}	${_____}
x. Storm Recovery [ ] {__}	{__}%	{_____}	${_____}	${_____}
xi. Storm Recovery [ ] {__}	{__}%	{_____}	${_____}	${_____}
xii.	**All [Series A] Storm Recovery Bonds**			${_____}

	Required Level	**Funding Required**
xiii. Capital Subaccount	${_____}	${_____}

4. Allocation of Remittances as of Current Payment Date Pursuant to 8.02(e) of Indenture:

i. Trustee Fees and Expenses; Indemnity Amounts		${_____}
ii. Servicing Fee		${_____}
iii. Administration Fee		${_____}
iv. Operating Expenses		${_____}
[Series A] Storm Recovery Bonds	Aggregate	Per $1,000 of Original Principal Amount
v. Semi-Annual Interest (including any past-due for prior periods)		${_____}
1. Storm Recovery [ ] {__}Interest Payment	${_____}	${_____}
2. Storm Recovery [ ] {__} Interest Payment	${_____}	${_____}
3. Storm Recovery [ ] {__} Interest Payment	${_____}	${_____}
4. Storm Recovery [ ] {__} Interest Payment	${_____}	${_____}
5. Storm Recovery [ ] {__} Interest Payment	${_____}	${_____}
	${_____}	
vi. Principal Due and Payable as a Result of an Event of Default or on Final Maturity Date		${_____}
1. Storm Recovery [ ] {__} Interest Payment	${_____}	${_____}
2. Storm Recovery [ ] {__} Interest Payment	${_____}	${_____}

[3]On 30/360 day basis for initial payment date; otherwise use one-half of annual rate.

3. Storm Recovery [ ] {__} Interest Payment	${_____}	${_____}	
4. Storm Recovery [ ] {__} Interest Payment	${_____}	${_____}	
5. Storm Recovery [ ] {__} Interest Payment	${_____}	${_____}	
	${_____}		
vii. Semi-Annual Principal			${_____}
1. Storm Recovery [ ] {__} Interest Payment	${_____}	${_____}	
2. Storm Recovery [ ] {__} Interest Payment	${_____}	${_____}	
3. Storm Recovery [ ] {__} Interest Payment	${_____}	${_____}	
4. Storm Recovery [ ] {__} Interest Payment	${_____}	${_____}	
5. Storm Recovery [ ] {__} Interest Payment	${_____}	${_____}	
	${_____}		
viii. Other unpaid Operating Expenses			${_____}
ix. Funding of Capital Subaccount (to required level)			${_____}
x. Capital Subaccount Return to Duke Energy [Carolinas/Progress]			${_____}
xi. Deposit to Excess Funds Subaccount			${_____}
xii. Released to Issuer upon Retirement of all [Series A] Storm Recovery Bonds			${_____}
xiii. Aggregate Remittances as of Current Payment Date			${_____}

5. Outstanding Amount and Collection Account Balance as of Current Payment Date (after giving effect to payments to be made on such Payment Date):

i.	Storm Recovery [ ] {__}	${_____}
ii.	Storm Recovery [ ] {__}	${_____}
iii.	Storm Recovery [ ] {__}	${_____}
iv.	Storm Recovery [ ] {__}	${_____}
v.	Storm Recovery [ ] {__}	${_____}
vi.	Aggregate Outstanding Amount of all [Series A] Storm Recovery Bonds	${_____}
vii.	Excess Funds Subaccount Balance	${_____}
viii.	Capital Subaccount Balance	${_____}
ix.	Aggregate Collection Account Balance	${_____}

6. Subaccount Withdrawals as of Current Payment Date (if applicable, pursuant to Section 8.02(e) of Indenture):

i.	Excess Funds Subaccount	${_____}
ii.	Capital Subaccount	${_____}
iii.	Total Withdrawals	${_____}

7. Shortfalls in Interest and Principal Payments as of Current Payment Date:

i.	Semi-annual Interest	
	Storm Recovery [ ] {__} Interest Payment	${_____}
	Storm Recovery [ ] {__} Interest Payment	${_____}
	Storm Recovery [ ] {__} Interest Payment	${_____}
	Storm Recovery [ ] {__} Interest Payment	${_____}

	Storm Recovery [ ] {__} Interest Payment	${_____}
	Total	${_____}
ii.	Semi-annual Principal	
	Storm Recovery [ ] {__} Principal Payment	${_____}
	Storm Recovery [ ] {__} Principal Payment	${_____}
	Storm Recovery [ ] {__} Principal Payment	${_____}
	Storm Recovery [ ] {__} Principal Payment	${_____}
	Storm Recovery [ ] {__} Principal Payment	${_____}
	Total	${_____}

8. Shortfalls in Payment of Return on Invested Capital as of Current Payment Date:

i.	Return on Invested Capital	${_____}

9. Shortfalls in Required Subaccount Levels as of Current Payment Date:

i.	Capital Subaccount	${_____}

IN WITNESS WHEREOF, the undersigned has duly executed and delivered this Semi-Annual Servicer's Certificate this {____} day of {_____}, 20{__}.

Duke Energy [Carolinas/Progress], LLC,
as Servicer

By: _____
Name:
Title:

EXHIBIT D

FORM OF SERVICER CERTIFICATE

See attached

SERVICER CERTIFICATE

The undersigned hereby certifies that the undersigned is the duly elected and acting {_____} of **DUKE ENERGY [CAROLINAS/PROGRESS], LLC**, as servicer (the "Servicer") under the Series Property Servicing Agreement dated as of [, 20] (the "Servicing Agreement") by and between the Servicer and [**DUKE ENERGY [CAROLINAS/PROGRESS] STORM RECOVERY FUNDING], LLC**, and further certifies that:

1. The undersigned is responsible for assessing the Servicer's compliance with the servicing criteria set forth in Item 1122(d) of Regulation AB (the "Servicing Criteria").

2. With respect to each of the Servicing Criteria, the undersigned has made the following assessment of the Servicing Criteria in accordance with Item 1122(d) of Regulation AB, with such discussion regarding the performance of such Servicing Criteria during the fiscal year covered by the Depositor's annual report on Form 10-K:

Regulation AB Reference	Servicing Criteria	Assessment
	General Servicing Considerations	
1122(d)(1)(i)	Policies and procedures are instituted to monitor any performance or other triggers and events of default in accordance with the transaction agreements.	Applicable; assessment below.
1122(d)(1)(ii)	If any material servicing activities are outsourced to third parties, policies and procedures are instituted to monitor the third party's performance and compliance with such servicing activities.	Not applicable; no servicing activities were outsourced.
1122(d)(1)(iii)	Any requirements in the transaction agreements to maintain a back-up servicer for pool assets are maintained.	Not applicable; transaction agreements do not provide for a back-up servicer.
1122(d)(1)(iv)	A fidelity bond and errors and omissions policy is in effect on the party participating in the servicing function throughout the reporting period in the amount of coverage required by and otherwise in accordance with the terms of the transaction agreements.	Not applicable; transaction agreements do not require a fidelity bond or errors and omissions policy.
1122(d)(1)(v)	Aggregation of information, as applicable, is mathematically accurate and the information conveyed accurately reflects the information.	Applicable
	Cash Collection and Administration	
1122(d)(2)(i)	Payments on pool assets are deposited into the appropriate custodial bank accounts and related bank clearing accounts no more than two business days following receipt, or such other number of days specified in the transaction agreements.	Applicable.
1122(d)(2)(ii)	Disbursements made via wire transfer on behalf of an obligor or to an investor are made only by authorized personnel.	Applicable.

Regulation AB Reference	Servicing Criteria	Assessment
1122(d)(2)(iii)	Advances of funds or guarantees regarding collections, cash flows or distributions, and any interest or other fees charged for such advances, are made, reviewed and approved as specified in the transaction agreements.	Applicable; no advances by the Servicer are permitted under the transaction agreements, except for payments of certain indemnities.
1122(d)(2)(iv)	The related accounts for the transaction, such as cash reserve accounts or accounts established as a form of overcollateralization, are separately maintained (e.g., with respect to commingling of cash) as set forth in the transaction agreements.	Applicable, but no current assessment is required since the related accounts are maintained by the Indenture Trustee.
1122(d)(2)(v)	Each custodial account is maintained at a federally insured depository institution as set forth in the transaction agreements. For purposes of this criterion, "federally insured depository institution" with respect to a foreign financial institution means a foreign financial institution that meets the requirements of Rule 13k-1(b)(1) under the Exchange Act.	Applicable, but no current assessment required; all "custodial accounts" are maintained by the Indenture Trustee.
1122(d)(2)(vi)	Unissued checks are safeguarded so as to prevent unauthorized access.	Not applicable; all payments made by wire transfer.
1122(d)(2)(vii)	Reconciliations are prepared on a monthly basis for all asset-backed securities related bank accounts, including custodial accounts and related bank clearing accounts. These reconciliations are: (A) mathematically accurate; (B) prepared within 30 calendar days after the bank statement cutoff date, or such other number of days specified in the transaction agreements; (C) reviewed and approved by someone other than the person who prepared the reconciliation; and (D) contain explanations for reconciling items. These reconciling items are resolved within 90 calendar days of their original identification, or such other number of days specified in the transaction agreements.	Applicable; assessment below.
	Investor Remittances and Reporting	
1122(d)(3)(i)	Reports to investors, including those to be filed with the SEC, are maintained in accordance with the transaction agreements and applicable SEC requirements. Specifically, such reports: (A) are prepared in accordance with timeframes and other terms set forth in the transaction agreements; (B) provide information calculated in accordance with the terms specified in the transaction agreements; (C) are filed with the SEC as required by its rules and regulations; and (D) agree with investors' or the trustee's records as to the total unpaid principal balance and number of pool assets serviced by the servicer.	Applicable; assessment below.

Regulation AB Reference	Servicing Criteria	Assessment
1122(d)(3)(ii)	Amounts due to investors are allocated and remitted in accordance with timeframes, distribution priority and other terms set forth in the transaction agreements.	Not applicable; investor records maintained by the Indenture Trustee.
1122(d)(3)(iii)	Disbursements made to an investor are posted within two business days to the servicer's investor records, or such other number of days specified in the transaction agreements.	Applicable.
1122(d)(3)(iv)	Amounts remitted to investors per the investor reports agree with cancelled checks, or other form of payment, or custodial bank statements.	Applicable; assessment below.
	Pool Asset Administration	
1122(d)(4)(i)	Collateral or security on pool assets is maintained as required by the transaction agreements or related pool asset documents.	Applicable; assessment below.
1122(d)(4)(ii)	Pool assets and related documents are safeguarded as required by the transaction agreements.	Applicable; assessment below.
1122(d)(4)(iii)	Any additions, removals or substitutions to the asset pool are made, reviewed and approved in accordance with any conditions or requirements in the transaction agreements.	Not applicable; no removals or substitutions of Storm Recovery Property are contemplated or allowed under the transaction documents.
1122(d)(4)(iv)	Payments on pool assets, including any payoffs, made in accordance with the related pool asset documents are posted to the servicer's obligor records maintained no more than two business days after receipt, or such other number of days specified in the transaction agreements, and allocated to principal, interest or other items (e.g., escrow) in accordance with the related pool asset agreements.	Applicable; assessment below.
1122(d)(4)(v)	The servicer's records regarding the pool assets agree with the servicer's records with respect to an obligor's unpaid principal balance.	Not applicable; because underlying obligation (Storm Recovery Charge) is not an interest-bearing instrument.
1122(d)(4)(vi)	Changes with respect to the terms or status of an obligor's pool assets (e.g., loan modifications or re-agings) are made, reviewed and approved by authorized personnel in accordance with the transaction agreements and related pool asset documents.	Applicable; assessment below.
1122(d)(4)(vii)	Loss mitigation or recovery actions (e.g., forbearance plans, modifications and deeds in lieu of foreclosure, foreclosures and repossessions, as applicable) are initiated, conducted and concluded in accordance with the timeframes or other requirements established by the transaction agreements.	Applicable; limited assessment below. Servicer actions governed by Commission regulations.

Regulation AB Reference	Servicing Criteria	Assessment
1122(d)(4)(viii)	Records documenting collection efforts are maintained during the period a pool asset is delinquent in accordance with the transaction agreements. Such records are maintained on at least a monthly basis, or such other period specified in the transaction agreements, and describe the entity's activities in monitoring delinquent pool assets, including, for example, phone calls, letters and payment rescheduling plans in cases where delinquency is deemed temporary (e.g., illness or unemployment).	Applicable, but does not require assessment since no explicit documentation requirement with respect to delinquent accounts are imposed under the transaction agreements due to availability of "true-up" mechanism; and any such documentation is maintained in accordance with applicable North Carolina commission rules and regulations..
1122(d)(4)(ix)	Adjustments to interest rates or rates of return for pool assets with variable rates are computed based on the related pool asset documents.	Not applicable; Storm Recovery Charges are not interest-bearing instruments.
1122(d)(4)(x)	Regarding any funds held in trust for an obligor (such as escrow accounts): (A) such funds are analyzed, in accordance with the obligor's pool asset documents, on at least an annual basis, or such other period specified in the transaction agreements; (B) interest on such funds is paid, or credited, to obligors in accordance with applicable pool asset documents and state laws; and (C) such funds are returned to the obligor within 30 calendar days of full repayment of the related pool assets, or such other number of days specified in the transaction agreements.	Not applicable.
1122(d)(4)(xi)	Payments made on behalf of an obligor (such as tax or insurance payments) are made on or before the related penalty or expiration dates, as indicated on the appropriate bills or notices for such payments, provided that such support has been received by the servicer at least 30 calendar days prior to these dates, or such other number of days specified in the transaction agreements.	Not applicable; Servicer does not make payments on behalf of obligors.
1122(d)(4)(xii)	Any late payment penalties in connection with any payment to be made on behalf of an obligor are paid from the servicer's funds and not charged to the obligor, unless the late payment was due to the obligor's error or omission.	Not applicable; Servicer cannot make advances of its own funds on behalf of customers under the transaction agreements.
1122(d)(4)(xiii)	Disbursements made on behalf of an obligor are posted within two business days to the obligor's records maintained by the servicer, or such other number of days specified in the transaction agreements.	Not applicable; Servicer cannot make advances of its own funds on behalf of customers to pay principal or interest on the bonds.

Regulation AB Reference	Servicing Criteria	Assessment
1122(d)(4)(xiv)	Delinquencies, charge-offs and uncollectible accounts are recognized and recorded in accordance with the transaction agreements.	Applicable; assessment below.
1122(d)(4)(xv)	Any external enhancement or other support, identified in Item 1114(a)(1) through (3) or Item 1115 of Regulation AB, is maintained as set forth in the transaction agreements.	Not applicable; no external enhancement is required under the transaction agreements.

3. To the best of the undersigned's knowledge, based on such review, the Servicer is in compliance in all material respects with the applicable servicing criteria set forth above as of and for the period ended the end of the fiscal year covered by the Issuer's annual report on Form 10-K. {If not true, include description of any material instance of noncompliance.}

4. {[ ], an independent registered public accounting firm, has issued an attestation report on the Servicer's assessment of compliance with the applicable servicing criteria as of and for the period ended the end of the fiscal year covered by the Issuer's annual report on Form 10-K.}

5. Capitalized terms used but not defined herein have their respective meanings as set forth in the Servicing Agreement.

Executed as of this {____} day of {_____}, 20{__}.

DUKE ENERGY [CAROLINAS/PROGRESS], LLC,
as Servicer

By: _____
Name:
Title:

EXHIBIT E

FORM OF CERTIFICATE OF COMPLIANCE

See attached

CERTIFICATE OF COMPLIANCE

The undersigned hereby certifies that the undersigned is the duly elected and acting {_____} of **DUKE ENERGY [CAROLINAS/PROGRESS], LLC**, as servicer (the "Servicer") under the Storm Recovery Property Servicing Agreement dated as of [,20] (the "Servicing Agreement") by and between the Servicer and **DUKE ENERGY [CAROLINAS/PROGRESS] STORM RECOVERY PROPERTY, LLC**, and further certifies that:

1. A review of the activities of the Servicer and of its performance under the Servicing Agreement during the twelve months ended {_____}, 20{__} has been made under the supervision of the undersigned pursuant to Section 3.03 of the Servicing Agreement.

2. To the undersigned's knowledge, based on such review, the Servicer has fulfilled all of its obligations in all material respects under the Servicing Agreement throughout the twelve months ended {_____}, 20{__}, except as set forth on EXHIBIT A hereto.

Executed as of this {____} day of {_____}, 20{__}.

DUKE ENERGY [CAROLINAS/PROGRESS], LLC,
as Servicer

By: _____
Name:
Title:

EXHIBIT A
TO
CERTIFICATE OF COMPLIANCE

LIST OF SERVICER DEFAULTS

The following Servicer Defaults, or events that with the giving of notice, the lapse of time, or both, would become Servicer Defaults, known to the undersigned occurred during the twelve months ended {_____}, 20{__}:

Nature of Default	Status
{_____}	{_____}

EXHIBIT F

EXPECTED SINKING FUND SCHEDULE

See Attached

EXPECTED SINKING FUND SCHEDULE

Outstanding Principal Balance Per Storm Recovery Bond

APPENDIX A

DEFINITIONS AND RULES OF CONSTRUCTION

A. Defined Terms. The following terms have the following meanings:

"17g-5 Website" is defined in Section 10.18(a) of the Indenture.

"Account Records" is defined in Section 1(a)(i) of the Administration Agreement.

"Act" is defined in Section 10.03(a) of the Indenture.

"Additional Series" means issuance by the Issuer of any series of Storm Recovery Bonds issued after the date hereof, that will be undertaken only if (i) such issuance has been authorized by the Commission, (ii) the Rating Agency Condition has been satisfied and it is a condition of issuance for each Series of Storm Recovery Bonds that the new Series receive a rating or ratings as required by the Financing Order or a Subsequent Financing Order, (iii) the Issuer has delivered to the Indenture Trustee an Opinion of Counsel of a nationally recognized firm experienced in such matters to the effect that after such issuance, in the opinion of such counsel, if either or both of Duke Energy [Carolinas/Progress] or the Seller were to become a debtor in a case under the United States Bankruptcy Code (Title 11, U.S.C.), a federal court exercising bankruptcy jurisdiction and exercising reasonable judgment after full consideration of all relevant factors would not order substantive consolidation of the assets and liabilities of the Issuer with those of the bankruptcy estate of Duke Energy [Carolinas/Progress] or the Seller, subject to the customary exceptions, qualifications and assumptions contained therein.

"Administration Agreement" means the Administration Agreement, dated as of the date hereof, by and between Duke Energy [Carolinas/Progress] and the Issuer.

"Administration Fee" is defined in Section 2 of the Administration Agreement.

"Administrator" means Duke Energy [Carolinas/Progress], as Administrator under the Administration Agreement, or any successor Administrator to the extent permitted under the Administration Agreement.

"Affiliate" means, with respect to any specified Person, any other Person controlling or controlled by or under common control with such specified Person. For the purposes of this definition, "control" when used with respect to any specified Person means the power to direct the management and policies of such specified Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise, and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Amendatory Schedule" means a revision to service riders or any other notice filing filed with the Commission in respect of the Storm Recovery Rate Schedule pursuant to a True-Up Adjustment.

"Annual Accountant's Report" is defined in Section 3.04(a) of the Servicing Agreement.

"Authorized Denomination" means, with respect to any Storm Recovery Bond, the authorized denomination therefor specified in the Series Supplement, which shall be at least $2,000 and, except as otherwise provided in the Series Supplement, integral multiples of $1,000 in excess thereof, except for one Storm Recovery bond which may be of a smaller denomination.

"Bankruptcy Code" means Title 11 of the United States Code (11 U.S.C. §§ 101 et seq.).

"Basic Documents" means the Indenture, each Series Supplement, the Certificate of Formation, the LLC Agreement, the Declaration of Trust, the SRB Indenture, the Administration Agreement, and, with respect to each Series, the applicable Sale Agreement, Bill of Sale, Servicing Agreement, Intercreditor Agreement, Letter of Representations, Underwriting Agreement and all other documents and certificates delivered in connection therewith.

"Bill of Sale" means a bill of sale substantially in the form of Exhibit A to the Sale Agreement delivered pursuant to Section 2.02(a) of the Sale Agreement.

"Billed Storm Recovery Charges" means the amounts of Storm Recovery Charges billed by the Servicer.

"Billing Period" means the period created by dividing the calendar year into 12 consecutive periods of approximately 21 Servicer Business Days.

"Bills" means each of the regular monthly bills, summary bills, opening bills and closing bills issued to Customers by Duke Energy [Carolinas/Progress] in its capacity as Servicer.

"Bond Interest Rate" means, with respect to any Series or Tranche of Storm Recovery Bonds, the rate at which interest accrues on the Storm Recovery Bonds of such Series or Tranche, as specified in the applicable Series Supplement.

"Book-Entry Form" means, with respect to any Storm Recovery Bond, that such Storm Recovery Bond is not certificated and the ownership and transfers thereof shall be made through book entries by a Clearing Agency as described in Section 2.11 of the Indenture and the Series Supplement pursuant to which such Storm Recovery Bond was issued.

"Book-Entry Storm Recovery Bonds" means any Storm Recovery Bonds issued in Book-Entry Form; provided, however, that, after the occurrence of a condition

whereupon book-entry registration and transfer are no longer permitted and Definitive Storm Recovery Bonds are to be issued to the Holder of such Storm Recovery Bonds, such Storm Recovery Bonds shall no longer be "Book-Entry Storm Recovery Bonds".

"Business Day" means any day other than a Saturday, a Sunday or a day on which banking institutions in Raleigh, North Carolina, Charlotte, North Carolina or New York, New York are, or DTC or the Corporate Trust Office is, authorized or obligated by law, regulation or executive order to be closed.

"Capital Contribution" means the amount of cash contributed to the Issuer by Duke Energy [Carolinas/Progress] as specified in the LLC Agreement.

"Capital Subaccount" is defined in Section 8.02(a) of the Indenture.

"Certificate of Compliance" means the certificate referred to in Section 3.03 of the Servicing Agreement and substantially in the form of Exhibit E to the Servicing Agreement.

"Certificate of Formation" means the Certificate of Formation filed with the Secretary of State of the State of Delaware on [ ], 20[21] pursuant to which the Issuer was formed.

"Charge" means any storm-recovery charges as defined in Section 62-172(a)(13) of the Storm Recovery Law that are authorized by the Financing Order or any Subsequent Financing Order.

"Claim" means a "claim" as defined in Section 101(5) of the Bankruptcy Code.

"Clearing Agency" means an organization registered as a "clearing agency" pursuant to Section 17A of the Exchange Act.

"Clearing Agency Participant" means a securities broker, dealer, bank, trust company, clearing corporation or other financial institution or other Person for whom from time to time a Clearing Agency effects book entry transfers and pledges of securities deposited with such Clearing Agency.

"Code" means the Internal Revenue Code of 1986.

"Collateral" is defined in the preamble of the Indenture.

"Collection Account" is defined in Section 8.02(a) of the Indenture for such Series.

"Collection in Full of the Charges" means the day on which the aggregate amounts on deposit in the General Subaccount and the Excess Funds Subaccount are sufficient to pay in full all the Outstanding Storm Recovery Bonds and to replenish any shortfall in the Capital Subaccount.

"Collection Period" means any period commencing on the first Servicer Business Day of any Billing Period and ending on the last Servicer Business Day of such Billing Period.

"Commission" means the North Carolina Utilities Commission.

["Commission Condition" means the satisfaction of any precondition to any amendment or modification to or action under any Basic Documents through the obtaining of Commission consent or acquiescence, as described in the related Basic Document.]

"Commission Regulations" means any regulations, including temporary regulations, promulgated by the North Carolina Utilities Commission pursuant to North Carolina law.

"Company Minutes" is defined in Section 1(a)(iv) of the Administration Agreement.

"Corporate Trust Office" means the office of the Indenture Trustee at which, at any particular time, its corporate trust business shall be administered, which office as of the date hereof is located at [BNY Mellon Global Corporate Trust, 10161 Centurion Parkway North, Jacksonville, Florida 32256]; Telephone: [904-998-4714]; Facsimile: [904-645-1930], or at such other address as the Indenture Trustee may designate from time to time by notice to the Holders of Storm Recovery Bonds and the Issuer, or the principal corporate trust office of any successor trustee designated by like notice.

"Covenant Defeasance Option" is defined in Section 4.01(b) of the Indenture.

"Customer" means any existing or future customer (including individuals, corporations, other businesses, and federal, state and local governmental entities) receiving transmission or distribution service from Duke Energy [Carolinas/Progress] or its successors or assignees under Commission-approved rate schedules or under special contracts, even if such customer elects to purchase electricity from an AES following a fundamental change in regulation of public utilities in North Carolina.

"Daily Remittance" is defined in Section 6.11(a) of the Servicing Agreement.

"Declaration of Trust" means the Declaration of Trust filed with the Secretary of State of the State of Delaware on [ ]. 20[21] pursuant to which the SRB Trust was formed.

"Default" means any occurrence that is, or with notice or the lapse of time or both would become, an Event of Default.

"Definitive Storm Recovery Bonds" is defined in Section 2.11 of the Indenture.

"Delaware Trustee" means the Person acting as Delaware trustee under the Declaration of Trust.

"Delaware UCC" means the Uniform Commercial Code as in effect on the Series Closing Date in the State of Delaware.

"DTC" means The Depository Trust Company.

["Duke Energy Carolinas" means Duke Energy Carolinas, LLC, a North Carolina limited liability company.

"Duke Energy Progress" means Duke Energy Progress, LLC, a North Carolina limited liability company.]

"[Duke Energy Carolinas/Progress Storm Recovery Funding], LLC" means the Issuer.

"Eligible Account" means a segregated non-interest-bearing trust account with an Eligible Institution.

"Eligible Institution" means:

(a) the corporate trust department of the Indenture Trustee or a subsidiary thereof, so long as any of the securities of the Indenture Trustee has a credit rating from each Rating Agency in one of its generic rating categories that signifies investment grade; or

(b) a depository institution organized under the laws of the United States of America or any State (or any domestic branch of a foreign bank) (i) that has either (A) a long-term issuer rating of "AA-" or higher by S&P, "A2" or higher by Moody's and "AA" or higher by Fitch, if rated by Fitch, or (B) a short-term issuer rating of "A-1+" or higher by S&P, "P-1" or higher by Moody's and "F1" or higher by Fitch, if rated by Fitch, or any other long-term, short-term or certificate of deposit rating acceptable to the Rating Agencies, and (ii) whose deposits are insured by the Federal Deposit Insurance Corporation.

If so qualified under clause (b) of this definition, the Indenture Trustee may be considered an Eligible Institution for the purposes of clause (a) of this definition.

"Eligible Investments" means instruments or investment property that evidence:

(a) direct obligations of, or obligations fully and unconditionally guaranteed as to timely payment by, the United States of America;

(b) demand or time deposits of, unsecured certificates of deposit of, money market deposit accounts of, bank deposit products of or bankers' acceptances issued by, any depository institution (including, but not limited to, bank deposit products of the Indenture Trustee, acting in its commercial capacity) incorporated or organized under the laws of the United States of America or any State thereof and subject to supervision and examination by U.S. federal or state banking authorities, so long as the commercial paper or other short-term debt obligations of such depository institution are, at the time of deposit, rated at least "A-1" and "P-1" or their equivalents by each of S&P and Moody's and, if Fitch provides ratings thereon by Fitch, or such lower rating as will not result in the downgrading or withdrawal of the ratings of the Storm Recovery Bonds;

(c) commercial paper (including commercial paper of the Indenture Trustee, acting in its commercial capacity, and other than commercial paper of Duke Energy [Carolinas/Progress] or any of its Affiliates), which at the time of purchase is rated at least "A-1" and "P-1" or their equivalents by each of S&P and Moody's or such lower rating as will not result in the downgrading or withdrawal of the ratings of the Storm Recovery Bonds;

(d) investments in money market funds having a rating in the highest investment category granted thereby (including funds for which the Indenture Trustee or any of its Affiliates is investment manager or advisor) from Moody's, S&P and Fitch, if rated by Fitch;

(e) repurchase obligations with respect to any security that is a direct obligation of, or fully guaranteed by, the United States of America or its agencies or instrumentalities, entered into with Eligible Institutions;

(f) repurchase obligations with respect to any security or whole loan entered into with an Eligible Institution or with a registered broker/dealer acting as principal and that meets the ratings criteria set forth below:

(i) a broker/dealer (acting as principal) registered as a broker or dealer under Section 15 of the Exchange Act (any such broker/dealer being referred to in this definition as a "broker/dealer"), the unsecured short-term debt obligations of which are rated at least "P-1" by Moody's, "A-1+" by S&P and, if Fitch provides a rating thereon, "F-1+" by Fitch at the time of entering into such repurchase obligation; or

(ii) an unrated broker/dealer, acting as principal, that is a wholly-owned subsidiary of a non-bank or bank holding company the unsecured short-term debt obligations of which are rated at least "P-1" by Moody's, "A-1+" by S&P and, if Fitch provides a rating thereon, "F-1+" by Fitch at the time of purchase so long as the obligations of such unrated broker/dealer are unconditionally guaranteed by such non-bank or bank holding company; and

(g) any other investment permitted by each of the Rating Agencies;

in each case maturing not later than the Business Day preceding the next Payment Date or Special Payment Date, if applicable (for the avoidance of doubt, investments in money market funds or similar instruments that are redeemable on demand shall be deemed to satisfy the foregoing requirement). Notwithstanding the foregoing: (1) no securities or investments that mature in 30 days or more shall be "Eligible Investments" unless the issuer thereof has either a short-term unsecured debt rating of at least "P-1" from Moody's or a long-term unsecured debt rating of at least "A1" from Moody's and also has a long-term unsecured debt rating of at least "A" from S&P; (2) no securities or investments described in clauses (b) through (d) above that have maturities of more than 30 days but less than or equal to 3 months shall be "Eligible Investments" unless the issuer thereof has a long-term unsecured debt rating of at least "A1" from Moody's and a short-term unsecured debt rating of at least "P-1" from Moody's; and (3) no securities or investments described in clauses (b) through (d) above that have maturities of more than 3 months shall be "Eligible Investments" unless the issuer thereof has a long-term unsecured debt rating of at least "A1" from Moody's and a short-term unsecured debt rating of at least "P-1" from Moody's.

"Event of Default" is defined in Section 5.01 of the Indenture.

"Excess Funds Subaccount" is defined in Section 8.02(a) of the Indenture.

"Exchange Act" means the Securities Exchange Act of 1934.

"Expected Sinking Fund Schedule" means, with respect to any Tranche, the expected sinking fund schedule related thereto set forth in the applicable Series Supplement.

"Federal Book-Entry Regulations" means 31 C.F.R. Part 357 et seq. (Department of Treasury).

"Final" means, with respect to the Financing Order or Subsequent Financing Order, that the Financing Order has become final, that the Financing Order is not being appealed and that the time for filing an appeal thereof has expired.

"Final Maturity Date" means, with respect to each Series of Tranche of Storm Recovery Bonds, the final maturity date therefor as specified in the applicable Series Supplement.

"Financing Costs" means all financing costs as defined in Section 62-172(a)(4)of the Storm Recovery Law allowed to be recovered by Duke Energy [Carolinas/Progress] under the Financing Order.

"Financing Order" means the financing order issued by the Commission to Duke Energy [Carolinas/Progress] on [ ], 20[21], Docket No. [ ], authorizing the creation of the Storm Recovery Property.

"Financing Party" means any and all of the following: the Holders, the Indenture Trustee, Duke Energy [Carolinas/Progress], collateral agents, any party under the Basic Documents, or any other person acting for the benefit of the Holders.

"Fitch" means Fitch Ratings or any successor thereto. References to Fitch are effective so long as Fitch is a Rating Agency.

"North Carolina Secured Transactions Registry" means the centralized database in which all initial financing statements, amendments, assignments, and other statements of charge authorized to be filed under N.C. Gen. Stat. 25- [ ].

"North Carolina UCC" means the Uniform Commercial Code as in effect on the Series Closing Date in the State of North Carolina.

"General Subaccount" is defined in Section 8.02(a) of the Indenture for such Series.

"Global Storm Recovery Bond" means a Storm Recovery Bond to be issued to the Holders thereof in Book-Entry Form, which Global Storm Bond shall be issued to the Clearing Agency, or its nominee, in accordance with Section 2.11 of the Indenture and the Series Supplement.

"Governmental Authority" means any nation or government, any U.S. federal, state, local or other political subdivision thereof and any court, administrative agency or other instrumentality or entity exercising executive, legislative, judicial, regulatory or administrative functions of government.

"Grant" means mortgage, pledge, bargain, sell, warrant, alienate, remise, release, convey, grant, transfer, create, grant a lien upon, a security interest in and right of set-off against, deposit, set over and confirm pursuant to the Indenture and the Series Supplement. A Grant of the Collateral shall include all rights, powers and options (but none of the obligations) of the granting party thereunder, including the immediate and continuing right to claim for, collect, receive and give receipt for payments in respect of the Collateral and all other moneys payable thereunder, to give and receive notices and other communications, to make waivers or other agreements, to exercise all rights and options, to bring Proceedings in the name of the granting party or otherwise and generally to do and receive anything that the granting party is or may be entitled to do or receive thereunder or with respect thereto.

"Holder" means the Person in whose name a Storm Recovery Bond is registered on the Storm Recovery Bond Register.

"Indemnified Losses" is defined in Section 5.03 of the Servicing Agreement.

"Indemnified Party" is defined in Section 6.02(a) of the Servicing Agreement.

"Indemnified Person" is defined in Section 5.01(f) of the Sale Agreement.

"Indenture" means the Indenture, dated as [ ], by and between the Issuer and [ ], as Indenture Trustee and as Securities Intermediary.

"Indenture Trustee" means [ ], a national banking association, as indenture trustee for the benefit of the Secured Parties, or any successor indenture trustee for the benefit of the Secured Parties, under the Indenture.

"Independent" means, when used with respect to any specified Person, that such specified Person (a) is in fact independent of the Issuer, any other obligor on the Storm Recovery Bonds, the Seller, the Servicer and any Affiliate of any of the foregoing Persons, (b) does not have any direct financial interest or any material indirect financial interest in the Issuer, any such other obligor, the Seller, the Servicer or any Affiliate of any of the foregoing Persons and (c) is not connected with the Issuer, any such other obligor, the Seller, the Servicer or any Affiliate of any of the foregoing Persons as an officer, employee, promoter, underwriter, trustee, partner, director (other than as an independent director or manager) or person performing similar functions.

"Independent Certificate" means a certificate to be delivered to the Indenture Trustee under the circumstances described in, and otherwise complying with, the applicable requirements of Section 10.01 of the Indenture, made by an Independent appraiser or other expert appointed by an Issuer Order and consented to by the Indenture Trustee, and such certificate shall state that the signer has read the definition of "Independent" in the Indenture and that the signer is Independent within the meaning thereof.

"Independent Manager" is defined in Section 4.01(a) of the LLC Agreement.

"Independent Manager Fee" is defined in Section 4.01(a) of the LLC Agreement.

"Insolvency Event" means, with respect to a specified Person: (a) the filing of a decree or order for relief by a court having jurisdiction in the premises in respect of such specified Person or any substantial part of its property in an involuntary case under any applicable U.S. federal or state bankruptcy, insolvency or other similar law in effect as of the date hereof or thereafter, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official for such specified Person or for any substantial part of its property, or ordering the winding-up or liquidation of such specified Person's affairs, and such decree or order shall remain unstayed and in effect for a period of 60 consecutive days; or (b) the commencement by such specified Person of a voluntary case under any applicable U.S. federal or state bankruptcy, insolvency or other similar law in effect as of the Series Closing Date or thereafter, or the consent by such specified Person to the entry of an order for relief in an involuntary case under any

such law, or the consent by such specified Person to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official for such specified Person or for any substantial part of its property, or the making by such specified Person of any general assignment for the benefit of creditors, or the failure by such specified Person generally to pay its debts as such debts become due, or the taking of action by such specified Person in furtherance of any of the foregoing.

"Intercreditor Agreement" means the Intercreditor Agreement, dated as of the date hereof, by and among the Issuer, the Indenture Trustee, Duke Energy [Carolinas/Progress] and the parties to the accounts receivables sale program Duke Energy [Carolinas/Progress] Receivables LLC, and any subsequent such agreement.

"Investment Company Act" means the Investment Company Act of 1940.

"Investment Earnings" means investment earnings on funds deposited in the Collection Account net of losses and investment expenses.

"Issuer" means [Duke Energy [Carolinas/Progress] Storm Recovery Funding], LLC, a Delaware limited liability company, named as such in the Indenture until a successor replaces it and, thereafter, means the successor and, for purposes of any provision contained herein and required by the Trust Indenture Act, each other obligor on the Storm Recovery Bonds.

"Issuer Documents" is defined in Section 1(a)(iv) of the Administration Agreement.

"Issuer Order" means a written order signed in the name of the Issuer by any one of its Responsible Officers and delivered to the Indenture Trustee or Paying Agent, as applicable.

"Issuer Request" means a written request signed in the name of the Issuer by any one of its Responsible Officers and delivered to the Indenture Trustee or Paying Agent, as applicable.

"Legal Defeasance Option" is defined in Section 4.01(b) of the Indenture.

"Letter of Representations" means any applicable agreement between the Issuer and the applicable Clearing Agency, with respect to such Clearing Agency's rights and obligations (in its capacity as a Clearing Agency) with respect to any Book-Entry Storm Recovery Bonds.

"Lien" means a security interest, lien, mortgage, charge, pledge, claim or encumbrance of any kind.

"LLC Agreement" means the Amended and Restated Limited Liability Company Agreement of [Duke Energy [Carolinas/Progress] Storm Recovery Funding], LLC, dated as of [ ], 20[21].

"Losses" means (a) any and all amounts of principal of and interest on the Storm Recovery Bonds not paid when due or when scheduled to be paid in accordance with their terms and the amounts of any deposits by or to the Issuer required to have been made in accordance with the terms of the Basic Documents or the Financing Order or Subsequent that are not made when so required and (b) any and all other liabilities, obligations, losses, claims, damages, payments, costs or expenses of any kind whatsoever.

"Manager" means each manager of the Issuer under the LLC Agreement.

"Member" has the meaning specified in the first paragraph of the LLC Agreement.

"Monthly Servicer's Certificate" is defined in Section 3.01(b)(i) of the Servicing Agreement.

"Moody's" means Moody's Investors Service, Inc. References to Moody's are effective so long as Moody's is a Rating Agency.

"North Carolina UCC" means the Uniform Commercial Code as in effect on the Series Closing Date in the State of North Carolina.

"NRSRO" is defined in Section 10.19(b) of the Indenture.

"NY UCC" means the Uniform Commercial Code as in effect on the date hereof in the State of New York.

"Officer's Certificate" means a certificate signed by a Responsible Officer of the Issuer under the circumstances described in, and otherwise complying with, the applicable requirements of Section 10.01 of the Indenture, and delivered to the Indenture Trustee.

"Ongoing Financing Costs" means the Financing Costs described as such in the Financing Order, including Operating Expenses and any other costs identified in the Basic Documents; provided, however, that Ongoing Financing Costs do not include the Issuer's costs of issuance of the Storm Recovery Bonds.

"Operating Expenses" means all unreimbursed fees, costs and out-of-pocket expenses of the Issuer, including all amounts owed by the Issuer to the Indenture Trustee (including indemnities, legal, audit fees and expenses), the Delaware Trustee, the SRB Trustee or any Manager, the Servicing Fee, the Administration Fee, legal and accounting fees, Rating Agency fees, any Regulatory Assessment Fees and related fees (i.e. website provider fees) and any franchise or other taxes owed by the Issuer, including on investment income in the Collection Account.

"Opinion of Counsel" means one or more written opinions of counsel, who may, except as otherwise expressly provided in the Basic Documents, be employees of or counsel to the party providing such opinion of counsel, which counsel shall be

reasonably acceptable to the party receiving such opinion of counsel, and shall be in form and substance reasonably acceptable to such party.

"Optional Interim True-Up Adjustment" means any Optional Interim True-Up Adjustment made pursuant to Section 4.01(b)(ii) of the Servicing Agreement.

"Outstanding" means, as of the date of determination, all Storm Recovery Bonds theretofore authenticated and delivered under the Indenture, except:

(a) Storm Recovery Bonds theretofore canceled by the Storm Recovery Bond Registrar or delivered to the Storm Recovery Bond Registrar for cancellation;

(b) Storm Recovery Bonds or portions thereof the payment for which money in the necessary amount has been theretofore deposited with the Indenture Trustee or any Paying Agent in trust for the Holders of such Storm Recovery Bonds; and

(c) Storm Recovery Bonds in exchange for or in lieu of other Storm Recovery Bonds that have been issued pursuant to the Indenture unless proof satisfactory to the Indenture Trustee is presented that any such Storm Recovery Bonds are held by a Protected Purchaser; provided, that, in determining whether the Holders of the requisite Outstanding Amount of the Storm Recovery Bonds or any Series or Tranche thereof have given any request, demand, authorization, direction, notice, consent or waiver under any Basic Document, Storm Recovery Bonds owned by the Issuer, any other obligor upon the Storm Recovery Bonds, the Member, the Seller, the Servicer or any Affiliate of any of the foregoing Persons shall be disregarded and deemed not to be Outstanding (unless one or more such Persons owns 100% of such Storm Recovery Bonds), except that, in determining whether the Indenture Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Storm Recovery Bonds that the Indenture Trustee actually knows to be so owned shall be so disregarded. Storm Recovery Bonds so owned that have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Indenture Trustee the pledgee's right so to act with respect to such Storm Recovery Bonds and that the pledgee is not the Issuer, any other obligor upon the Storm Recovery Bonds, the Member, the Seller, the Servicer or any Affiliate of any of the foregoing Persons.

"Outstanding Amount" means the aggregate principal amount of all Storm Recovery Bonds, or, if the context requires, all Storm Recovery Bonds of a Series or Tranche, Outstanding at the date of determination.

"Paying Agent" means, with respect to the Indenture, the Indenture Trustee and any other Person appointed as a paying agent for the Storm Recovery Bonds pursuant to the Indenture.

"Payment Date" means, with respect to any Series or Tranche of Storm Recovery Bonds, the dates specified in the applicable Series Supplement; provided, that if any such date is not a Business Day, the Payment Date shall be the Business Day succeeding such date.

"Periodic Billing Requirement" means, for any Remittance Period, the aggregate amount of Charges calculated by the Servicer as necessary to be billed during such period in order to collect the Periodic Payment Requirement on a timely basis.

"Periodic Interest" means, with respect to any Payment Date, the periodic interest for such Payment Date as specified in the Series Supplement.

"Periodic Payment Requirement" for any Remittance Period means the total dollar amount of Storm Recovery Charge Collections reasonably calculated by the Servicer in accordance with Section 4.01 of the Servicing Agreement as necessary to be received during such Remittance Period (after giving effect to the allocation and distribution of amounts on deposit in the Excess Funds Subaccount at the time of calculation and that are projected to be available for payments on the Storm Recovery Bonds at the end of such Remittance Period and including any shortfalls in Periodic Payment Requirements for any prior Remittance Period) in order to ensure that, as of the last Payment Date occurring in such Remittance Period, (a) all accrued and unpaid principal of and interest on the Storm Recovery Bonds then due shall have been paid in full on a timely basis, (b) the Outstanding Amount of the Storm Recovery Bonds is equal to the Projected Unpaid Balance on each Payment Date during such Remittance Period, (c) the balance on deposit in the Capital Subaccount equals the Required Capital Level and (d) all other fees and expenses due and owing and required or allowed to be paid under Section 8.02 of the Indenture as of such date shall have been paid in full; provided, that, with respect to any Semi-Annual True-Up Adjustment or Optional Interim True-Up Adjustment occurring after the date that is one year prior to the last Scheduled Final Payment Date for the Storm Recovery Bonds, the Periodic Payment Requirements shall be calculated to ensure that sufficient Storm Recovery Charges will be collected to retire the Storm Recovery Bonds in full as of the next Payment Date.

"Periodic Principal" means, with respect to any Payment Date, the excess, if any, of the Outstanding Amount of Storm Recovery Bonds over the outstanding principal balance specified for such Payment Date on the Expected Sinking Fund Schedule.

"Permitted Lien" means the Lien created by the Indenture.

"Permitted Successor" is defined in Section 5.02 of the Sale Agreement.

"Person" means any individual, corporation, limited liability company, estate, partnership, joint venture, association, joint stock company, trust (including any beneficiary thereof), unincorporated organization or Governmental Authority.

"Predecessor Storm Recovery Bond" means, with respect to any particular Storm Recovery Bond, every previous Storm Recovery Bond evidencing all or a portion

of the same debt as that evidenced by such particular Storm Recovery Bond, and, for the purpose of this definition, any Storm Recovery Bond authenticated and delivered under Section 2.06 of the Indenture in lieu of a mutilated, lost, destroyed or stolen Storm Recovery Bond shall be deemed to evidence the same debt as the mutilated, lost, destroyed or stolen Storm Recovery Bond.

"Premises" is defined in Section 1(g) of the Administration Agreement.

"Proceeding" means any suit in equity, action at law or other judicial or administrative proceeding.

"Projected Unpaid Balance" means, as of any Payment Date, the sum of the projected outstanding principal amount of each Tranche of Storm Recovery Bonds for such Payment Date set forth in the Expected Sinking Fund Schedule.

"Protected Purchaser" has the meaning specified in Section 8-303 of the UCC.

"Rating Agency" means, with respect to any Tranche of Storm Recovery Bonds, any of Moody's, S&P or Fitch that provides a rating with respect to the Storm Recovery Bonds. If no such organization (or successor) is any longer in existence, "Rating Agency" shall be a nationally recognized statistical rating organization or other comparable Person designated by the Issuer, notice of which designation shall be given to the Indenture Trustee and the Servicer.

"Rating Agency Condition" means, with respect to any action, at least ten Business Days' prior written notification to each Rating Agency of such action, and written confirmation from each of S&P and Moody's to the Servicer, the Indenture Trustee and the Issuer that such action will not result in a suspension, reduction or withdrawal of the then current rating by such Rating Agency of any Tranche of Storm Recovery Bonds; provided, that, if, within such ten Business Day period, any Rating Agency (other than S&P) has neither replied to such notification nor responded in a manner that indicates that such Rating Agency is reviewing and considering the notification, then (a) the Issuer shall be required to confirm that such Rating Agency has received the Rating Agency Condition request and, if it has, promptly request the related Rating Agency Condition confirmation and (b) if the Rating Agency neither replies to such notification nor responds in a manner that indicates it is reviewing and considering the notification within five Business Days following such second request, the applicable Rating Agency Condition requirement shall not be deemed to apply to such Rating Agency. For the purposes of this definition, any confirmation, request, acknowledgment or approval that is required to be in writing may be in the form of electronic mail or a press release (which may contain a general waiver of a Rating Agency's right to review or consent).

"Record Date" means one Business Day prior to the applicable Payment Date.

"Registered Holder" means the Person in whose name a Storm Recovery Bond is registered on the Storm Recovery Bond Register.

"Regulation AB" means the rules of the SEC promulgated under Subpart 229.1100 – Asset Backed Securities (Regulation AB), 17 C.F.R. §§229.1100-229.1123.

"Reimbursable Expenses" is defined in Section 2 of the Administration Agreement and Section 6.06(a) of the Servicing Agreement.

"Released Parties" is defined in Section 6.02(d) of the Servicing Agreement.

"Remittance Period" means, with respect to any True-Up Adjustment, the period comprised of 6 consecutive Collection Periods beginning with the Collection Period three months prior to when such True-Up Adjustment would go into effect, from the Series Closing Date to the first Scheduled Payment Date, and for each subsequent period between Scheduled Payment Dates.

"Required Capital Level" means, with respect to any Series of Storm Recovery Bonds, the amount specified as such in the Series Supplement therefor.

"Requirement of Law" means any foreign, U.S. federal, state or local laws, statutes, regulations, rules, codes or ordinances enacted, adopted, issued or promulgated by any Governmental Authority or common law.

"Responsible Officer" means, with respect to: (a) the Issuer, any Manager or any duly authorized officer; (b) the Indenture Trustee, any officer within the Corporate Trust Office of such trustee (including the President, any Vice President, any Assistant Vice President, any Secretary, any Assistant Treasurer or any other officer of the Indenture Trustee customarily performing functions similar to those performed by persons who at the time shall be such officers, respectively, and that has direct responsibility for the administration of the Indenture and also, with respect to a particular matter, any other officer to whom such matter is referred to because of such officer's knowledge and familiarity with the particular subject); (c) any corporation (other than the Indenture Trustee), the Chief Executive Officer, the President, any Vice President, the Chief Financial Officer, the Treasurer, any Assistant Treasurer or any other duly authorized officer of such Person who has been authorized to act in the circumstances; (d) any partnership, any general partner thereof; and (e) any other Person (other than an individual), any duly authorized officer or member of such Person, as the context may require, who is authorized to act in matters relating to such Person.

"Return on Invested Capital" means, for any Payment Date with respect to any Remittance Period, the sum of (i) rate of return, payable to Duke Energy [Carolinas/Progress], on its Capital Contribution equal to the rate of interest payable on the longest maturing Tranche of Storm Recovery Bonds plus (ii) any Return on Invested Capital not paid on any prior Payment Date.

"S&P" means Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business. References to S&P are effective so long as S&P is a Rating Agency.

"Sale Agreement" means the Storm Recovery Property Purchase and Sale Agreement, dated as of the date hereof, or any subsequent Storm Recovery Property Purchase and Sale Agreement relating to another Series of Storm Recovery Bonds by and between the Issuer and Duke Energy [Carolinas/Progress] , and acknowledged and accepted by the Indenture Trustee.

"Scheduled Final Payment Date" means, with respect to each Series of Storm Recovery Bonds, the date when all interest and principal is scheduled to be paid with respect to that applicable Series in accordance with the Expected Sinking Fund Schedule, as specified in the Series Supplement. For the avoidance of doubt, the Scheduled Final Payment Date with respect to any Series shall be the last Scheduled Payment Date set forth in the Expected Sinking Fund Schedule relating to such Series. The "last Scheduled Final Payment Date" means the Scheduled Final Payment Date of the latest maturing Tranche of a Series of Storm Recovery Bonds.

"Scheduled Payment Date" means, with respect to each Series or Tranche of Storm Recovery Bonds, each Payment Date on which principal for such Series or Tranche is to be paid in accordance with the Expected Sinking Fund Schedule for such Series or Tranche.

"SEC" means the Securities and Exchange Commission.

"Secured Obligations" means the payment of principal of and premium, if any, interest on, and any other amounts owing in respect of, the Storm Recovery Bonds and all fees, expenses, counsel fees and other amounts due and payable to the Indenture Trustee.

"Secured Parties" means the Indenture Trustee, the Holders and any credit enhancer described in a Series Supplement.

"Securities Act" means the Securities Act of 1933.

"Securities Intermediary" means [ ], a national banking association, solely in the capacity of a "securities intermediary" as defined in the NY UCC and Federal Book-Entry Regulations or any successor securities intermediary under the Indenture.

"Seller" is defined in the preamble to the Sale Agreement.

"Semi-Annual Servicer's Certificate" is defined in Section 4.01(c)(ii) of the Servicing Agreement.

"Semi-Annual True-Up Adjustment" means each adjustment to the Storm Recovery Charges made in accordance with Section 4.01(b)(i) of the Servicing Agreement.

"Semi-Annual True-Up Adjustment Date" means the first billing cycle of [January and July] of each year, commencing in [ ], 2021.

"Series" means any series of Storm Recovery Bonds.

"Series A Storm Recovery Bonds" means the Series A Senior Secured Storm Recovery Bonds issued by the Issuer on [ ].

"Series Charges" means Charges for the benefit of a particular Series of Storm Recovery Bonds.

"Series Closing Date" means the date on which a Series of the Storm Recovery Bonds are originally issued in accordance with Section 2.10 of the Indenture and the respective Series Supplement.

"Series Collateral" means Collateral for the benefit of a particular Series of Storm Recovery Bonds.

"Series Property" means Property for the benefit of a particular Series of Storm Recovery Bonds.

"Series Supplement" means an indenture supplemental to the Indenture in the form attached as Exhibit B to the Indenture that authorizes the issuance of Storm Recovery Bonds.

"Servicer" means Duke Energy [Carolinas/Progress], as Servicer under the Servicing Agreement.

"Servicer Business Day" means any day other than a Saturday, a Sunday or a day on which banking institutions in St. Petersburg, Florida, Charlotte, North Carolina or New York, New York are authorized or obligated by law, regulation or executive order to be closed, on which the Servicer maintains normal office hours and conducts business.

"Servicer Default" is defined in Section 7.01 of the Servicing Agreement.

"Servicer Policies and Practices" means, with respect to the Servicer's duties under Exhibit A to the Servicing Agreement, the policies and practices of the Servicer applicable to such duties that the Servicer follows with respect to comparable assets that it services for itself and, if applicable, others.

"Servicing Agreement" means the Storm Recovery Property Servicing Agreement, dated as of the date hereof, or any subsequent Storm Recovery Property Servicing Agreement relating to another Series of Storm Recovery Bonds by and between the Issuer and Duke Energy [Carolinas/Progress], and acknowledged and accepted by the Indenture Trustee.

"Servicing Fee" is defined in Section 6.06(a) of the Servicing Agreement.

"Servicing Standard" means the obligation of the Servicer to calculate, apply, remit and reconcile proceeds of the Property, including Storm Recovery Charge Payments, and all other Collateral for the benefit of the Issuer and the Holders (a) with the same degree of care and diligence as the Servicer applies with respect to payments owed to it for its own account, (b) in accordance with all applicable procedures and requirements established by the Commission for collection of electric utility tariffs and (c) in accordance with the other terms of the Servicing Agreement.

"Special Payment Date" means the date on which, with respect to any Series or Tranche of Storm Recovery Bonds, any payment of principal of or interest (including any interest accruing upon default) on, or any other amount in respect of, the Storm Recovery Bonds of such Series or Tranche that is not actually paid within five days of the Payment Date applicable thereto is to be made by the Indenture Trustee to the Holders.

"Special Record Date" means, with respect to any Special Payment Date, the close of business on the fifteenth day (whether or not a Business Day) preceding such Special Payment Date.

"Sponsor" means Duke Energy [Carolinas/Progress], in its capacity as "sponsor" of the Storm Recovery Bonds within the meaning of Regulation AB.

"SRB Indenture" means the indenture, as from time to time supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof, as so supplemented or amended or both, and shall include the forms and terms of the SRB Notes established hereunder.

"SRB Issuer" means the issuer of the SRB Notes.

"SRB Noteholder" means any holders of the SRB Notes.

"SRB Notes" means the notes issued by the SRB Issuer pursuant to the SRB Indenture.

"SRB Securities Intermediary" means [ ], solely in its capacity as a "securities intermediary" as defined in Section 8-102(a)(14) of the UCC, or any successor securities intermediary.

"SRB Trustee" means [ ], as SRB Trustee under the SRB Indenture, and its successors in interest, and any successor SRB Trustee appointed as provided herein. "State" means any one of the fifty states of the United States of America or the District of Columbia.

"State Pledge" means the pledge of the State of North Carolina as set forth in Section 62-172(k) of the Storm Recovery Law.

"Storms" means Hurricanes Florence[,Dorian] and Michael and Winter Storm Diego.

"Storm Recovery Bond Register" is defined in Section 2.05 of the Indenture.

"Storm Recovery Bond Registrar" is defined in Section 2.05 of the Indenture.

"Storm Recovery Bonds" means all Series of the Storm recovery bonds issued under the Indenture.

"Storm Recovery Charge Collections" means Charges actually received by the Servicer to be remitted to the Collection Account.

"Storm Recovery Charge Payments" means the payments made by Customers based on the Charges.

"Storm Recovery Costs" means (i) Duke Energy [Carolinas'/Progress's] deferred asset balance associated with the Storms, including a return on the unrecovered balance, and with respect to the capital investments, including a deferral of depreciation expense and a return on the investment determined by the Commission to be prudently incurred in Docket No. [E-7, Sub 1214/E-2, Sub 1219] including carrying costs in the amount of X through the projected issuances date of the [Series A] Storm Recovery Bonds, calculated at the Company's approved weighted average cost of capital, (ii) plus up-front Financing Costs "Storm Recovery Law" means the laws of the State of North Carolina adopted in 2019 enacted as Section 62-172, North Carolina Statutes.

"Storm Recovery Property" means all storm recovery property as defined in Section 62-172(a)(15)a. of the Storm Recovery Law created pursuant to the Financing Order or a Subsequent Financing Order and under the Storm Recovery Law, including the right to impose, bill, charge, collect and receive the Charges authorized under the Financing Order and to obtain periodic adjustments of the Charges and all revenue, collections, claims, rights to payments, payments, money, or proceeds arising from the rights and interests specified in Section 62-172(a)(15)b., regardless of whether such revenues, collections, claims, rights to 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.

"Storm Recovery Property Records" is defined in Section 5.01 of the Servicing Agreement.

"Storm Recovery Rate Class" means one of the [five] separate rate classes to whom Charges are allocated for ratemaking purposes in accordance with the Financing Order.

"Storm Recovery Rate Schedule" means the Tariff sheets to be filed with the Commission stating the amounts of the Charges, as such Tariff sheets may be amended or modified from time to time pursuant to a True-Up Adjustment.

"Subaccounts" is defined in Section 8.02(a) of the Indenture.

"Subsequent Financing Order" means, a financing order of the Commission under the Storm Recovery Law issued to Duke Energy [Carolinas/Progress] subsequent to the Financing Order.

"Successor" means any successor to Duke Energy [Carolinas/Progress] under the Storm Recovery Law, whether pursuant to any bankruptcy, reorganization or other insolvency proceeding or pursuant to any merger, conversion, acquisition, sale or transfer, by operation of law, as a result of electric utility restructuring, or otherwise.

"Successor Servicer" is defined in Section 3.07(e) of the Indenture.

"Tariff" means the most current version on file with the Commission of [ ], 2021.

"Tax Returns" is defined in Section 1(a)(iii) of the Administration Agreement.

"Temporary Storm Recovery Bonds" means Storm Recovery Bonds executed and, upon the receipt of an Issuer Order, authenticated and delivered by the Indenture Trustee pending the preparation of Definitive Storm Recovery Bonds pursuant to Section 2.04 of the Indenture.

"Termination Notice" is defined in Section 7.01 of the Servicing Agreement.

"TPS" means a third party supplier which is authorized by law to sell electric service to a customer using the transmission or distribution system of Duke Energy [Carolinas/Progress].

"Tranche Maturity Date" means, with respect to any Tranche of Storm Recovery Bonds, the maturity date therefor, as specified in the Series Supplement therefor.

"True-Up Adjustment" means any Semi-Annual True-Up Adjustment or Optional Interim True-Up Adjustment, as the case may be.

"Trust Indenture Act" means the Trust Indenture Act of 1939 as in force on the Series Closing Date, unless otherwise specifically provided.

"UCC" means the Uniform Commercial Code as in effect in the relevant jurisdiction.

"Underwriters" means the underwriters who purchase Storm Recovery Bonds of any Series from the Issuer and sell such Storm Recovery Bonds in a public offering.

"Underwriting Agreement" means the Underwriting Agreement, dated [ ], 2020, by and among Duke Energy [Carolinas/Progress], the representatives of the several Underwriters named therein and the Issuer.

"U.S. Government Obligations" means direct obligations (or certificates representing an ownership interest in such obligations) of the United States of America (including any agency or instrumentality thereof) for the payment of which the full faith and credit of the United States of America is pledged and that are not callable at the option of the issuer thereof.

"Weighted Average Days Outstanding" means the weighted average number of days Duke Energy [Carolinas/Progress] monthly bills to Customers remain outstanding during the calendar year preceding the calculation thereof pursuant to Section 4.01(b)(i) of the Servicing Agreement.

B. Rules of Construction. Unless the context otherwise requires, in each Basic Document to which this Appendix A is attached:

(a) All accounting terms not specifically defined herein shall be construed in accordance with United States generally accepted accounting principles. To the extent that the definitions of accounting terms in any Basic Document are inconsistent with the meanings of such terms under generally accepted accounting principles or regulatory accounting principles, the definitions contained in such Basic Document shall control.

(b) The term "including" means "including without limitation", and other forms of the verb "include" have correlative meanings.

(c) All references to any Person shall include such Person's permitted successors and assigns, and any reference to a Person in a particular capacity excludes such Person in other capacities.

(d) Unless otherwise stated in any of the Basic Documents, in the computation of a period of time from a specified date to a later specified date, the word "from" means "from and including" and each of the words "to" and "until" means "to but excluding".

(e) The words "hereof", "herein" and "hereunder" and words of similar import when used in any Basic Document shall refer to such Basic Document as a whole and not to any particular provision of such Basic Document. References to Articles, Sections, Appendices and Exhibits in any Basic Document are references to Articles, Sections, Appendices and Exhibits in or to such Basic Document unless otherwise specified in such Basic Document.

(f) The various captions (including the tables of contents) in each Basic Document are provided solely for convenience of reference and shall not affect the meaning or interpretation of any Basic Document.

(g) The definitions contained in this Appendix A apply equally to the singular and plural forms of such terms, and words of the masculine, feminine or neuter gender shall mean and include the correlative words of other genders.

(h) Unless otherwise specified, references to an agreement or other document include references to such agreement or document as from time to time amended, restated, reformed, supplemented or otherwise modified in accordance with the terms thereof (subject to any restrictions on such amendments, restatements, reformations, supplements or modifications set forth in such agreement or document) and include any attachments thereto.

(i) References to any law, rule, regulation or order of a Governmental Authority shall include such law, rule, regulation or order as from time to time in effect, including any amendment, modification, codification, replacement or reenactment thereof or any substitution therefor.

(j) The word “will” shall be construed to have the same meaning and effect as the word “shall”.

(k) The word “or” is not exclusive.

(l) All terms defined in the relevant Basic Document to which this Appendix A is attached shall have the defined meanings when used in any certificate or other document made or delivered pursuant thereto unless otherwise defined therein.

(m) A term has the meaning assigned to it.

INDENTURE

by and between

[DUKE ENERGY [CAROLINAS/PROGRESS] STORM RECOVERY FUNDING], LLC,

Issuer

and

[ ], NATIONAL ASSOCIATION,

Indenture Trustee and Securities Intermediary

Dated as of [ ], 2021

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APPENDIX

Appendix A Definitions and Rules of Construction

TRUST INDENTURE ACT CROSS REFERENCE TABLE

TRUST INDENTURE ACT SECTION		INDENTURE SECTION
310	(a)(1)	6.11
	(a)(2)	6.11
	(a)(3)	6.10(b)(i)
	(a)(4)	Not applicable
	(a)(5)	6.11
	(b)	6.11
311	(a)	6.12
	(b)	6.12
312	(a)	7.01 and 7.02
	(b)	7.02(b)
	(c)	7.02(c)
313	(a)	7.04
	(b)(1)	7.04
	(b)(2)	7.04
	(c)	7.03(a) and 7.04
	(d)	Not applicable
314	(a)	3.09, 4.01 and 7.03(a)
	(b)	3.06 and 4.01
	(c)(1)	2.10, 4.01, 8.04(b) and 10.01(a)
	(c)(2)	2.10, 4.01, 8.04(b) and 10.01(a)
	(c)(3)	2.10, 4.01, 4.02 and 10.01(a)
	(d)	2.10, 8.04(b) and 10.01
	(e)	10.01(a)
	(f)	10.01(a)
315	(a)	6.01(b)(i) and 6.01(b)(ii)

TRUST INDENTURE ACT SECTION		INDENTURE SECTION
	(b)	6.05
	(c)	6.01(a)
	(d)	6.01(c)(i), 6.01(c)(ii) and SECTION 6.01(c)(iii)
	(e)	5.13
316	(a) (last sentence)	Appendix A – definition of "Outstanding"
	(a)(1)(A)	5.11
	(a)(1)(B)	5.12
	(a)(2)	Not applicable
	(b)	5.07
	(c)	Appendix A – definition of "Record Date"
317	(a)(1)	5.03(a)
	(a)(2)	5.03(c)(iv)
	(b)	3.03
318	(a)	10.06
	(b)	10.06
	(c)	10.06

THIS CROSS REFERENCE TABLE SHALL NOT, FOR ANY PURPOSE, BE DEEMED TO BE PART OF THIS INDENTURE.

This INDENTURE, dated as of [ ], 2021, is by and between [DUKE ENERGY [CAROLINAS/PROGRESS] STORM RECOVERY FUNDING], LLC, a Delaware limited liability company, and [ ], in its capacity as trustee for the benefit of the Secured Parties and in its separate capacity as a securities intermediary.

In consideration of the mutual agreements herein contained, each party hereto agrees as follows for the benefit of the other party hereto and each of the Holders:

RECITALS OF THE ISSUER

The Issuer has duly authorized the execution and delivery of this Indenture and the creation and issuance of one or more Series of Storm Recovery Bonds issuable hereunder, which will be of substantially the tenor set forth in a Series Supplement for each Series. Each such Series of Storm Recovery Bonds will be issued only under a separate Series Supplement to this Indenture duly executed and delivered by the Issuer and the Indenture Trustee.

Each Series of Storm Recovery Bonds shall be non-recourse obligations and shall be secured by and payable solely out of the proceeds of the Series Property and the other Series Collateral as provided herein. If and to the extent that such proceeds of the Series Property and the other Series Collateral are insufficient to pay all amounts owing with respect to a Series of Storm Recovery Bonds, then, except as otherwise expressly provided hereunder, the Holders shall have no Claim in respect of such insufficiency against the Issuer or the Indenture Trustee, and the Holders, by their acceptance of the Storm Recovery Bonds, waive any such Claim.

All things necessary to (a) make the Storm Recovery Bonds, when executed by the Issuer and authenticated and delivered by the Indenture Trustee hereunder and duly issued by the Issuer, valid obligations, and (b) make this Indenture a valid agreement of the Issuer, in each case, in accordance with their respective terms, have been done.

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

That the Issuer, in consideration of the premises herein contained and of the purchase of Storm Recovery Bonds by the Holders and of other good and lawful consideration, the receipt and sufficiency of which are hereby acknowledged, and to secure, equally and ratably without prejudice, priority or distinction, except as specifically otherwise set forth in this Indenture, the payment of the Storm Recovery Bonds, the payment of all other amounts due under or in connection with this Indenture (including all fees, expenses, counsel fees, other amounts due and owing to the Indenture Trustee and the SRB Trustee) and the performance and observance of all of the covenants and conditions contained herein or in the Storm Recovery Bonds, has hereby executed and delivered this Indenture and by these presents does hereby and by one or more Series Supplements will convey, grant, assign, transfer and pledge, in each case, in and unto the Indenture Trustee, its successors and assigns forever, for the benefit of the Secured Parties of the related Series, all and singular the property described in one or more Series Supplements (such property with respect to a particular Series herein referred to as "Series Collateral" and all such property, collectively, hereinafter referred to as the "Collateral"). Each Series Supplement will more particularly describe the obligations of the Issuer secured by the applicable Series Collateral.

AND IT IS HEREBY COVENANTED, DECLARED AND AGREED between the parties hereto that all Storm Recovery Bonds are to be issued, countersigned and delivered and that all of the Collateral is to be held and applied, subject to the further covenants, conditions, releases, uses and trusts hereinafter set forth, and the Issuer, for itself and any successor, does hereby covenant and agree to and with the Indenture Trustee and its successors in said trust, for the benefit of the Secured Parties, as follows:

ARTICLE I

DEFINITIONS AND RULES OF CONSTRUCTION; INCORPORATION BY REFERENCE

SECTION 1.01. Definitions and Rules of Construction. Capitalized terms used but not otherwise defined in this Indenture shall have the respective meanings given to such terms in Appendix A, which is hereby incorporated by reference into this Indenture as if set forth fully in this Indenture. Not all terms defined in Appendix A are used in this Indenture. The rules of construction set forth in Appendix A shall apply to this Indenture and are hereby incorporated by reference into this Indenture as if set forth fully in this Indenture.

SECTION 1.02. Incorporation by Reference of Trust Indenture Act. Whenever this Indenture refers to a provision of the Trust Indenture Act, that provision is incorporated by reference in and made a part of this Indenture. The following Trust Indenture Act terms used in this Indenture have the following meanings:

"indenture securities" means the Storm Recovery Bonds.

"indenture security holder" means a Holder.

"indenture to be qualified" means this Indenture.

"indenture trustee" or "institutional trustee" means the Indenture Trustee.

"obligor" on the indenture securities means the Issuer and any other obligor on the indenture securities.

All other Trust Indenture Act terms used in this Indenture that are defined by the Trust Indenture Act, defined by Trust Indenture Act reference to another statute or defined by SEC rule have the meanings assigned to them by such definitions.

ARTICLE II

THE STORM RECOVERY BONDS

SECTION 2.01. Form. The Storm Recovery Bonds and the Indenture Trustee's certificate of authentication shall be in substantially the forms set forth in Exhibit A, with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Indenture or by the related Series Supplement and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may,

consistently herewith, be determined by the officers executing the Storm Recovery Bonds, as evidenced by their execution of the Storm Recovery Bonds.

The Storm Recovery Bonds shall be typewritten, printed, lithographed or engraved or produced by any combination of these methods (with or without steel engraved borders), all as determined by the officers executing the Storm Recovery Bonds, as evidenced by their execution of the Storm Recovery Bonds.

Each Storm Recovery Bond shall be dated the date of its authentication.

SECTION 2.02. Denominations: Storm Recovery Bonds Issuable in Series. The Storm Recovery Bonds of each Series shall be issuable in the Authorized Denominations specified in the applicable Series Supplement.

The Storm Recovery Bonds shall, at the election of and as authorized by a Responsible Officer of the Issuer, and set forth in a Series Supplement, be issued in one or more Series (each of which may be comprised of one or more tranches[1]), and shall be designated generally as the "Series { } Senior Secured Storm Recovery Bonds" of the Issuer, with such further particular designations added or incorporated in such title for the Storm Recovery Bonds of any particular Series or tranche as a Responsible Officer of the Issuer may determine. Each Series of Storm Recovery Bond shall bear the designation so selected for the Series or tranche to which it belongs. All Storm Recovery Bonds of a Series shall be identical in all respects except for the denominations thereof, the Holder thereof, the numbering thereon and the legends thereon, unless such Series of Storm Recovery Bonds are comprised of one or more tranches, in which case all of such Series of Storm Recovery Bonds of the same tranche shall be identical in all respects except for the denominations thereof, the Holder thereof, the numbering thereon, the legends thereon and the CUSIP number thereon. All Storm Recovery Bonds of a Series and of a particular tranche shall be in all respects equally and ratably entitled to the benefits hereof without preference, priority or distinction on account of the actual time or times of authentication and delivery, all in accordance with the terms and provisions of this Indenture.

Each Series of Storm Recovery Bonds shall be created by the Series Supplement authorized by a Responsible Officer of the Issuer, which Series Supplement shall specify and establish the terms and provisions of such Series, including the following (which terms and provisions may differ as between tranches):

(a) designation of the Series and, if applicable, the tranches thereof;

(b) the principal amount of the Series (and, if more than one tranche is issued, the respective principal amounts of such tranches);

(c) the Bond Interest Rate of the Series and, if applicable, each tranche thereof or the formula, if any, used to calculate Bond Interest Rate or Bond Interest Rates for the Series and, if applicable, each tranche thereof;

(d) the Payment Dates for the Series and, if applicable, each tranche thereof;

(e) the Scheduled Payment Dates for the Series, and if applicable, for each tranche thereof;

(f) the Scheduled Final Payment Date(s) of the Series, and if applicable, for each tranche thereof;

(g) the Final Maturity Date(s) of the Series, and if applicable, for each tranche thereof;

(h) the issuance date for the Series;

(i) the Authorized Denominations for the Series;

(j) the Expected Sinking Fund Schedule(s) for the Series;

(k) the place or places for the payment of interest, principal and premium, if any;

(l) any additional Secured Parties;

(m) the identity of the Indenture Trustee;

(n) the Storm Recovery Charges for the Series and the Series Collateral;

(o) whether or not the Storm Recovery Bonds are to be Book-Entry Storm Recovery Bonds and the extent to which Section 2.11 should apply; and

(p) any other terms of the Series of Storm Recovery Bonds (or tranches thereof) that are not inconsistent with the provisions of this Indenture and as to which the Rating Agency Condition is satisfied.

SECTION 2.03. Execution, Authentication and Delivery. The Storm Recovery Bonds shall be executed on behalf of the Issuer by any of its Responsible Officers. The signature of any such Responsible Officer on the Storm Recovery Bonds may be manual or facsimile.

Storm Recovery Bonds bearing the manual or facsimile signature of individuals who were at any time Responsible Officers of the Issuer shall bind the Issuer, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of the Storm Recovery Bonds or did not hold such offices at the date of the Storm Recovery Bonds.

At any time and from time to time after the execution and delivery of this Indenture, the Issuer may deliver Storm Recovery Bonds executed by the Issuer to the Indenture Trustee pursuant to an Issuer Order for authentication; and the Indenture Trustee shall authenticate and deliver the Storm Recovery Bonds as in this Indenture provided and not otherwise.

No Storm Recovery Bond shall be entitled to any benefit under this Indenture or related Series Supplement or be valid or obligatory for any purpose, unless there appears on such Storm Recovery Bond a certificate of authentication substantially in the form provided for therein executed by the Indenture Trustee by the manual signature of one of its authorized signatories, and such certificate upon any Storm Recovery Bond shall be conclusive evidence, and the only evidence, that such Storm Recovery Bond has been duly authenticated and delivered hereunder.

SECTION 2.04. Temporary Storm Recovery Bonds. Pending the preparation of Definitive Storm Recovery Bonds pursuant to Section 2.13, the Issuer may execute, and upon receipt of an Issuer Order the Indenture Trustee shall authenticate and deliver, Temporary Storm Recovery Bonds that are printed, lithographed, typewritten, mimeographed or otherwise produced, of the tenor of the Definitive Storm Recovery Bonds in lieu of which they are issued and with such variations not inconsistent with the terms of this Indenture and the related Series Supplement as the officers executing the Storm Recovery Bonds may determine, as evidenced by their execution of the Storm Recovery Bonds.

If Temporary Storm Recovery Bonds are issued, the Issuer will cause Definitive Storm Recovery Bonds to be prepared without unreasonable delay. After the preparation of Definitive Storm Recovery Bonds, the Temporary Storm Recovery Bonds shall be exchangeable for Definitive Storm Recovery Bonds upon surrender of the Temporary Storm Recovery Bonds at the office or agency of the Issuer to be maintained as provided in Section 3.02, without charge to the Holder. Upon surrender for cancellation of any one or more Temporary Storm Recovery Bonds, the Issuer shall execute and the Indenture Trustee shall authenticate and deliver in exchange therefor a like principal amount of Definitive Storm Recovery Bonds of authorized denominations. Until so delivered in exchange, the Temporary Storm Recovery Bonds shall in all respects be entitled to the same benefits under this Indenture as Definitive Storm Recovery Bonds.

SECTION 2.05. Registration; Registration of Transfer and Exchange of Storm Recovery Bonds. The Issuer shall cause to be kept a register (the "Storm Recovery Bond Register") in which, subject to such reasonable regulations as it may prescribe, the Issuer shall provide for the registration of Storm Recovery Bonds and the registration of transfers of Storm Recovery Bonds. The Indenture Trustee shall be "Storm Recovery Bond Registrar" for the purpose of registering the Storm Recovery Bonds and transfers of Storm Recovery Bonds as herein provided. Upon any resignation of any Storm Recovery Bond Registrar, the Issuer shall promptly appoint a successor or, if it elects not to make such an appointment, assume the duties of Storm Recovery Bond Registrar.

If a Person other than the Indenture Trustee is appointed by the Issuer as Storm Recovery Bond Registrar, the Issuer will give the Indenture Trustee prompt written notice of the appointment of such Storm Recovery Bond Registrar and of the location, and any change in the location, of the Storm Recovery Bond Register, and the Indenture Trustee shall have the right to inspect the Storm Recovery Bond Register at all reasonable times and to obtain copies thereof, and the Indenture Trustee shall have the right to rely conclusively upon a certificate executed on behalf of the Storm Recovery Bond Registrar by a Responsible Officer thereof as to the names

and addresses of the Holders and the principal amounts and number of the Storm Recovery Bonds (separately stated by Series, and if applicable by tranche).

Upon surrender for registration of transfer of any Storm Recovery Bond at the office or agency of the Issuer to be maintained as provided in Section 3.02, provided that the requirements of Section 8-401 of the UCC are met, the Issuer shall execute, and the Indenture Trustee shall authenticate and the Holder shall obtain from the Indenture Trustee, in the name of the designated transferee or transferees, one or more new Storm Recovery Bonds in any Authorized Denominations, of the same Series (and, if applicable, tranche) and aggregate principal amount.

At the option of the Holder, Storm Recovery Bonds may be exchanged for other Storm Recovery Bonds in any Authorized Denominations, of the same Series (and, if applicable, tranche) and aggregate principal amount, upon surrender of the Storm Recovery Bonds to be exchanged at such office or agency as provided in Section 3.02. Whenever any Storm Recovery Bonds are so surrendered for exchange, the Issuer shall, provided that the requirements of Section 8-401 of the UCC are met, execute, and, upon any such execution, the Indenture Trustee shall authenticate and the Holder shall obtain from the Indenture Trustee, the Storm Recovery Bonds that the Holder making the exchange is entitled to receive.

All Storm Recovery Bonds issued upon any registration of transfer or exchange of other Storm Recovery Bonds shall be the valid obligations of the Issuer, evidencing the same debt, and entitled to the same benefits under this Indenture, as the Storm Recovery Bonds surrendered upon such registration of transfer or exchange.

Every Storm Recovery Bond presented or surrendered for registration of transfer or exchange shall be duly endorsed by, or be accompanied by: (a) a written instrument of transfer in form satisfactory to the Indenture Trustee duly executed by the Holder thereof or such Holder's attorney duly authorized in writing, with such signature guaranteed by an institution that is a member of: (i) The Securities Transfer Agent Medallion Program (STAMP); (ii) The New York Stock Exchange Medallion Program (MSP); (iii) The Stock Exchange Medallion Program (SEMP); or (iv) such other signature guaranty program acceptable to the Indenture Trustee; and (b) such other documents as the Indenture Trustee may require.

No service charge shall be made to a Holder for any registration of transfer or exchange of Storm Recovery Bonds, but the Issuer or the Indenture Trustee may require payment of a sum sufficient to cover any tax or other governmental charge or any fees or expenses of the Indenture Trustee that may be imposed in connection with any registration of transfer or exchange of Storm Recovery Bonds, other than exchanges pursuant to Section 2.04 or Section 2.06 not involving any transfer.

The preceding provisions of this Section 2.05 notwithstanding, the Issuer shall not be required to make, and the Storm Recovery Bond Registrar need not register, transfers or exchanges of any Storm Recovery Bond that has been submitted within 15 days preceding the due date for any payment with respect to such Storm Recovery Bond until after such due date has occurred.

SECTION 2.06. Mutilated, Destroyed, Lost or Stolen Storm Recovery Bonds. If (a) any mutilated Storm Recovery Bond is surrendered to the Indenture Trustee or the Indenture Trustee receives evidence to its satisfaction of the destruction, loss or theft of any Storm Recovery Bond and (b) there is delivered to the Indenture Trustee such security or indemnity as may be required by it to hold the Issuer and the Indenture Trustee harmless, then, in the absence of notice to the Issuer, the Storm Recovery Bond Registrar or the Indenture Trustee that such Storm Recovery Bond has been acquired by a Protected Purchaser, the Issuer shall, provided that the requirements of Section 8-401 of the UCC are met, execute, and, upon the Issuer's written request, the Indenture Trustee shall authenticate and deliver, in exchange for or in lieu of any such mutilated, destroyed, lost or stolen Storm Recovery Bond, a replacement Storm Recovery Bond of like Series, tranche and principal amount, bearing a number not contemporaneously outstanding; provided, however, that, if any such destroyed, lost or stolen Storm Recovery Bond, but not a mutilated Storm Recovery Bond, shall have become or within seven days shall be due and payable, instead of issuing a replacement Storm Recovery Bond, the Issuer may pay such destroyed, lost or stolen Storm Recovery Bond when so due or payable without surrender thereof. If, after the delivery of such replacement Storm Recovery Bond or payment of a destroyed, lost or stolen Storm Recovery Bond pursuant to the proviso to the preceding sentence, a Protected Purchaser of the original Storm Recovery Bond in lieu of which such replacement Storm Recovery Bond was issued presents for payment such original Storm Recovery Bond, the Issuer and the Indenture Trustee shall be entitled to recover such replacement Storm Recovery Bond (or such payment) from the Person to whom it was delivered or any Person taking such replacement Storm Recovery Bond from such Person to whom such replacement Storm Recovery Bond was delivered or any assignee of such Person, except a Protected Purchaser, and shall be entitled to recover upon the security or indemnity provided therefor to the extent of any loss, damage, cost or expense incurred by the Issuer or the Indenture Trustee in connection therewith.

Upon the issuance of any replacement Storm Recovery Bond under this Section 2.06, the Issuer and/or the Indenture Trustee may require the payment by the Holder of such Storm Recovery Bond of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other reasonable expenses (including the fees and expenses of the Indenture Trustee and the Storm Recovery Bond Registrar) in connection therewith.

Every replacement Storm Recovery Bond issued pursuant to this Section 2.06 in replacement of any mutilated, destroyed, lost or stolen Storm Recovery Bond shall constitute an original additional contractual obligation of the Issuer, whether or not the mutilated, destroyed, lost or stolen Storm Recovery Bond shall be found at any time or enforced by any Person, and shall be entitled to all the benefits of this Indenture equally and proportionately with any and all other Storm Recovery Bonds duly issued hereunder.

The provisions of this Section 2.06 are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Storm Recovery Bonds.

SECTION 2.07. Persons Deemed Owner. Prior to due presentment for registration of transfer of any Storm Recovery Bond, the Issuer, the Indenture Trustee, the Storm

Recovery Bond Registrar and any agent of the Issuer or the Indenture Trustee may treat the Person in whose name any Storm Recovery Bond is registered (as of the day of determination) as the owner of such Storm Recovery Bond for the purpose of receiving payments of principal of and premium, if any, and interest on such Storm Recovery Bond and for all other purposes whatsoever, whether or not such Storm Recovery Bond be overdue, and none of the Issuer, the Indenture Trustee or any agent of the Issuer or the Indenture Trustee shall be affected by notice to the contrary.

SECTION 2.08. Payment of Principal, Premium, if any, and Interest; Interest on Overdue Principal; Principal, Premium, if any, and Interest Rights Preserved.

(a) The Storm Recovery Bonds shall accrue interest as provided in applicable Series Supplement at the applicable Bond Interest Rate, and such interest shall be payable on each applicable Payment Date. Any installment of interest, principal or premium, if any, payable on any Storm Recovery Bond that is punctually paid or duly provided for on the applicable Payment Date shall be paid to the Person in whose name such Storm Recovery Bond (or one or more Predecessor Storm Recovery Bonds) is registered on the Record Date for the applicable Payment Date by check mailed first-class, postage prepaid, to the Person whose name appears as the Registered Holder (or by wire transfer to an account maintained by such Holder) in accordance with payment instructions delivered to the Indenture Trustee by such Holder, and, with respect to Book-Entry Storm Recovery Bonds, payments will be made by wire transfer in immediately available funds to the account designated by the Holder of the applicable Global Storm Recovery Bond unless and until such Global Storm Recovery Bond is exchanged for Definitive Storm Recovery Bonds (in which event payments shall be made as provided above) and except for the final installment of principal and premium, if any, payable with respect to such Storm Recovery Bond on a Payment Date, which shall be payable as provided below.

(b) The principal of each Storm Recovery Bond of each Series (and, if applicable, tranche) shall be paid, to the extent funds are available therefor in the Collection Account for such Series, in installments on each Payment Date specified in the applicable Series Supplement; provided, that installments of principal not paid when scheduled to be paid in accordance with the Expected Sinking Fund Schedule shall be paid upon receipt of money available for such purpose, in the order set forth in the Expected Sinking Fund Schedule. Failure to pay principal in accordance with such Expected Sinking Fund Schedule because moneys are not available pursuant to Section 8.02 to make such payments shall not constitute a Default or Event of Default under this Indenture; provided, however, that failure to pay the entire unpaid principal amount of the Storm Recovery Bonds of a Series or tranche upon the Final Maturity Date for the Storm Recovery Bonds of such Series or tranche shall constitute an Event of Default under this Indenture as set forth in Section 5.01. Notwithstanding the foregoing, the entire unpaid principal amount of the Storm Recovery Bonds of any Series shall be due and payable, if not previously paid, on the date on which an Event of Default shall have occurred and be continuing, if the Indenture Trustee or the Holders of any Series of Storm Recovery Bonds representing a majority of the Outstanding Amount of the related Series of Storm Recovery Bonds have declared such Storm Recovery Bonds to be immediately due and payable in the manner provided in Section 5.02. All payments of principal and premium, if any, on such Storm Recovery Bonds shall be made pro rata to the Holders entitled thereto unless otherwise provided in the applicable Series Supplement. The Indenture Trustee shall notify the Person in whose

name a Storm Recovery Bond is registered at the close of business on the Record Date preceding the Payment Date on which the Issuer expects that the final installment of principal of and premium, if any, and interest on such Storm Recovery Bond will be paid. Such notice shall be mailed no later than five days prior to such final Payment Date and shall specify that such final installment will be payable only upon presentation and surrender of such Storm Recovery Bond and shall specify the place where such Storm Recovery Bond may be presented and surrendered for payment of such installment.

(c) If interest on the Storm Recovery Bonds of any Series is not paid when due, such defaulted interest shall be paid (plus interest on such defaulted interest at the applicable Bond Interest Rate to the extent lawful) to the Persons who are Holders on a subsequent Special Record Date, which date shall be at least 15 Business Days prior to the Special Payment Date. The Issuer shall fix or cause to be fixed any such Special Record Date and Special Payment Date, and, at least ten days before any such Special Record Date, the Issuer shall mail to each affected Holder a notice that states the Special Record Date, the Special Payment Date and the amount of defaulted interest (plus interest on such defaulted interest) to be paid.

SECTION 2.09. Cancellation. All Storm Recovery Bonds surrendered for payment, registration of transfer or exchange shall, if surrendered to any Person other than the Indenture Trustee, be delivered to the Indenture Trustee and shall be promptly canceled by the Indenture Trustee. The Issuer may at any time deliver to the Indenture Trustee for cancellation any Storm Recovery Bonds previously authenticated and delivered hereunder that the Issuer may have acquired in any manner whatsoever, and all Storm Recovery Bonds so delivered shall be promptly canceled by the Indenture Trustee. No Storm Recovery Bonds shall be authenticated in lieu of or in exchange for any Storm Recovery Bonds canceled as provided in this Section 2.09, except as expressly permitted by this Indenture. All canceled Storm Recovery Bonds may be held or disposed of by the Indenture Trustee in accordance with its standard retention or disposal policy as in effect at the time.

SECTION 2.10. Outstanding Amount; Authentication and Delivery of Storm Recovery Bonds. The aggregate Outstanding Amount of Storm Recovery Bonds that may be authenticated and delivered under this Indenture shall not exceed the aggregate of the amount of Storm Recovery Bonds that are authorized in the Financing Order, together with any Subsequent Financing Order, if any, but otherwise shall be unlimited.

Storm Recovery Bonds of a new Series may at any time be executed by the Issuer and delivered to the Indenture Trustee for authentication and thereupon the same shall be authenticated and delivered by the Indenture Trustee upon Issuer Request and upon delivery by the Issuer to the Indenture Trustee of the following (and if applicable, subject further to the requirements of Section 3.21):

(a) Issuer Action. An Issuer Order authorizing and directing the authentication and delivery of the Storm Recovery Bonds by the Indenture Trustee and specifying the principal amount of Storm Recovery Bonds to be authenticated.

(b) Authorizations. Copies of (i) the Financing Order or Subsequent Financing Order, as applicable, which shall be in full force and effect and be Final, (ii) certified

resolutions of the Managers or Member of the Issuer authorizing the execution and delivery of the Series Supplement and the execution, authentication and delivery of the Series of Storm Recovery Bonds and (iii) a Series Supplement duly executed by the Issuer.

(c) Opinions. An opinion or opinions, portions of which may be delivered by one or more counsel for the Issuer, portions of which may be delivered by one or more counsel for the Servicer, and portions of which may be delivered by one or more counsel for the Seller, dated the Series Closing Date and portions of which may be delivered by counsel to the SRB Issuer, in each case subject to the customary exceptions, qualifications and assumptions contained therein, to the collective effect (and upon which SRB Trustee shall be entitled to rely), that (i) all conditions precedent provided for in this Indenture relating to (A) the authentication and delivery of the Issuer's Series of Storm Recovery Bonds and (B) the execution of the related Series Supplement to this Indenture dated the Series Closing Date have been complied with, (ii) the execution of the Series Supplement to this Indenture dated the Series Closing Date is permitted by this Indenture, (iii) such action has been taken with respect to the recording and filing of this Indenture, any indentures supplemental hereto and any other requisite documents, and with respect to the execution and filing of any filings with the Commission, the Secretary of State of the State of Delaware or the Secretary of State of the State of North Carolina pursuant to the Storm Recovery Law and the Financing Order or Subsequent Financing Order, as applicable, financing statements and continuation statements, as are necessary to perfect and make effective the Lien and the perfected security interest created by this Indenture and applicable Series Supplement, and, based on a review of a current report of a search of the appropriate governmental filing office, no other Lien that can be perfected solely by the filing of financing statements under the applicable Uniform Commercial Code ranks equal or prior to the Lien of the Indenture Trustee in the Series Collateral, and reciting the details of such action, or stating that, in the opinion of such counsel, no such action is necessary to make effective such Lien, together with the other Opinions of Counsel described in Sections 9(c) through 9(i) of the Underwriting Agreement for such Series (other than Sections 9(g) and 9(h) thereof) relating to the Issuer's Storm Recovery Bonds.

(d) Authorizing Certificate. An Officer's Certificate, dated the Series Closing Date, of the Issuer certifying that (i) the Issuer has duly authorized the execution and delivery of this Indenture and the related Series Supplement and the execution and delivery of the Series of Storm Recovery Bonds and (ii) the related Series Supplement is in the form attached thereto and complies with the requirements of Section 2.02.

(e) The Collateral. The Issuer shall have made or caused to be made all filings with the Commission and the Secretary of State of the State of North Carolina pursuant to the Financing Order or Subsequent Financing Order, as applicable, and the Storm Recovery Law and all other filings necessary to perfect the Grant of the Series Collateral to the Indenture Trustee and the Lien of this Indenture and the related Series Supplement, including but not limited to UCC Financing Statements in Delaware or North Carolina as applicable.

(f) Series Supplement. A Series Supplement for the Series of Storm Recovery Bonds applied for, which shall set forth the provisions and form of the Storm Recovery Bonds of such Series (and, if applicable, each tranche thereof).

(g) Certificates of the Issuer and the Seller.

(i) An Officer's Certificate from the Issuer, dated as of the Series Closing Date:

(A) to the effect that (1) the Issuer is not in Default under this Indenture and that the issuance of the Storm Recovery Bonds of such Series will not result in any Default or in any breach of any of the terms, conditions or provisions of or constitute a default under the Financing Order or any Subsequent Financing Order, as applicable, or any indenture, mortgage, deed of trust or other agreement or instrument to which the Issuer is a party or by which it or its property is bound or any order of any court or administrative agency entered in any Proceeding to which the Issuer is a party or by which it or its property may be bound or to which it or its property may be subject and (2) all conditions precedent provided in this Indenture relating to the execution, authentication and delivery of the Storm Recovery Bonds of such Series have been complied with;

(B) to the effect that: the Issuer has not assigned any interest or participation in the Series Collateral except for the Grant contained in this Indenture and the related Series Supplement; the Issuer has the power and right to Grant the Series Collateral to the Indenture Trustee as security hereunder and thereunder; and the Issuer, subject to the terms of this Indenture, has Granted to the Indenture Trustee a first priority perfected security interest in all of its right, title and interest in and to such Series Collateral free and clear of any Lien arising as a result of actions of the Issuer or through the Issuer, except Permitted Liens;

(C) to the effect that the Issuer has appointed the firm of Independent registered public accountants as contemplated in Section 8.06;

(D) to the effect that the respective Sale Agreement, Servicing Agreement, Administration Agreement and Intercreditor Agreement are, to the knowledge of the Issuer (and assuming such agreements are enforceable against all parties thereto other than the Issuer and Duke Energy [Carolinas/Progress]), in full force and effect and, to the knowledge of the Issuer, that no party is in default of its obligations under such agreements; and

(E) certifying that the Storm Recovery Bonds of such Series have received the ratings from the Rating Agencies if required by the Underwriting Agreement for such Series as a condition to the issuance of such Storm Recovery Bonds.

(ii) An officer's certificate from the Seller, dated as of the Series Closing Date, to the effect that:

(A) in the case of the Series Property identified in the Bill of Sale for such Series, immediately prior to the conveyance thereof to the Issuer pursuant to the Sale Agreement for such Series: the Seller was the original and the sole owner of such Property, free and clear of any Lien; the Seller had not assigned any interest or participation in such Series Property and the proceeds thereof other than to the Issuer pursuant to the Sale Agreement for such Series; the Seller has the power, authority and right to own, sell and assign such Series Property and the proceeds thereof to the Issuer; the Seller has its chief executive office in the State of North Carolina; and the Seller, subject to the terms of the Sale Agreement for such Series, has validly sold and assigned to the Issuer all of its right, title and interest in and to such Series Property and the proceeds thereof, free and clear of any Lien (other than Permitted Liens) and such sale and assignment is absolute and irrevocable and has been perfected;

(B) in the case of the Series Property identified in the Bill of Sale, immediately prior to the conveyance thereof to the Issuer pursuant to the Sale Agreement for such Series, the attached copy of the Financing Order or Subsequent Financing Order, as applicable, creating such Series Property is true and complete and is in full force and effect; and

(C) the Required Capital Level has been deposited or caused to be deposited by the Seller with the Indenture Trustee for crediting to the Capital Subaccount for such Series.

(h) Certificate or Letter of Independent Firm. One or more certificates or letters, addressed to the Issuer, of a firm, Independent of the Issuer, Seller, Servicer or any Affiliate to the effect that (i) such firm is Independent with respect to the Issuer within the meaning of this Indenture and (ii) it has performed procedures as instructed by the addressees of such certificate or letter.

(i) Requirements of Series Supplement. Such other funds, accounts, documents, certificates, agreements, instruments or opinions as may be required by the terms of the Series Supplement.

(j) Other Requirements. Such other documents, certificates, agreements, instruments or opinions as the Indenture Trustee may reasonably require.

SECTION 2.11. Book-Entry Storm Recovery Bonds. Unless the Series Supplement provides otherwise, all of the Storm Recovery Bonds shall be issued in Book-Entry Form, and the Issuer shall execute and the Indenture Trustee shall, in accordance with this Section 2.11 and the Issuer Order, authenticate and deliver one or more Global Storm Recovery

Bonds, evidencing the Storm Recovery Bonds, which (a) shall be an aggregate original principal amount equal to the aggregate original principal amount of the Storm Recovery Bonds to be issued pursuant to the Issuer Order, (b) shall be registered in the name of the Clearing Agency therefor or its nominee, which shall initially be Cede & Co., as nominee for The Depository Trust Company, the initial Clearing Agency, (c) shall be delivered by the Indenture Trustee pursuant to such Clearing Agency's or such nominee's instructions and (d) shall bear a legend substantially to the effect set forth in Exhibit A to the Form of Series Supplement.

Each Clearing Agency designated pursuant to this Section 2.11 must, at the time of its designation and at all times while it serves as Clearing Agency hereunder, be a "clearing agency" registered under the Exchange Act and any other applicable statute or regulation.

No Holder of Storm Recovery Bonds issued in Book-Entry Form shall receive a Definitive Storm Recovery Bond representing such Holder's interest in any of the Storm Recovery Bonds, except as provided in Section 2.13. Unless (and until) certificated, fully registered Storm Recovery Bonds (the "Definitive Storm Recovery Bonds") have been issued to the Holders pursuant to Section 2.13 or pursuant to the Series Supplement relating thereto:

(i) the provisions of this Section 2.11 shall be in full force and effect;

(ii) the Issuer, the Servicer, the Paying Agent, the Storm Recovery Bond Registrar and the Indenture Trustee may deal with the Clearing Agency for all purposes (including the making of distributions on the Storm Recovery Bonds and the giving of instructions or directions hereunder) as the authorized representative of the Holders;

(iii) to the extent that the provisions of this Section 2.11 conflict with any other provisions of this Indenture, the provisions of this Section 2.11 shall control;

(iv) the rights of Holders shall be exercised only through the Clearing Agency and the Clearing Agency Participants and shall be limited to those established by law and agreements between such Holders and the Clearing Agency and/or the Clearing Agency Participants. Pursuant to the Letter of Representations, unless and until Definitive Storm Recovery Bonds are issued pursuant to Section 2.13, the initial Clearing Agency will make book-entry transfers among the Clearing Agency Participants and receive and transmit distributions of principal of and interest on the Book-Entry Storm Recovery Bonds to such Clearing Agency Participants; and

(v) whenever this Indenture requires or permits actions to be taken based upon instruction or directions of the Holders evidencing a specified percentage of the Outstanding Amount of Storm Recovery Bonds, the Clearing Agency shall be deemed to represent such percentage only to the extent that it has received instructions to such effect from the Holders and/or the Clearing Agency Participants owning or representing, respectively, such required percentage of the beneficial interest in the Storm Recovery Bonds and has delivered such instructions to a Responsible Officer of the Indenture Trustee.

SECTION 2.12. Notices to Clearing Agency. Unless and until Definitive Storm Recovery Bonds shall have been issued to Holders pursuant to Section 2.13, whenever notice,

payment or other communications to the holders of Book-Entry Storm Recovery Bonds is required under this Indenture, the Indenture Trustee, the Servicer and the Paying Agent, as applicable, shall give all such notices and communications specified herein to be given to Holders to the Clearing Agency.

SECTION 2.13. Definitive Storm Recovery Bonds. If (a) (i) the Issuer advises the Indenture Trustee in writing that the Clearing Agency is no longer willing or able to properly discharge its responsibilities under any Letter of Representations and (ii) the Issuer is unable to locate a qualified successor Clearing Agency, (b) the Issuer, at its option, advises the Indenture Trustee in writing that it elects to terminate the book-entry system through the Clearing Agency or (c) after the occurrence of an Event of Default hereunder, Holders holding Storm Recovery Bonds aggregating a majority of the aggregate Outstanding Amount of Storm Recovery Bonds of all Series maintained as Book-Entry Storm Recovery Bonds advise the Indenture Trustee, the Issuer and the Clearing Agency (through the Clearing Agency Participants) in writing that the continuation of a book-entry system through the Clearing Agency is no longer in the best interests of the Holders, the Issuer shall notify the Clearing Agency, the Indenture Trustee and all such Holders in writing of the occurrence of any such event and of the availability of Definitive Storm Recovery Bonds to the Holders requesting the same. Upon surrender to the Indenture Trustee of the Global Storm Recovery Bonds by the Clearing Agency accompanied by registration instructions from such Clearing Agency for registration, the Issuer shall execute, and the Indenture Trustee shall authenticate and deliver, Definitive Storm Recovery Bonds in accordance with the instructions of the Clearing Agency. None of the Issuer, the Storm Recovery Bond Registrar, the Paying Agent or the Indenture Trustee shall be liable for any delay in delivery of such instructions and may conclusively rely on, and shall be fully protected in relying on, such instructions. Upon the issuance of Definitive Storm Recovery Bonds, the Indenture Trustee shall recognize the Holders of the Definitive Storm Recovery Bonds as Holders hereunder without need for any consent or acknowledgement from the Holders.

Definitive Storm Recovery Bonds will be transferable and exchangeable at the offices of the Storm Recovery Bond Registrar.

SECTION 2.14. CUSIP Number. The Issuer in issuing any Storm Recovery Bonds may use a "CUSIP" number and, if so used, the Indenture Trustee shall use the CUSIP number provided to it by the Issuer in any notices to the Holders thereof as a convenience to such Holders; provided, that any such notice may state that no representation is made as to the correctness or accuracy of the CUSIP number printed in the notice or on the Storm Recovery Bonds and that reliance may be placed only on the other identification numbers printed on the Storm Recovery Bonds. The Issuer shall promptly notify the Indenture Trustee in writing of any change in the CUSIP number with respect to any Storm Recovery Bond.

SECTION 2.15. Letter of Representations. The Issuer shall comply with the terms of each Letter of Representations applicable to the Issuer.

SECTION 2.16. Tax Treatment. The Issuer and the Indenture Trustee, by entering into this Indenture, and the Holders and any Persons holding a beneficial interest in any Storm Recovery Bond, by acquiring any Storm Recovery Bond or interest therein, (a) express their intention that, solely for the purposes of U.S. federal taxes and, to the extent consistent with

applicable state, local and other tax law, solely for the purposes of state, local and other taxes, the Storm Recovery Bonds qualify under applicable tax law as indebtedness of the Member secured by the respective Series Collateral and (b) solely for the purposes of U.S. federal taxes and, to the extent consistent with applicable state, local and other tax law, solely for purposes of state, local and other taxes, so long as any of the Storm Recovery Bonds are outstanding, agree to treat the Storm Recovery Bonds as indebtedness of the Member secured by the respective Series Collateral unless otherwise required by appropriate taxing authorities.

SECTION 2.17. State Pledge. Under the laws of the State of North Carolina in effect on the date hereof, pursuant to N.C. Gen. Stat. § 62-172(k), the State of North Carolina has pledged to agree and work with the Holders, the Indenture Trustee, other Financing Parties that the State of North Carolina will not (a) alter the provisions of N.C. Gen. Stat. § 62-172(k)(1)a. which make the Charges imposed by the Financing Order or Subsequent Financing Order, as applicable, irrevocable, binding, and nonbypassable charges; (b) take or permit any action that impairs or would impair the value of the Storm Recovery Property or the security for the Storm Recovery Bonds or revises the Storm Recovery Costs for which recovery is authorized; (c) in any way impair the rights and remedies of the Holders, assignees, and other financing parties or (d)or except as authorized under the Storm Recovery Law, reduce, alter, or impair Charges that are to be imposed, collected, and remitted for the benefit of the Holders, the Indenture Trustee 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 Storm Recovery Bonds have been paid and performed in full and that the SRB Trustee, in its own name and as trustee of a [grantor] trust, as Holder of the Storm Recovery Bonds shall be, to the extent permitted by state and federal law, entitled to enforce such sections of the Storm Recovery Law.

The Issuer hereby acknowledges that the purchase of any Storm Recovery Bond by a Holder or the purchase of any beneficial interest in a Storm Recovery Bond by any Person and the Indenture Trustee's obligations to perform hereunder are made in reliance on such agreement and pledge by the State of North Carolina.

SECTION 2.18. Security Interests. The Issuer hereby makes the following representations and warranties. Other than the security interests granted to the Indenture Trustee pursuant to this Indenture in the applicable Series Supplement, the Issuer has not pledged, granted, sold, conveyed or otherwise assigned any interests or security interests in the Collateral and no security agreement, financing statement or equivalent security or Lien instrument listing the Issuer as debtor covering all or any part of the Collateral is on file or of record in any jurisdiction, except such as may have been filed, recorded or made by the Issuer in favor of the Indenture Trustee on behalf of the Secured Parties in connection with this Indenture. This Indenture and the applicable Series Supplement constitute a valid and continuing lien on, and first priority perfected security interest in, the Series Collateral in favor of the Indenture Trustee on behalf of the Secured Parties, which lien and security interest is prior to all other Liens and is enforceable as such as against creditors of and purchasers from the Issuer in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws affecting creditors' rights generally or by general equitable principles, whether considered in a proceeding at law or in equity and by an implied covenant of good faith and fair dealing. With respect to all Series

Collateral, this Indenture, together with the related Series Supplement, creates a valid and continuing first priority perfected security interest (as defined in the UCC) in such related Series Collateral, which security interest is prior to all other Liens and is enforceable as such as against creditors of and purchasers from the Issuer in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws affecting creditors' rights generally or by general equitable principles, whether considered in a proceeding at law or in equity and by an implied covenant of good faith and fair dealing. The Issuer has good and marketable title to the Collateral free and clear of any Lien of any Person other than Permitted Liens. All of the Collateral constitutes Property or accounts, deposit accounts, investment property or general intangibles (as each such term is defined in the UCC), except that proceeds of the Collateral may also take the form of instruments. The Issuer has taken, or caused the Servicer to take, all action necessary to perfect the security interest in the Series Collateral granted to the Indenture Trustee, for the benefit of the Secured Parties. The Issuer has filed (or has caused the Servicer to file) all appropriate financing statements in the proper filing offices in the appropriate jurisdictions under applicable law in order to perfect the security interest in the Series Collateral granted to the Indenture Trustee for each related Series. The Issuer has not authorized the filing of and is not aware, after due inquiry, of any financing statements against the Issuer that include a description of the Collateral other than those filed in favor of the Indenture Trustee. The Issuer is not aware of any judgment or tax lien filings against the Issuer. The Collection Account for each Series (including all subaccounts thereof) constitutes a "securities account" within the meaning of the UCC. The Issuer has taken all steps necessary to cause the Securities Intermediary of each such securities account to identify in its records the Indenture Trustee as the Person having a security entitlement against the Securities Intermediary in such securities account, no Collection Account is in the name of any Person other than the Indenture Trustee, and the Issuer has not consented to the Securities Intermediary of the Collection Account for each Series to comply with entitlement orders of any Person other than the Indenture Trustee. All of the Collateral constituting investment property has been and will have been credited to the Collection Account for each Series or a subaccount thereof, and the Securities Intermediary for the Collection Account for each Series has agreed to treat all assets credited to the Collection Account for each Series as "financial assets" within the meaning of the UCC. Accordingly, the Indenture Trustee has a first priority perfected security interest in the Collection Account for each Series, all funds and financial assets on deposit therein, and all securities entitlements relating thereto. The representations and warranties set forth in this Section 2.18 shall survive the execution and delivery of this Indenture and the issuance of any Storm Recovery Bonds, shall be deemed re-made on each date on which any funds in the Collection Account for each Series are distributed to the Issuer as provided in Section 8.04 or otherwise released from the Lien of the Indenture and may not be waived by any party hereto except pursuant to a supplemental indenture executed in accordance with Article IX and as to which the Rating Agency Condition has been satisfied.

ARTICLE III

COVENANTS

SECTION 3.01. Payment of Principal, Premium, if any, and Interest. The principal of and premium, if any, and interest on the Storm Recovery Bonds shall be duly and punctually paid by the Issuer, or the Servicer on behalf of the Issuer, in accordance with the

terms of the Storm Recovery Bonds and this Indenture and the applicable Series Supplement; provided, that, except on a Final Maturity Date of a Series or tranche or upon the acceleration of a Series of Storm Recovery Bonds following the occurrence of an Event of Default, the Issuer shall only be obligated to pay the principal of such Storm Recovery Bonds on each Payment Date therefor to the extent moneys are available for such payment pursuant to Section 8.02. Amounts properly withheld under the Code, the Treasury regulations promulgated thereunder or other tax laws by any Person from a payment to any Holder of interest or principal or premium, if any, shall be considered as having been paid by the Issuer to such Holder for all purposes of this Indenture.

SECTION 3.02. Maintenance of Office or Agency. The Issuer shall initially maintain in [Charlotte/Raleigh], North Carolina an office or agency where Storm Recovery Bonds may be surrendered for registration of transfer or exchange. The Issuer shall give prompt written notice to the Indenture Trustee of the location, and of any change in the location, of any such office or agency. The Issuer hereby initially appoints the Indenture Trustee to serve as its agent for the foregoing purposes, and the Corporate Trust Office of the Indenture Trustee shall serve as the offices provided above in this Section 3.02. If at any time the Issuer shall fail to maintain any such office or agency or shall fail to furnish the Indenture Trustee with the address thereof, such surrenders may be made at the office of the Indenture Trustee located at the Corporate Trust Office, and the Issuer hereby appoints the Indenture Trustee as its agent to receive all such surrenders.

SECTION 3.03. Money for Payments To Be Held in Trust. As provided in Section 8.02(a), all payments of amounts due and payable with respect to any Storm Recovery Bonds that are to be made from amounts withdrawn from the Collection Account pursuant to Section 8.02(d) shall be made on behalf of the Issuer by the Indenture Trustee or by another Paying Agent, and no amounts so withdrawn from the Collection Account for payments with respect to any Storm Recovery Bonds shall be paid over to the Issuer except as provided in this Section 3.03 and Section 8.02.

Each Paying Agent shall meet the eligibility criteria set forth for any Indenture Trustee under Section 6.11. The Issuer will cause each Paying Agent other than the Indenture Trustee to execute and deliver to the Indenture Trustee and the SRB Trustee an instrument in which such Paying Agent shall agree with the Indenture Trustee (and if the Indenture Trustee acts as Paying Agent, it hereby so agrees), subject to the provisions of this Section 3.03, that such Paying Agent will:

(a) hold all sums held by it for the payment of amounts due with respect to the Storm Recovery Bonds in trust for the benefit of the Persons entitled thereto until such sums shall be paid to such Persons or otherwise disposed of as herein provided and pay such sums to such Persons as herein provided;

(b) give the Indenture Trustee unless the Indenture Trustee is the Paying Agent, the Commission, the SRB Trustee and the Rating Agencies written notice of any Default by the Issuer of which it has actual knowledge in the making of any payment required to be made with respect to the Storm Recovery Bonds;

(c) at any time during the continuance of any such Default, upon the written request of the Indenture Trustee, forthwith pay to the Indenture Trustee all sums so held in trust by such Paying Agent;

(d) immediately, with notice to the Rating Agencies and the SRB Trustee, resign as a Paying Agent and forthwith pay to the Indenture Trustee all sums held by it in trust for the payment of Storm Recovery Bonds if at any time the Paying Agent determines that it has ceased to meet the standards required to be met by a Paying Agent at the time of such determination; and

(e) comply with all requirements of the Code, the Treasury regulations promulgated thereunder and other tax laws with respect to the withholding from any payments made by it on any Storm Recovery Bonds of any applicable withholding taxes imposed thereon and with respect to any applicable reporting requirements in connection therewith.

The Issuer may at any time, for the purpose of obtaining the satisfaction and discharge of this Indenture or for any other purpose, by Issuer Order direct any Paying Agent to pay to the Indenture Trustee all sums held in trust by such Paying Agent, such sums to be held by the Indenture Trustee upon the same trusts as those upon which the sums were held by such Paying Agent; and, upon such payment by any Paying Agent to the Indenture Trustee, such Paying Agent shall be released from all further liability with respect to such money.

Subject to applicable laws with respect to escheatment of funds, any money held by the Indenture Trustee or any Paying Agent in trust for the payment of any amount due with respect to any Storm Recovery Bond and remaining unclaimed for two years after such amount has become due and payable shall be discharged from such trust and be paid to the Issuer upon receipt of an Issuer Request; and, subject to Section 10.14, the Holder of such Storm Recovery Bond shall thereafter, as an unsecured general creditor, look only to the Issuer for payment thereof (but only to the extent of the amounts so paid to the Issuer), and all liability of the Indenture Trustee or such Paying Agent with respect to such trust money shall thereupon cease; provided, however, that the Indenture Trustee or such Paying Agent, before being required to make any such repayment, may at the expense of the Issuer, cause to be published once, in a newspaper published in the English language, customarily published on each Business Day and of general circulation in The City of New York, notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication, any unclaimed balance of such money then remaining will be repaid to the Issuer. The Indenture Trustee may also adopt and employ, at the expense of the Issuer, any other reasonable means of notification of such repayment (including mailing notice of such repayment to Holders whose right to or interest in moneys due and payable but not claimed is determinable from the records of the Indenture Trustee or of any Paying Agent, at the last address of record for each such Holder).

SECTION 3.04. Existence. The Issuer shall keep in full effect its existence, rights and franchises as a limited liability company under the laws of the State of Delaware (unless it becomes, or any successor Issuer hereunder is or becomes, organized under the laws of any other State or of the United States of America, in which case the Issuer will keep in full effect its existence, rights and franchises under the laws of such other jurisdiction) and will

obtain and preserve its qualification to do business in each jurisdiction in which such qualification is or shall be necessary to protect the validity and enforceability of this Indenture, the other Basic Documents, the Storm Recovery Bonds, the Collateral and each other instrument or agreement referenced herein or therein.

SECTION 3.05. Protection of Collateral. The Issuer shall from time to time execute and deliver all such supplements and amendments hereto and all filings with the Commission, the Secretary of State of the State of Delaware or the Secretary of State of the State of North Carolina pursuant to the Financing Order and any Subsequent Financing Order, as applicable, or to the Storm Recovery Law and all financing statements, continuation statements, instruments of further assurance and other instruments, and shall take such other action necessary or advisable, to:

(a) maintain or preserve the Lien (and the priority thereof) of this Indenture and each Series Supplement or carry out more effectively the purposes hereof;

(b) perfect, publish notice of or protect the validity of any Grant made or to be made by this Indenture;

(c) enforce any of the Collateral;

(d) preserve and defend title to the Collateral and the rights of the Indenture Trustee and the Holders in such Collateral against the Claims of all Persons, including a challenge by any party to the validity or enforceability of the Financing Order or any Subsequent Financing Order, the Series Property or any proceeding relating thereto and institute any action or proceeding necessary to compel performance by the Commission or the State of North Carolina of any of its obligations or duties under the Storm Recovery Law, the State Pledge, or the Financing Order or any Subsequent Financing Order; and

(e) pay any and all taxes levied or assessed upon all or any part of the Collateral.

The Indenture Trustee is specifically permitted and authorized, but not required to file financing statements covering the Collateral, including financing statements that describe the Collateral as "all assets" or "all personal property" of the Issuer.

SECTION 3.06. Opinions as to Collateral.

(a) Within 90 days after the beginning of each calendar year beginning with the calendar year beginning [January 1, 2022], the Issuer shall furnish to the Indenture Trustee an Opinion of Counsel of the Issuer either stating that, in the opinion of such counsel, such action has been taken with respect to the recording, filing, re-recording and refiling of this Indenture, any indentures supplemental hereto and any other requisite documents, and with respect to the execution and filing of any filings with the Commission, the Secretary of State of the State of Delaware or the Secretary of State of the State of North Carolina pursuant to the Storm Recovery Law and the Financing Order and any Subsequent Financing Order, financing statements and continuation statements, as are necessary to maintain the Lien and the perfected security interest created by this Indenture and the Series Supplements and reciting the details of such action, or

stating that, in the opinion of such counsel, no such action is necessary to maintain such Lien. Such Opinion of Counsel shall also describe the recording, filing, re-recording and refiling of this Indenture, any indentures supplemental hereto and any other requisite documents and the execution and filing of any filings with the Commission, the Secretary of State of the State of Delaware or the Secretary of State of the State of North Carolina, financing statements and continuation statements that will, in the opinion of such counsel, be required within the 12-month period following the date of such opinion to maintain the Lien and the perfected security interest created by this Indenture and all Series Supplements.

(b) Prior to the effectiveness of any amendment to the applicable Sale Agreement or the applicable Servicing Agreement, the Issuer shall furnish to the Indenture Trustee an Opinion of Counsel of external counsel of the Issuer either (i) stating that, in the opinion of such counsel, all filings, including UCC financing statements and other filings with the Commission, the Secretary of State of the State of Delaware or the Secretary of State of the State of North Carolina pursuant to the Storm Recovery Law or the applicable Financing Order have been executed and filed that are necessary fully to preserve and protect the Lien of the Issuer and the Indenture Trustee in the Series Property and the Series Collateral, respectively, and the proceeds thereof, and reciting the details of such filings or referring to prior Opinions of Counsel in which such details are given, or (ii) stating that, in the opinion of such counsel, no such action shall be necessary to preserve and protect such Lien.

SECTION 3.07. Performance of Obligations; Servicing; SEC Filings.

(a) The Issuer (i) shall diligently pursue any and all actions to enforce its rights under each instrument or agreement included in the Collateral and (ii) shall not take any action and shall use its best efforts not to permit any action to be taken by others that would release any Person from any of such Person's covenants or obligations under any such instrument or agreement or that would result in the amendment, hypothecation, subordination, termination or discharge of, or impair the validity or effectiveness of, any such instrument or agreement, except, in each case, as expressly provided in this Indenture, the applicable Series Supplement, the applicable Sale Agreement, the applicable Servicing Agreement, the applicable Intercreditor Agreement or such other instrument or agreement.

(b) The Issuer may contract with other Persons selected with due care to assist it in performing its duties under this Indenture, and any performance of such duties by a Person identified to the Indenture Trustee herein or in an Officer's Certificate shall be deemed to be action taken by the Issuer. Initially, the Issuer has contracted with the Servicer to assist the Issuer in performing its duties under this Indenture.

(c) The Issuer shall punctually perform and observe all of its obligations and agreements contained in this Indenture, the applicable Series Supplement, the other Basic Documents and the instruments and agreements included in the Collateral, including filing or causing to be filed all filings with the Commission, the Secretary of State of the State of Delaware or the Secretary of State of the State of North Carolina pursuant to the Storm Recovery Law or the applicable Financing Order, all UCC financing statements and all continuation statements required to be filed by it by the terms of this Indenture, the applicable Series

Supplement, the applicable Sale Agreement and the applicable Servicing Agreement in accordance with and within the time periods provided for herein and therein.

(d) If the Issuer shall have knowledge of the occurrence of a Servicer Default under the Servicing Agreement for such Series, the Issuer shall promptly give written notice thereof to the Indenture Trustee, the SRB Trustee, the Commission and the Rating Agencies and shall specify in such notice the response or action, if any, the Issuer has taken or is taking with respect to such Servicer Default. If a Servicer Default shall arise from the failure of the Servicer to perform any of its duties or obligations under the Servicing Agreement with respect to the Series Property, the Series Collateral or the Series Charges, the Issuer shall take all reasonable steps available to it to remedy such failure.

(e) As promptly as possible after the giving of notice of termination to the Servicer, the SRB Trustee and the Rating Agencies of the Servicer's rights and powers pursuant to Section 7.01 of the applicable Servicing Agreement, the Indenture Trustee may and shall, at the written direction either (a) of the Holders evidencing a majority of the Outstanding Amount of the Storm Recovery Bonds of such Series, or (b) of the Commission, appoint a successor Servicer (the "Successor Servicer"), and such Successor Servicer shall accept its appointment by a written assumption in a form acceptable to the Issuer. A Person shall qualify as a Successor Servicer only if such Person satisfies the requirements of the applicable Servicing Agreement and the applicable Intercreditor Agreement. If, within 30 days after the delivery of the notice referred to above, a new Servicer shall not have been appointed, the Indenture Trustee may petition the Commission or a court of competent jurisdiction to appoint a Successor Servicer. In connection with any such appointment, Duke Energy [Carolinas/Progress] may make such arrangements for the compensation of such Successor Servicer as it and such successor shall agree, subject to the limitations set forth in Section 8.02 and in the Servicing Agreement.

(f) Upon any termination of the Servicer's rights and powers pursuant to the Servicing Agreement for such Series, the Indenture Trustee shall promptly notify the Issuer, the Holders, the SRB Issuer, the SRB Trustee, the SRB Noteholders and the Rating Agencies. As soon as a Successor Servicer is appointed, the Indenture Trustee shall notify the Issuer, the Holders, the SRB Issuer, the SRB Trustee, the SRB Noteholders and the Rating Agencies of such appointment, specifying in such notice the name and address of such Successor Servicer.

(g) The Issuer shall (or shall cause the Sponsor to) post on its website (which for this purpose may be the website of any direct or indirect parent company of the Issuer) and, to the extent consistent with the Issuer's and the Sponsor's obligations under applicable law, file with or furnish to the SEC in periodic reports and other reports as are required from time to time under Section 13 or Section 15(d) of the Exchange Act, the following information (other than any such information filed with the SEC and publicly available to investors unless the Issuer specifically requests such items to be posted) with respect to each Series of the Outstanding Storm Recovery Bonds, in each case to the extent such information is reasonably available to the Issuer:

(i) statements of any remittances of Charges made to the Indenture Trustee (to be included in a Form 10-D or Form 10-K, or successor forms thereto);

(ii) a statement reporting the balances in the Collection Account for such Series and in each subaccount of the Collection Account for such Series as of all Payment Dates (to be included on the next Form 10-D filed) and as of the end of each year (to be included on the next Form 10-K filed);

(iii) the Semi-Annual Servicer's Certificate as required to be submitted pursuant to the Servicing Agreement (to be filed with a Form 10-D, Form 10-K or Form 8-K, or successor forms thereto);

(iv) the Monthly Servicer's Certificate as required to be submitted pursuant to the Servicing Agreement;

(v) the text (or a link to the website where a reader can find the text) of each filing of a True-Up Adjustment and the results of each such filing;

(vi) any change in the long-term or short-term credit ratings of the Servicer assigned by the Rating Agencies;

(vii) material legislative or regulatory developments directly relevant to the Outstanding Storm Recovery Bonds (to be filed or furnished in a Form 8-K); and

(viii) any reports and other information that the Issuer is required to file with the SEC under the Exchange Act, including but not limited to periodic and current reports related to a Series of Storm Recovery Bonds consistent with the disclosure and reporting regime established in Regulation AB.

Notwithstanding the foregoing, nothing herein shall preclude the Issuer from voluntarily suspending or terminating its filing obligations as Issuer with the SEC to the extent permitted by applicable law. Any such reports or information delivered to the Indenture Trustee for purposes of this Section 3.07(g) is for informational purposes only, and the Indenture Trustee's receipt of such reports or information shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Issuer's compliance with any of its covenants hereunder (as to which the Indenture Trustee is entitled to conclusively rely on an Officer's Certificate).

(h) The Issuer shall direct the Indenture Trustee to post on the Indenture Trustee's website for investors (based solely on information set forth in the Annual Servicer's Certificate) with respect to each Series of the Outstanding Storm Recovery Bonds, to the extent such information is set forth in the Annual Servicer's Certificate, a statement showing the balance of each Series of Outstanding Storm Recovery Bonds that reflects the actual payments made on the Storm Recovery Bonds during the applicable period.

The address of the Indenture Trustee's website for investors is [https://gctinvestorreporting.bnymellon.com]. The Indenture Trustee shall immediately notify the Issuer, the Holders and the Rating Agencies of any change to the address of the website for investors.

(i) The Issuer shall make all filings required under the Storm Recovery Law relating to the transfer of the ownership or security interest in the Storm Recovery Property other than those required to be made by the Seller or the Servicer pursuant to the Basic Documents.

SECTION 3.08. Certain Negative Covenants. So long as any Storm Recovery Bonds are Outstanding, the Issuer shall not:

(a) except as expressly permitted by this Indenture and the other Basic Documents, or in connection with the issuance of Additional Series, sell, transfer, convey, exchange or otherwise dispose of any of the properties or assets of the Issuer, including those included in the Collateral, unless in accordance with Article V;

(b) claim any credit on, or make any deduction from the principal or premium, if any, or interest payable in respect of, the Storm Recovery Bonds (other than amounts properly withheld from such payments under the Code, the Treasury regulations promulgated thereunder or other tax laws) or assert any claim against any present or former Holder by reason of the payment of the taxes levied or assessed upon any part of the Collateral;

(c) terminate its existence or dissolve or liquidate in whole or in part, except in a transaction permitted by Section 3.10;

(d) (i) permit the validity or effectiveness of this Indenture or the other Basic Documents to be impaired, or permit the Lien of this Indenture and the Series Supplements to be amended, hypothecated, subordinated, terminated or discharged, or permit any Person to be released from any covenants or obligations with respect to the Storm Recovery Bonds under this Indenture except as may be expressly permitted hereby, (ii) permit any Lien (other than the Lien of this Indenture or the Series Supplements) to be created on or extend to or otherwise arise upon or burden the Collateral or any part thereof or any interest therein or the proceeds thereof (other than tax liens arising by operation of law with respect to amounts not yet due) or (iii) permit the Lien of any Series Supplement not to constitute a valid first priority perfected security interest in the related Series Collateral;

(e) elect to be classified as an association taxable as a corporation for U.S. federal income tax purposes or otherwise take any action, file any tax return or make any election inconsistent with the treatment of the Issuer, for U.S. federal income tax purposes and, to the extent consistent with applicable state tax law, state income and franchise tax purposes, as a disregarded entity that is not separate from the sole owner of the Issuer;

(f) change its name, identity or structure or the location of its chief executive office, unless at least ten Business Days prior to the effective date of any such change the Issuer delivers to the Indenture Trustee (with copies to the Rating Agencies) such documents, instruments or agreements, executed by the Issuer, as are necessary to reflect such change and to continue the perfection of the security interest of this Indenture and the Series Supplements;

(g) take any action that is subject to a Rating Agency Condition without satisfying the Rating Agency Condition;

(h) except to the extent permitted by applicable law, voluntarily suspend or terminate its filing obligations with the SEC as described in Section 3.07(g); or

(i) issue any debt obligations other than the Storm Recovery Bonds permitted by this Indenture.

SECTION 3.09. Annual Statement as to Compliance. The Issuer will deliver to the Indenture Trustee, the SRB Trustee, the Commission and the Rating Agencies not later than March 31 of each year (commencing with March 31, [2022]), an Officer's Certificate stating, as to the Responsible Officer signing such Officer's Certificate, that:

(a) a review of the activities of the Issuer during the preceding 12 months ended December 31 (or, in the case of the first such Officer's Certificate, since the date hereof) and of performance under this Indenture has been made; and

(b) to the best of such Responsible Officer's knowledge, based on such review, the Issuer has in all material respects complied with all conditions and covenants under this Indenture throughout such 12-month period (or such shorter period in the case of the first such Officer's Certificate), or, if there has been a default in the compliance of any such condition or covenant, specifying each such default known to such Responsible Officer and the nature and status thereof.

SECTION 3.10. Issuer May Consolidate, etc., Only on Certain Terms.

(a) The Issuer shall not consolidate or merge with or into any other Person, unless:

(i) the Person (if other than the Issuer) formed by or surviving such consolidation or merger shall (A) be a Person organized and existing under the laws of the United States of America or any State, (B) expressly assume, by an indenture supplemental hereto, executed and delivered to the Indenture Trustee, in form and substance satisfactory to the Indenture Trustee, the performance or observance of every agreement and covenant of this Indenture and the Series Supplements on the part of the Issuer to be performed or observed, all as provided herein and in the Series Supplements, and (C) assume all obligations and succeed to all rights of the Issuer under each Sale Agreement, Servicing Agreement and each other Basic Document to which the Issuer is a party;

(ii) immediately after giving effect to such merger or consolidation, no Default, Event of Default or Servicer Default shall have occurred and be continuing;

(iii) the Rating Agency Condition shall have been satisfied with respect to such merger or consolidation;

(iv) the Issuer shall have delivered to Duke Energy [Carolinas/Progress], the Indenture Trustee, SRB Trustee and the Rating Agencies an opinion or opinions of outside tax counsel (as selected by the Issuer, in form and substance reasonably satisfactory to Duke Energy [Carolinas/Progress]and the Indenture Trustee, and which

may be based on a ruling from the Internal Revenue Service (unless the Internal Revenue Service has announced that it will not rule on the issues described in this paragraph)) to the effect that the consolidation or merger will not result in a material adverse U.S. federal or state income tax consequence to the Issuer, Duke Energy [Carolinas/Progress], the Indenture Trustee or the then-existing Holders;

(v) any action as is necessary to maintain the Lien and the perfected security interest in the Collateral created by this Indenture and the Series Supplements shall have been taken as evidenced by an Opinion of Counsel of external counsel of the Issuer delivered to the Indenture Trustee; and

(vi) the Issuer shall have delivered to the Indenture Trustee and the SRB Trustee an Officer's Certificate and an Opinion of Counsel of external counsel of the Issuer each stating that such consolidation or merger and such supplemental indenture comply with this Indenture and the Series Supplements and that all conditions precedent herein provided for in this Section 3.10(a) with respect to such transaction have been complied with (including any filing required by the Exchange Act).

(b) Except as specifically provided herein, the Issuer shall not sell, convey, exchange, transfer or otherwise dispose of any of its properties or assets included in the Collateral, to any Person, unless:

(i) the Person that acquires the properties and assets of the Issuer, the conveyance or transfer of which is hereby restricted, (A) shall be a United States citizen or a Person organized and existing under the laws of the United States of America or any State, (B) expressly assumes, by an indenture supplemental hereto, executed and delivered to the Indenture Trustee, in form and substance satisfactory to the Indenture Trustee, the performance or observance of every agreement and covenant of this Indenture on the part of the Issuer to be performed or observed, all as provided herein and in the Series Supplements, (C) expressly agrees by means of such supplemental indenture that all right, title and interest so sold, conveyed, exchanged, transferred or otherwise disposed of shall be subject and subordinate to the rights of Holders, (D) unless otherwise provided in the supplemental indenture referred to in Section 3.10(b)(i)(B), expressly agrees to indemnify, defend and hold harmless the Issuer and the Indenture Trustee against and from any loss, liability or expense arising under or related to this Indenture, the Series Supplements and the Storm Recovery Bonds, (E) expressly agrees by means of such supplemental indenture that such Person (or if a group of Persons, then one specified Person) shall make all filings with the SEC (and any other appropriate Person) required by the Exchange Act in connection with the Collateral and the Storm Recovery Bonds and (F) if such sale, conveyance, exchange, transfer or disposal relates to the Issuer's rights and obligations under the Sale Agreement for such Series or the Servicing Agreement for such Series, assumes all obligations and succeeds to all rights of the Issuer under the Sale Agreement for such Series and the Servicing Agreement for such Series, as applicable;

(ii) immediately after giving effect to such transaction, no Default, Event of Default or Servicer Default shall have occurred and be continuing;

(iii) the Rating Agency Condition shall have been satisfied with respect to such transaction;

(iv) the Issuer shall have delivered to Duke Energy [Carolinas/Progress], the Indenture Trustee, SRB Trustee and the Rating Agencies an opinion or opinions of outside tax counsel (as selected by the Issuer, in form and substance reasonably satisfactory to Duke Energy [Carolinas/Progress], and which may be based on a ruling from the Internal Revenue Service) to the effect that the disposition will not result in a material adverse U.S. federal or state income tax consequence to the Issuer, Duke Energy [Carolinas/Progress], the Indenture Trustee or the then-existing Holders;

(v) any action as is necessary to maintain the Lien and the perfected security interest in the Collateral created by this Indenture and the Series Supplements shall have been taken as evidenced by an Opinion of Counsel of external counsel of the Issuer delivered to the Indenture Trustee; and

(vi) the Issuer shall have delivered to the Indenture Trustee and the SRB Trustee an Officer's Certificate and an Opinion of Counsel of external counsel of the Issuer each stating that such sale, conveyance, exchange, transfer or other disposition and such supplemental indenture comply with this Indenture and the Series Supplements and that all conditions precedent herein provided for in this Section 3.10(b) with respect to such transaction have been complied with (including any filing required by the Exchange Act).

SECTION 3.11. Successor or Transferee.

(a) Upon any consolidation or merger of the Issuer in accordance with Section 3.10(a), the Person formed by or surviving such consolidation or merger (if other than the Issuer) shall succeed to, and be substituted for, and may exercise every right and power of, the Issuer under this Indenture with the same effect as if such Person had been named as the Issuer herein.

(b) Except as set forth in Section 6.07, upon a sale, conveyance, exchange, transfer or other disposition of all the assets and properties of the Issuer in accordance with Section 3.10(b), the Issuer will be released from every covenant and agreement of this Indenture and the other Basic Documents to be observed or performed on the part of the Issuer with respect to the Storm Recovery Bonds and the Property immediately following the consummation of such acquisition upon the delivery of written notice to the Indenture Trustee from the Person acquiring such assets and properties stating that the Issuer is to be so released.

SECTION 3.12. No Other Business. The Issuer shall not engage in any business other than financing, purchasing, owning, administering, managing and servicing the Property and the other Collateral and the issuance of the Storm Recovery Bonds in the manner contemplated by the Financing Order and any Subsequent Financing Order and this Indenture and the other Basic Documents and activities incidental thereto.

SECTION 3.13. No Borrowing. The Issuer shall not issue, incur, assume, guarantee or otherwise become liable, directly or indirectly, for any indebtedness except for the

Storm Recovery Bonds and any other indebtedness expressly permitted by or arising under the Basic Documents.

SECTION 3.14. Servicer's Obligations. The Issuer shall enforce the Servicer's compliance with and performance of all of the Servicer's material obligations under the Servicing Agreement.

SECTION 3.15. Guarantees, Loans, Advances and Other Liabilities. Except as otherwise contemplated by the Sale Agreement, the Servicing Agreement or this Indenture, the Issuer shall not make any loan or advance or credit to, or guarantee (directly or indirectly or by an instrument having the effect of assuring another's payment or performance on any obligation or capability of so doing or otherwise), endorse or otherwise become contingently liable, directly or indirectly, in connection with the obligations, stocks or dividends of, or own, purchase, repurchase or acquire (or agree contingently to do so) any stock, obligations, assets or securities of, or any other interest in, or make any capital contribution to, any other Person.

SECTION 3.16. Capital Expenditures. Other than the purchase of Series Property from the Seller on a Series Closing Date, the Issuer shall not make any expenditure (by long-term or operating lease or otherwise) for capital assets (either realty or personalty).

SECTION 3.17. Restricted Payments. Except as provided in Section 8.04(c), the Issuer shall not, directly or indirectly, (a) pay any dividend or make any distribution (by reduction of capital or otherwise), whether in cash, property, securities or a combination thereof, to any owner of an interest in the Issuer or otherwise with respect to any ownership or equity interest or similar security in or of the Issuer, (b) redeem, purchase, retire or otherwise acquire for value any such ownership or equity interest or similar security or (c) set aside or otherwise segregate any amounts for any such purpose; provided, however, that, if no Event of Default shall have occurred and be continuing or would be caused thereby, the Issuer may make, or cause to be made, any such distributions to any owner of an interest in the Issuer or otherwise with respect to any ownership or equity interest or similar security in or of the Issuer using funds distributed to the Issuer pursuant to Section 8.02(e)(xi) to the extent that such distributions would not cause the balance of the Capital Subaccount to decline below the Required Capital Level. The Issuer will not, directly or indirectly, make payments to or distributions from the Collection Account except in accordance with this Indenture and the other Basic Documents.

SECTION 3.18. Notice of Events of Default. The Issuer agrees to give the Indenture Trustee, SRB Trustee, the Commission and the Rating Agencies prompt written notice of each Default or Event of Default hereunder as provided in Section 5.01, and each default on the part of the Seller or the Servicer of its obligations under the Sale Agreement or the Servicing Agreement, respectively.

SECTION 3.19. Further Instruments and Acts. Upon request of the Indenture Trustee, the Issuer shall execute and deliver such further instruments and do such further acts as may be reasonably necessary or proper to carry out more effectively the purpose of this Indenture and to maintain the first priority perfected security interest of the Indenture Trustee in the Collateral.

SECTION 3.20. Inspection. The Issuer agrees that, on reasonable prior notice, it will permit any representative of the Indenture Trustee and any representative of the Commission, during the Issuer's normal business hours, to examine all the books of account, records, reports and other papers of the Issuer, to make copies and extracts therefrom, to cause such books to be audited annually by Independent registered public accountants, and to discuss the Issuer's affairs, finances and accounts with the Issuer's officers, employees and Independent registered public accountants, all at such reasonable times and as often as may be reasonably requested. The Indenture Trustee and the Commission shall and shall cause its representatives to hold in confidence all such information except to the extent disclosure may be required by law (and all reasonable applications for confidential treatment are unavailing) and except to the extent that the Indenture Trustee may reasonably determine that such disclosure is consistent with its obligations hereunder. Notwithstanding anything herein to the contrary, the preceding sentence shall not be construed to prohibit (a) disclosure of any and all information that is or becomes publicly known, or information obtained by the Indenture Trustee from sources other than the Issuer, provided such parties are rightfully in possession of such information, (b) disclosure of any and all information (i) if required to do so by any applicable statute, law, rule or regulation, (ii) pursuant to any subpoena, civil investigative demand or similar demand or request of any court or regulatory authority exercising its proper jurisdiction, (iii) in any preliminary or final prospectus, registration statement or other document a copy of which has been filed with the SEC, (iv) to any affiliate, independent or internal auditor, agent, employee or attorney of the Indenture Trustee having a need to know the same, provided that such parties agree to be bound by the confidentiality provisions contained in this Section 3.20, or (v) to any Rating Agency or (c) any other disclosure authorized by the Issuer.

SECTION 3.21. Additional Series.

(a) On the basis of the Financing Order or any Subsequent Financing Order, the Issuer may, in its sole discretion, acquire additional and separate Series Collateral and issue one or more Additional Series that are backed by such separate additional Series Collateral. Any Additional Series may include terms and provisions unique to that Additional Series.

(b) The Issuer shall not issue additional Storm Recovery Bonds if the Additional Series would result in the then-current ratings on any Outstanding Series of Storm Recovery Bonds being reduced or withdrawn.

(c) In addition to all applicable requirements of Section 2.10 hereof, the following conditions must be satisfied in connection with any Additional Series:

(i) the Rating Agency Condition for the [Series A] Storm Recovery Bonds and SRB Notes shall have been satisfied and such new Series of Storm Recovery Bonds shall be rated "AAA" by [Moody's, S&P and Fitch];

(ii) each Additional Series shall have recourse only to the assets pledged in connection with such Additional Series, shall be nonrecourse to any of the Issuer's other assets and shall not constitute a claim against the Issuer if cash flow from the pledged assets is insufficient to pay such Additional Series in full;

(iii) the Issuer has delivered to the Indenture Trustee, the SRB Trustee and each Rating Agency then rating any series of Outstanding Storm Recovery Bonds an Opinion of Counsel of a nationally recognized firm experienced in such matters to the effect that after such issuance, in the opinion of such counsel, if the Seller were to become a debtor in a case under the United States Bankruptcy Code (Title 11, U.S.C.), a federal court exercising bankruptcy jurisdiction and exercising reasonable judgment after full consideration of all relevant factors would not order substantive consolidation of the assets and liabilities of the Issuer with those of the bankruptcy estate of the Seller and that there has been a true sale of the Series Property with respect to such Additional Series, subject to the customary exceptions, qualifications and assumptions contained therein;

(iv) the Issuer has delivered to the Indenture Trustee and SRB Trustee an Officer's Certificate from the Issuer certifying that the Additional Series shall have the benefit of a True-Up Adjustment;

(v) the transaction documentation for such Additional Series provides that holders of the Storm Recovery Bonds of such Additional Series will not file or join in the filing of any bankruptcy petition against the Issuer;

(vi) if the holders of the Storm Recovery Bonds of any Additional Series are deemed to have any interest in any of the Series Collateral pledged under a Series Supplement (other than the Series Supplement related to such Additional Series, if any), the Holders of such Storm Recovery Bonds must agree that any such interest is subordinate to the claims and rights of the holders of such other related Series of Storm Recovery Bonds;

(vii) the Additional Series shall have its Collection Account; and

(viii) the Additional Series shall bear its own trustee fees and servicer fees and a pro rata portion of fees due under the Administration Agreement.

SECTION 3.22. Sale Agreement, Servicing Agreement, Intercreditor Agreement and Administration Agreement Covenants.

(a) The Issuer agrees to take all such lawful actions to enforce its rights under the Sale Agreement for such Series, the Servicing Agreement for such Series, the Intercreditor Agreement for such Series, the Administration Agreement and the other Basic Documents, and to compel or secure the performance and observance by the Seller, the Servicer, the Administrator and Duke Energy [Carolinas/Progress] of each of their respective obligations to the Issuer under or in connection with the Sale Agreement for such Series, the Servicing Agreement, for such Series the Intercreditor Agreement for such Series, the Administration Agreement and the other Basic Documents in accordance with the terms thereof. So long as no Event of Default occurs and is continuing, but subject to Section 3.22(f), the Issuer may exercise any and all rights, remedies, powers and privileges lawfully available to the Issuer under or in connection with the Sale Agreement, the Servicing Agreement, the Intercreditor Agreement and the Administration Agreement; provided, that such action shall not adversely affect the interests of the Holders in any material respect.

(b) If an Event of Default occurs and is continuing, the Indenture Trustee may, and at the direction (which direction shall be in writing) of the Holders of a majority of the Outstanding Amount of the Storm Recovery Bonds of all tranches affected thereby or the Commission, shall, exercise all rights, remedies, powers, privileges and claims of the Issuer against the Seller, Duke Energy [Carolinas/Progress], the Administrator and the Servicer, as the case may be, under or in connection with the Sale Agreement for such Series, the Servicing Agreement for such Series, the Intercreditor Agreement for such Series and the Administration Agreement, including the right or power to take any action to compel or secure performance or observance by the Seller, Duke Energy [Carolinas/Progress], the Administrator or the Servicer of each of their obligations to the Issuer thereunder and to give any consent, request, notice, direction, approval, extension or waiver under the Sale Agreement for such Series, the Servicing Agreement for such Series, the Intercreditor Agreement for such Series and the Administration Agreement, and any right of the Issuer to take such action shall be suspended.

(c) Except as set forth in Section 3.22(d), the Administration Agreement, the Sale Agreement for such Series, the Servicing Agreement for such Series and the Intercreditor Agreement for such Series may be amended in accordance with the provisions thereof, so long as the Rating Agency Condition is satisfied in connection therewith, at any time and from time to time, without the consent of the Holders of the Storm Recovery Bonds, but with the acknowledgement of the Indenture Trustee; provided, that the Indenture Trustee shall provide such consent upon receipt of an Officer's Certificate of the Issuer evidencing satisfaction of such Rating Agency Condition, an Opinion of Counsel of external counsel of the Issuer evidencing that such amendment is in accordance with the provisions of such Basic Document and satisfaction of the Commission Condition (as described in Section 9.03 hereof, or alternatively, if applicable, Section 13(b) of the Administration Agreement, Section 6.01(b) of the Sale Agreement or Section 8.01(b) of the Servicing Agreement).

(d) Except as set forth in Section 3.22(e), if the Issuer, the Seller, Duke Energy [Carolinas/Progress], the Administrator, the Servicer or any other party to the respective agreement proposes to amend, modify, waive, supplement, terminate or surrender, or agree to any amendment, modification, waiver, supplement, termination or surrender of, the terms of the Sale Agreement, the Administration Agreement, the Servicing Agreement or the Intercreditor Agreement, or waive timely performance or observance by the Seller, Duke Energy [Carolinas/Progress], the Administrator, the Servicer or any other party under the Sale Agreement, the Administration Agreement, the Servicing Agreement or the Intercreditor Agreement, in each case in such a way as would materially and adversely affect the interests of any Holder of Storm Recovery Bonds, the Issuer shall first notify the Rating Agencies of the proposed amendment, modification, waiver, supplement, termination or surrender and shall promptly notify the Indenture Trustee, the Commission and the Holders of the Storm Recovery Bonds in writing of the proposed amendment, modification, waiver, supplement, termination or surrender and whether the Rating Agency Condition has been satisfied with respect thereto (or, pursuant to an Issuer Request, the Indenture Trustee shall so notify the Holders of the Storm Recovery Bonds on the Issuer's behalf). The Indenture Trustee shall consent to such proposed amendment, modification, waiver, supplement, termination or surrender only if the Rating Agency Condition is satisfied and only with the (i) prior written consent of the Holders of a majority of the Outstanding Amount of Storm Recovery Bonds of each Series or tranche materially and adversely affected thereby and (ii) satisfaction of the Commission Condition (as

described in Section 9.03 hereof, or alternatively, if applicable, Section 13(b) of the Administration Agreement, Section 6.01(b) of the Sale Agreement or Section 8.01(b) of the Servicing Agreement). If any such amendment, modification, waiver, supplement, termination or surrender shall be so consented to by the Indenture Trustee or such Holders, the Issuer agrees to execute and deliver, in its own name and at its own expense, such agreements, instruments, consents and other documents as shall be necessary or appropriate in the circumstances.

(e) If the Issuer or the Servicer proposes to amend, modify, waive, supplement, terminate or surrender, or to agree to any amendment, modification, supplement, termination, waiver or surrender of, the process for True-Up Adjustments, the Issuer shall notify the Indenture Trustee and the Holders of the Storm Recovery Bonds and, when required, the Commission in writing of such proposal (or, pursuant to an Issuer Request, the Indenture Trustee shall so notify the Holders of the Storm Recovery Bonds on the Issuer's behalf) and the Indenture Trustee shall consent thereto only with the prior written consent of the Holders of a majority of the Outstanding Amount of Storm Recovery Bonds of each Series or tranche affected thereby and only if the Rating Agency Condition and Commission Condition have been satisfied with respect thereto.

(f) Promptly following a default by the Seller under the Sale Agreement for such Series, by the Administrator under the Administration Agreement or by any party under the Intercreditor Agreement for such Series, or the occurrence of a Servicer Default under the Servicing Agreement for such Series, and at the Issuer's expense, the Issuer agrees to take all such lawful actions as the Indenture Trustee may request to compel or secure the performance and observance by each of the Seller, the Administrator or the Servicer, and by such party to the Intercreditor Agreement, of their obligations under and in accordance with the Sale Agreement for such Series, the Servicing Agreement for such Series, the Administration Agreement and the Intercreditor Agreement for such Series, as the case may be, in accordance with the terms thereof, and to exercise any and all rights, remedies, powers and privileges lawfully available to the Issuer under or in connection with such agreements to the extent and in the manner directed by the Indenture Trustee, including the transmission of notices of any default by the Seller, the Administrator or the Servicer, respectively, thereunder and the institution of legal or administrative actions or Proceedings to compel or secure performance of their obligations under the Sale Agreement for such Series, the Servicing Agreement for such Series, the Administration Agreement or the Intercreditor Agreement for such Series, as applicable.

SECTION 3.23. Taxes. So long as any of the Storm Recovery Bonds are Outstanding, the Issuer shall pay all taxes, assessments and governmental charges imposed upon it or any of its properties or assets or with respect to any of its franchises, business, income or property before any penalty accrues thereon if the failure to pay any such taxes, assessments and governmental charges would, after any applicable grace periods, notices or other similar requirements, result in a Lien on the Collateral; provided, that no such tax need be paid if the Issuer is contesting the same in good faith by appropriate proceedings promptly instituted and diligently conducted and if the Issuer has established appropriate reserves as shall be required in conformity with generally accepted accounting principles.

SECTION 3.24. Notices from Holders. The Issuer shall promptly transmit any notice received by it from the Holders to the Indenture Trustee.

SECTION 3.25. Volcker Rule. The Issuer is structured so as not to be a "covered fund" under the regulations adopted to implement Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, commonly known as the "Volcker Rule."

ARTICLE IV

SATISFACTION AND DISCHARGE; DEFEASANCE

SECTION 4.01. Satisfaction and Discharge of Indenture; Defeasance.

(a) This Indenture shall cease to be of further effect with respect to the Storm Recovery Bonds of any Series, and the Indenture Trustee, on reasonable written demand of and at the expense of the Issuer, shall execute proper instruments acknowledging satisfaction and discharge of this Indenture with respect to the Storm Recovery Bonds of such Series, when:

(i) Either:

(A) all Storm Recovery Bonds of such Series theretofore authenticated and delivered (other than (1) Storm Recovery Bonds that have been destroyed, lost or stolen and that have been replaced or paid as provided in Section 2.06 and (2) Storm Recovery Bonds for whose payment money has theretofore been deposited in trust or segregated and held in trust by the Issuer and thereafter repaid to the Issuer or discharged from such trust, as provided in the last paragraph of Section 3.03) have been delivered to the Indenture Trustee for cancellation; or

(B) either (1) the Scheduled Final Payment Date has occurred with respect to all Storm Recovery Bonds of such Series not theretofore delivered to the Indenture Trustee for cancellation or (2) the Storm Recovery Bonds of such Series will be due and payable on their respective Scheduled Final Payment Dates within one year, and, in any such case, the Issuer has irrevocably deposited or caused to be irrevocably deposited in trust with the Indenture Trustee (i) cash and/or (ii) U.S. Government Obligations that through the scheduled payments of principal and interest in respect thereof in accordance with their terms are in an amount sufficient to pay principal, interest and premium, if any, on the Storm Recovery Bonds of such Series not theretofore delivered to the Indenture Trustee for cancellation, Ongoing Financing Costs and all other sums payable hereunder by the Issuer with respect to the Storm Recovery Bonds of such Series when scheduled to be paid and to discharge the entire indebtedness on the Storm Recovery Bonds of such Series when due;

(ii) the Issuer has paid or caused to be paid all other sums payable hereunder by the Issuer with respect to such Series; and

(iii) the Issuer has delivered to the Indenture Trustee and the Commission an Officer's Certificate, an Opinion of Counsel of external counsel of the Issuer and (if required by the Trust Indenture Act or the Indenture Trustee) an Independent Certificate from a firm of registered public accountants, each meeting the applicable requirements of Section 10.01(a) and each stating that all conditions precedent herein provided for relating to the satisfaction and discharge of this Indenture with respect to the Storm Recovery Bonds of such Series have been complied with.

(b) Subject to Section 4.01(c) and Section 4.02, the Issuer at any time may terminate (i) all its obligations under this Indenture with respect to the Storm Recovery Bonds of any Series ("Legal Defeasance Option") or (ii) its obligations under Section 3.04, Section 3.05, Section 3.06, Section 3.07, Section 3.08, Section 3.09, Section 3.10, Section 3.12, Section 3.13, Section 3.14, Section 3.15, Section 3.16, Section 3.17, Section 3.18 and Section 3.19 and the operation of Section 5.01(c) with respect to the Storm Recovery Bonds of any Series ("Covenant Defeasance Option"). The Issuer may exercise the Legal Defeasance Option with respect to any Series of the Storm Recovery Bonds notwithstanding its prior exercise of the Covenant Defeasance Option with respect to such Series.

If the Issuer exercises the Legal Defeasance Option with respect to any Series, the maturity of the Storm Recovery Bonds of such Series may not be accelerated because of an Event of Default. If the Issuer exercises the Covenant Defeasance Option with respect to any Series, the maturity of the Storm Recovery Bonds of such Series may not be accelerated because of an Event of Default specified in Section 5.01(c).

Upon satisfaction of the conditions set forth herein to the exercise of the Legal Defeasance Option or the Covenant Defeasance Option with respect to any Series of the Storm Recovery Bonds, the Indenture Trustee, on reasonable written demand of and at the expense of the Issuer, shall execute proper instruments acknowledging satisfaction and discharge of the obligations that are terminated pursuant to such exercise.

(c) Notwithstanding Section 4.01(a) and Section 4.01(b), (i) rights of registration of transfer and exchange, (ii) substitution of mutilated, destroyed, lost or stolen Storm Recovery Bonds, (iii) rights of Holders to receive payments of principal, premium, if any, and interest, (iv) Section 4.03 and Section 4.04, (v) the rights, obligations and immunities of the Indenture Trustee hereunder (including the rights of the Indenture Trustee under Section 6.07 and the obligations of the Indenture Trustee under Section 4.03) and (vi) the rights of Holders as beneficiaries hereof with respect to the property deposited with the Indenture Trustee payable to all or any of them, each shall survive until the Storm Recovery Bonds of the Series as to which this Indenture or certain obligations hereunder have been satisfied and discharged pursuant to Section 4.01(a) or Section 4.01(b). Thereafter the obligations in Section 6.07 and Section 4.04 with respect to such Series shall survive.

SECTION 4.02. Conditions to Defeasance. The Issuer may exercise the Legal Defeasance Option or the Covenant Defeasance Option with respect to any Series of the Storm Recovery Bonds only if:

(a) the Issuer has irrevocably deposited or caused to be irrevocably deposited in trust with the Indenture Trustee (i) cash and/or (ii) U.S. Government Obligations that through the scheduled payments of principal and interest in respect thereof in accordance with their terms are in an amount sufficient to pay principal, interest and premium, if any, on the Storm Recovery Bonds of such Series not therefore delivered to the Indenture Trustee for cancellation and Ongoing Financing Costs and all other sums payable hereunder by the Issuer with respect to the Storm Recovery Bonds of such Series when scheduled to be paid and to discharge the entire indebtedness on the Storm Recovery Bonds of such Series when due;

(b) the Issuer delivers to the Indenture Trustee a certificate from a nationally recognized firm of Independent registered public accountants expressing its opinion that the payments of principal of and interest on the deposited U.S. Government Obligations when due and without reinvestment plus any deposited cash will provide cash at such times and in such amounts (but, in the case of the Legal Defeasance Option only, not more than such amounts) as will be sufficient to pay in respect of the Storm Recovery Bonds of such Series (i) principal in accordance with the Expected Sinking Fund Schedule therefor, (ii) interest when due and (iii) Ongoing Financing Costs and all other sums payable hereunder by the Issuer with respect to the Storm Recovery Bonds of such Series;

(c) in the case of the Legal Defeasance Option, 95 days after the deposit is made and during the 95-day period no Default specified in Section 5.01(e) or Section 5.01(f) occurs that is continuing at the end of the period;

(d) no Default has occurred and is continuing on the day of such deposit and after giving effect thereto;

(e) in the case of an exercise of the Legal Defeasance Option, the Issuer shall have delivered to the Indenture Trustee an Opinion of Counsel of external counsel of the Issuer stating that (i) the Issuer has received from, or there has been published by, the Internal Revenue Service a ruling or (ii) since the date of execution of this Indenture, there has been a change in the applicable U.S. federal income tax law, in either case to the effect that, and based thereon such opinion shall confirm that, the Holders of the Storm Recovery Bonds of such Series will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such legal defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such legal defeasance had not occurred;

(f) in the case of an exercise of the Covenant Defeasance Option, the Issuer shall have delivered to the Indenture Trustee an Opinion of Counsel of external counsel of the Issuer to the effect that the Holders of the Storm Recovery Bonds of such Series will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such covenant defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such covenant defeasance had not occurred;

(g) the Issuer delivers to the Indenture Trustee an Officer's Certificate and an Opinion of Counsel, each stating that all conditions precedent to the Legal Defeasance Option or

the Covenant Defeasance Option, as applicable, have been complied with as required by this Article IV;

(h) the Issuer delivers to the Indenture Trustee, the SRB Trustee an Opinion of Counsel of external counsel of the Issuer to the effect that: (i) in a case under the Bankruptcy Code in which Duke Energy [Carolinas/Progress] (or any of its Affiliates, other than the Issuer) is the debtor, the court would hold that the deposited moneys or U.S. Government Obligations would not be in the bankruptcy estate of Duke Energy [Carolinas/Progress] (or any of its Affiliates, other than the Issuer, that deposited the moneys or U.S. Government Obligations); and (ii) in the event Duke Energy [Carolinas/Progress] (or any of its Affiliates, other than the Issuer, that deposited the moneys or U.S. Government Obligations) were to be a debtor in a case under the Bankruptcy Code, the court would not disregard the separate legal existence of Duke Energy [Carolinas/Progress] (or any of its Affiliates, other than the Issuer, that deposited the moneys or U.S. Government Obligations) and the Issuer so as to order substantive consolidation under the Bankruptcy Code of the Issuer's assets and liabilities with the assets and liabilities of Duke Energy [Carolinas/Progress] or such other Affiliate; and

(i) the Rating Agency Condition shall have been satisfied with respect to the exercise of any Legal Defeasance Option or Covenant Defeasance Option.

Notwithstanding any other provision of this Section 4.02, no delivery of moneys or U.S. Government Obligations to the Indenture Trustee shall terminate any obligation of the Issuer to the Indenture Trustee under this Indenture or the applicable Series Supplement or any obligation of the Issuer to apply such moneys or U.S. Government Obligations under Section 4.03 until principal of and premium, if any, and interest on the Storm Recovery Bonds of such Series shall have been paid in accordance with the provisions of this Indenture and the Series Supplement.

SECTION 4.03. Application of Trust Money. All moneys or U.S. Government Obligations deposited with the Indenture Trustee pursuant to Section 4.01 or Section 4.02 shall be held in trust and applied by it, in accordance with the provisions of the Storm Recovery Bonds and this Indenture, to the payment, either directly or through any Paying Agent, as the Indenture Trustee may determine, to the Holders of the particular Storm Recovery Bonds for the payment of which such moneys have been deposited with the Indenture Trustee, of all sums due and to become due thereon for principal, premium, if any, and interest; but such moneys need not be segregated from other funds except to the extent required herein or in the Servicing Agreement or required by law. Notwithstanding anything to the contrary in this Article IV, the Indenture Trustee shall deliver or pay to the Issuer from time to time upon Issuer Request any moneys or U.S. Government Obligations held by it pursuant to Section 4.02 that, in the opinion of a nationally recognized firm of Independent registered public accountants expressed in a written certification thereof delivered to the Indenture Trustee (and not at the cost or expense of the Indenture Trustee), are in excess of the amount thereof that would be required to be deposited for the purpose for which such moneys or U.S. Government Obligations were deposited; provided, that any such payment shall be subject to the satisfaction of the Rating Agency Condition.

SECTION 4.04. Repayment of Moneys Held by Paying Agent. In connection with the satisfaction and discharge of this Indenture or the Covenant Defeasance Option or Legal Defeasance Option with respect to any Series of Storm Recovery Bonds, all moneys with respect

to such Series then held by any Paying Agent other than the Indenture Trustee under the provisions of this Indenture shall, upon demand of the Issuer, be paid to the Indenture Trustee to be held and applied according to Section 3.03 and thereupon such Paying Agent shall be released from all further liability with respect to such moneys.

ARTICLE V

REMEDIES

SECTION 5.01. Events of Default. "Event of Default" with respect to any Series means any one or more of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(a) default in the payment of any interest on any Storm Recovery Bond when the same becomes due and payable (whether such failure to pay interest is caused by a shortfall in Charges received or otherwise), and such default shall continue for a period of five Business Days;

(b) default in the payment of the then unpaid principal of any Storm Recovery Bond of any Series on the Final Maturity Date for such Series, or, if applicable, any tranche on the Final Maturity Date for such tranche;

(c) default in the observance or performance of any covenant or agreement of the Issuer made in this Indenture (other than defaults specified in Section 5.01(a) or Section 5.01(b)), and such default shall continue or not be cured, for a period of 30 days after the earlier of (i) the date that there shall have been given, by registered or certified mail, to the Issuer by the Indenture Trustee or to the Issuer and the Indenture Trustee by the Holders of at least 25 percent of the Outstanding Amount of the Storm Recovery Bonds of a Series, a written notice specifying such default and requiring it to be remedied and stating that such notice is a "Notice of Default" hereunder or (ii) the date that the Issuer has actual knowledge of the default;

(d) any representation or warranty of the Issuer made in this Indenture, a Series Supplement or in any certificate or other writing delivered pursuant hereto or a Series Supplement or in connection herewith proving to have been incorrect in any material respect as of the time when the same shall have been made, and the circumstance or condition in respect of which such representation or warranty was incorrect shall not have been eliminated or otherwise cured, within 30 days after the earlier of (i) the date that there shall have been given, by registered or certified mail, to the Issuer by the Indenture Trustee or to the Issuer and the Indenture Trustee by the Holders of at least twenty-five (25) percent of the Outstanding Amount of the Storm Recovery Bonds, a written notice specifying such incorrect representation or warranty and requiring it to be remedied and stating that such notice is a "Notice of Default" hereunder or (ii) the date the Issuer has actual knowledge of the default;

(e) the filing of a decree or order for relief by a court having jurisdiction in the premises in respect of the Issuer or any substantial part of the Collateral in an involuntary

case or proceeding under any applicable U.S. federal or state bankruptcy, insolvency or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Issuer or for any substantial part of the Collateral, or ordering the winding-up or liquidation of the Issuer's affairs, and such decree or order shall remain unstayed and in effect for a period of 90 consecutive days;

(f) the commencement by the Issuer of a voluntary case under any applicable U.S. federal or state bankruptcy, insolvency or other similar law now or hereafter in effect, or the consent by the Issuer to the entry of an order for relief in an involuntary case or proceeding under any such law, or the consent by the Issuer to the appointment or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Issuer or for any substantial part of the Collateral, or the making by the Issuer of any general assignment for the benefit of creditors, or the failure by the Issuer generally to pay its debts as such debts become due, or the taking of action by the Issuer in furtherance of any of the foregoing;

(g) any act or failure to act by the State of North Carolina or any of its agencies (including the Commission), officers or employees that violates the State Pledge or is not in accordance with the State Pledge; or

(h) any other event designated as such in a Series Supplement.

The Issuer shall deliver to a Responsible Officer of the Indenture Trustee and to the Rating Agencies, within five days after a Responsible Officer of the Issuer has knowledge of the occurrence thereof, written notice in the form of an Officer's Certificate of any event (i) that is an Event of Default under Section 5.01(a), Section 5.01(b), Section 5.01(f), Section 5.01(g) or Section 5.01(h) or (ii) that with the giving of notice, the lapse of time, or both, would become an Event of Default under Section 5.01(c), Section 5.01(d) or Section 5.01(e), including, in each case, the status of such Default or Event of Default and what action the Issuer is taking or proposes to take with respect thereto. An Event of Default with respect to one Series of Storm Recovery Bonds will not trigger an Event of Default with respect to any other Outstanding Series of Storm Recovery Bonds.

SECTION 5.02. Acceleration of Maturity; Rescission and Annulment. If an Event of Default (other than an Event of Default under Section 5.01(g)) should occur and be continuing with respect to any Series, then and in every such case the Indenture Trustee or the Holders representing a majority of the Outstanding Amount of the Storm Recovery Bonds of such Series may declare the Storm Recovery Bonds of such Series to be immediately due and payable, by a notice in writing to the Issuer (and to the Indenture Trustee and the Commission if given by Holders), and upon any such declaration the unpaid principal amount of the Storm Recovery Bonds of such Series, together with accrued and unpaid interest thereon through the date of acceleration, shall become immediately due and payable.

At any time after such declaration of acceleration of maturity has been made and before a judgment or decree for payment of the money due has been obtained by the Indenture Trustee as hereinafter in this Article V provided, the Holders representing a majority of the Outstanding Amount of the Storm Recovery Bonds of such Series, by written notice to the

Issuer, the Commission and the Indenture Trustee, may rescind and annul such declaration and its consequences if:

(a) the Issuer has paid or deposited with the Indenture Trustee a sum sufficient to pay:

(i) all payments of principal of and premium, if any, and interest on all Storm Recovery Bonds of all Series due and owing at such time as if such Event of Default had not occurred and was not continuing and all other amounts that would then be due hereunder or upon the Storm Recovery Bonds if the Event of Default giving rise to such acceleration had not occurred; and

(ii) all sums paid or advanced by the Indenture Trustee hereunder and the reasonable compensation, expenses; provided, that, the Indenture Trustee shall not be obligated to pay or advance any sums hereunder from its own funds after an Event of Default, disbursements and advances of the Indenture Trustee and its agents and counsel; and

(b) all Events of Default with respect to such Series, other than the nonpayment of the principal of the Storm Recovery Bonds of such Series that has become due solely by such acceleration, have been cured or waived as provided in Section 5.12.

No such rescission shall affect any subsequent default or impair any right consequent thereto.

SECTION 5.03. Collection of Indebtedness and Suits for Enforcement by Indenture Trustee.

(a) If an Event of Default under Section 5.01(a) or Section 5.01(b) has occurred and is continuing, subject to Section 10.16, the Indenture Trustee, in its own name and as trustee of an express trust, may institute a Proceeding for the collection of the sums so due and unpaid, and may prosecute such Proceeding to judgment or final decree, and, subject to the limitations on recourse set forth herein, may enforce the same against the Issuer or other obligor upon the Storm Recovery Bonds of such Series and collect in the manner provided by law out of the property of the Issuer or other obligor upon the Storm Recovery Bonds of such Series wherever situated the moneys payable, or the Series Collateral and the proceeds thereof, the whole amount then due and payable on the Storm Recovery Bonds of such Series for principal, premium, if any, and interest, with interest upon the overdue principal and premium, if any, and, to the extent payment at such rate of interest shall be legally enforceable, upon overdue installments of interest, at the respective rate borne by the Storm Recovery Bonds of such Series or the applicable tranche of such Series and in addition thereto such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Indenture Trustee and its agents and counsel.

(b) If an Event of Default (other than Event of Default under Section 5.01(g)) occurs and is continuing, the Indenture Trustee shall, as more particularly provided in Section 5.04, proceed to protect and enforce its rights and the rights of the Holders, by such appropriate Proceedings as the Indenture Trustee shall deem most effective to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in

this Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy or legal or equitable right vested in the Indenture Trustee by this Indenture and each Series Supplement or by law, including foreclosing or otherwise enforcing the Lien of the Collateral securing the Storm Recovery Bonds or applying to the Commission or a court of competent jurisdiction for sequestration of revenues arising with respect to the Property.

(c) If an Event of Default under Section 5.01(e) or Section 5.01(f) has occurred and is continuing, the Indenture Trustee, irrespective of whether the principal of any Storm Recovery Bonds shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Indenture Trustee shall have made any demand pursuant to the provisions of this Section 5.03, shall be entitled and empowered, by intervention in any Proceedings related to such Event of Default or otherwise:

(i) to file and prove a claim or claims for the whole amount of principal, premium, if any, and interest owing and unpaid in respect of the Storm Recovery Bonds and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Indenture Trustee (including any claim for reasonable compensation to the Indenture Trustee and each predecessor Indenture Trustee, and their respective agents, attorneys and counsel, and for reimbursement of all expenses and liabilities incurred, and all advances made, by the Indenture Trustee and each predecessor Indenture Trustee, except as a result of negligence or bad faith) and of the Holders allowed in such Proceedings;

(ii) unless prohibited by applicable law and regulations, to vote on behalf of the Holders in any election of a trustee in bankruptcy, a standby trustee or Person performing similar functions in any such Proceedings;

(iii) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute all amounts received with respect to the claims of the Holders and of the Indenture Trustee on their behalf; and

(iv) to file such proofs of claim and other papers and documents as may be necessary or advisable in order to have the claims of the Indenture Trustee or the Holders allowed in any judicial proceeding relative to the Issuer, its creditors and its property;

and any trustee, receiver, liquidator, custodian or other similar official in any such Proceeding is hereby authorized by each of such Holders to make payments to the Indenture Trustee, and, in the event that the Indenture Trustee shall consent to the making of payments directly to such Holders, to pay to the Indenture Trustee such amounts as shall be sufficient to cover reasonable compensation to the Indenture Trustee, each predecessor Indenture Trustee and their respective agents, attorneys and counsel, and all other expenses and liabilities incurred, and all advances made, by the Indenture Trustee and each predecessor Indenture Trustee except as a result of negligence or bad faith.

(d) Nothing herein contained shall be deemed to authorize the Indenture Trustee to authorize or consent to or vote for or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or composition affecting the Storm Recovery Bonds

or the rights of any Holder thereof or to authorize the Indenture Trustee to vote in respect of the claim of any Holder in any such proceeding except, as aforesaid, to vote for the election of a trustee in bankruptcy or similar Person.

(e) All rights of action and of asserting claims under this Indenture, or under any of the Storm Recovery Bonds of any Series, may be enforced by the Indenture Trustee without the possession of any of the Storm Recovery Bonds of any Series or the production thereof in any trial or other Proceedings relative thereto, and any such action or proceedings instituted by the Indenture Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment, subject to the payment of the expenses, disbursements and compensation of the Indenture Trustee, each predecessor Indenture Trustee and their respective agents and attorneys, shall be for the ratable benefit of the Holders of the Storm Recovery Bonds of such Series.

SECTION 5.04. Remedies; Priorities.

(a) If an Event of Default (other than an Event of Default under Section 5.01(g)) shall have occurred and be continuing with respect to a Series, the Indenture Trustee may do one or more of the following (subject to Section 5.05):

(i) institute Proceedings in its own name and as trustee of an express trust for the collection of all amounts then payable on the Storm Recovery Bonds of such Series or under this Indenture with respect thereto, whether by declaration of acceleration or otherwise, and, subject to the limitations on recovery set forth herein, enforce any judgment obtained, and collect from the Issuer or any other obligor moneys adjudged due, upon the Storm Recovery Bonds;

(ii) institute Proceedings from time to time for the complete or partial foreclosure of this Indenture with respect to the Series Collateral;

(iii) exercise any remedies of a secured party under the UCC, the Storm Recovery Law or any other applicable law and take any other appropriate action to protect and enforce the rights and remedies of the Indenture Trustee and the Holders of the Storm Recovery Bonds of such Series;

(iv) at the written direction of the Holders of a majority of the Outstanding Amount of the Storm Recovery Bonds of such Series, either sell the Series Collateral or any portion thereof or rights or interest therein, at one or more public or private sales called and conducted in any manner permitted by law, or elect that the Issuer maintain possession of all or a portion of the Series Collateral pursuant to Section 5.05 and continue to apply the Storm Recovery Charge Collection as if there had been no declaration of acceleration; and

(v) exercise all rights, remedies, powers, privileges and claims of the Issuer against the Seller, the Administrator or the Servicer under or in connection with, and pursuant to the terms of, the Sale Agreement, the Administration Agreement or the Servicing Agreement;

provided, however, that the Indenture Trustee may not sell or otherwise liquidate any portion of the Series Collateral following such an Event of Default, other than an Event of Default described in Section 5.01(a) or Section 5.01(b), with respect to a Series unless (A) the Holders of 100 percent of the Outstanding Amount of the Storm Recovery Bonds of such Series consent thereto, (B) the proceeds of such sale or liquidation distributable to the Holders are sufficient to discharge in full all amounts then due and unpaid upon the Storm Recovery Bonds of such Series for principal, premium, if any, and interest after taking into account payment of all amounts due prior thereto pursuant to the priorities set forth in Section 8.02(e) or (C) the Indenture Trustee determines that the Series Collateral will not continue to provide sufficient funds for all payments on the Storm Recovery Bonds of such Series as they would have become due if the Storm Recovery Bonds had not been declared due and payable, and the Indenture Trustee obtains the written consent of Holders of at least two-thirds of the Outstanding Amount of the Storm Recovery Bonds of such Series. In determining such sufficiency or insufficiency with respect to clause (B) above and clause (C) above, the Indenture Trustee may, but need not, obtain and conclusively rely upon an opinion of an Independent investment banking or accounting firm of national reputation as to the feasibility of such proposed action and as to the sufficiency of the Series Collateral for such purpose, at Issuer's expense.

(b) If an Event of Default under Section 5.01(g) shall have occurred and be continuing, the Indenture Trustee, for the benefit of the Secured Parties of the related Series, shall be entitled and empowered, to the extent permitted by applicable law, to institute or participate in Proceedings necessary to compel performance of or to enforce the State Pledge and to collect any monetary damages incurred by the Holders or the Indenture Trustee as a result of any such Event of Default, and may prosecute any such Proceeding to final judgment or decree. Such remedy shall be the only remedy that the Indenture Trustee may exercise if the only Event of Default that has occurred and is continuing is an Event of Default under Section 5.01(g).

(c) If the Indenture Trustee collects any money pursuant to this Article V, it shall pay out such money in accordance with the priorities set forth in Section 8.02(e).

SECTION 5.05. Optional Preservation of the Collateral. If the Storm Recovery Bonds of any Series have been declared to be due and payable under Section 5.02 following an Event of Default and such declaration and its consequences have not been rescinded and annulled, the Indenture Trustee may, but need not, elect to maintain possession of all or a portion of the related Series Collateral. It is the desire of the parties hereto and the Holders that there be at all times sufficient funds for the payment of principal of and premium, if any, and interest on the Storm Recovery Bonds, and the Indenture Trustee shall take such desire into account when determining whether or not to maintain possession of the Series Collateral. In determining whether to maintain possession of the Series Collateral or sell or liquidate the same, the Indenture Trustee may, but need not, obtain and conclusively rely upon an opinion of an Independent investment banking or accounting firm of national reputation as to the feasibility of such proposed action and as to the sufficiency of the Series Collateral for such purpose.

SECTION 5.06. Limitation of Suits. No Holder of any Storm Recovery Bond of any Series shall have any right to institute any Proceeding, judicial or otherwise, to avail itself of any remedies provided in the Storm Recovery Law or to avail itself of the right to foreclose on the Series Collateral or otherwise enforce the Lien and the security interest on the Series

Collateral with respect to this Indenture and the related Series Supplement, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless:

(a) such Holder previously has given written notice to the Indenture Trustee of a continuing Event of Default with respect to such Series;

(b) the Holders of a majority of the Outstanding Amount of the Storm Recovery Bonds of such Series have made written request to the Indenture Trustee to institute such Proceeding in respect of such Event of Default in its own name as Indenture Trustee hereunder;

(c) such Holder or Holders have offered to the Indenture Trustee indemnity satisfactory to it against the costs, expenses and liabilities to be incurred in complying with such request;

(d) the Indenture Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute such Proceedings; and

(e) no direction inconsistent with such written request has been given to the Indenture Trustee during such 60-day period by the Holders of a majority of the Outstanding Amount of the Storm Recovery Bonds of all Series;

it being understood and intended that no one or more Holders shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture to affect, disturb or prejudice the rights of any other Holders or to obtain or to seek to obtain priority or preference over any other Holders or to enforce any right under this Indenture, except in the manner herein provided.

In the event the Indenture Trustee shall receive conflicting or inconsistent requests and indemnity from two or more groups of Holders, each representing less than a majority of the Outstanding Amount of the Storm Recovery Bonds of all Series, the Indenture Trustee in its sole discretion may file a petition with a court of competent jurisdiction to resolve such conflict or determine what action, if any, shall be taken, notwithstanding any other provisions of this Indenture.

SECTION 5.07. Unconditional Rights of Holders To Receive Principal, Premium, if any, and Interest. Notwithstanding any other provisions in this Indenture, the Holder of any Storm Recovery Bond shall have the right, which is absolute and unconditional, (a) to receive payment of (i) the interest, if any, on such Storm Recovery Bond on the due dates thereof expressed in such Storm Recovery Bond or in this Indenture or (ii) the unpaid principal, if any, of the Storm Recovery Bonds on the Final Maturity Date or Final Maturity Date for such tranche therefor and (b) to institute suit for the enforcement of any such payment, and such right shall not be impaired without the consent of such Holder.

SECTION 5.08. Restoration of Rights and Remedies. If the Indenture Trustee or any Holder has instituted any Proceeding to enforce any right or remedy under this Indenture and such Proceeding has been discontinued or abandoned for any reason or has been determined adversely to the Indenture Trustee or to such Holder, then and in every such case the Issuer, the

Indenture Trustee and the Holders shall, subject to any determination in such Proceeding, be restored severally and respectively to their former positions hereunder, and thereafter all rights and remedies of the Indenture Trustee and the Holders shall continue as though no such Proceeding had been instituted.

SECTION 5.09. Rights and Remedies Cumulative. No right or remedy herein conferred upon or reserved to the Indenture Trustee or to the Holders is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

SECTION 5.10. Delay or Omission Not a Waiver. No delay or omission of the Indenture Trustee or any Holder to exercise any right or remedy accruing upon any Default or Event of Default shall impair any such right or remedy or constitute a waiver of any such Default or Event of Default or an acquiescence therein. Every right and remedy given by this Article V or by law to the Indenture Trustee or to the Holders may be exercised from time to time, and as often as may be deemed expedient, by the Indenture Trustee or by the Holders, as the case may be.

SECTION 5.11. Control by Holders. The Holders of a majority of the Outstanding Amount of the Storm Recovery Bonds of all Series (or, if less than all Series or tranches are affected, the affected Series or tranche) shall have the right to direct the time, method and place of conducting any Proceeding for any remedy available to the Indenture Trustee with respect to the Storm Recovery Bonds of such Series or tranche or tranches or exercising any trust or power conferred on the Indenture Trustee with respect to such Series or tranche or tranches; provided, that:

(a) such direction shall not be in conflict with any rule of law or with this Indenture or any Series Supplement and shall not involve the Indenture Trustee in any personal liability or expense;

(b) subject to other conditions specified in Section 5.04, any direction to the Indenture Trustee to sell or liquidate any Series Collateral shall be by the Holders representing 100 percent of the Outstanding Amount of the Storm Recovery Bonds in the affected Series;

(c) if the conditions set forth in Section 5.05 have been satisfied and the Indenture Trustee elects to retain the Series Collateral pursuant to Section 5.05, then any direction to the Indenture Trustee by Holders representing less than 100 percent of the Outstanding Amount of the Storm Recovery Bonds of the affected Series to sell or liquidate the Series Collateral shall be of no force and effect; and

(d) the Indenture Trustee may take any other action deemed proper by the Indenture Trustee that is not inconsistent with such direction;

provided, however, that the Indenture Trustee's duties shall be subject to Section 6.01, and the Indenture Trustee need not take any action that it determines might involve it in liability or might

materially adversely affect the rights of any Holders not consenting to such action. Furthermore and without limiting the foregoing, the Indenture Trustee shall not be required to take any action for which it reasonably believes that it will not be indemnified to its satisfaction against any cost, expense or liabilities.

SECTION 5.12. Waiver of Past Defaults. Prior to the declaration of the acceleration of the maturity of the Storm Recovery Bonds of all Series as provided in Section 5.02, the Holders representing a majority of the Outstanding Amount of the Storm Recovery Bonds of an affected Series, with the written consent of the Commission, may waive any past Default or Event of Default and its consequences except a Default (a) in payment of principal of or premium, if any, or interest on any of the Storm Recovery Bonds or (b) in respect of a covenant or provision hereof that cannot be modified or amended without the consent of the Holder of each Storm Recovery Bond of all Series or tranches affected. In the case of any such waiver, the Issuer, the Indenture Trustee and the Holders shall be restored to their former positions and rights hereunder, respectively, but no such waiver shall extend to any subsequent or other Default or impair any right consequent thereto.

Upon any such waiver, such Default shall cease to exist and be deemed to have been cured and not to have occurred, and any Event of Default arising therefrom shall be deemed to have been cured and not to have occurred, for every purpose of this Indenture, but no such waiver shall extend to any subsequent or other Default or Event of Default or impair any right consequent thereto.

SECTION 5.13. Undertaking for Costs. All parties to this Indenture agree, and each Holder of any Storm Recovery Bond by such Holder's acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Indenture Trustee for any action taken, suffered or omitted by it as Indenture Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this Section 5.13 shall not apply to (a) any suit instituted by the Indenture Trustee, (b) any suit instituted by any Holder, or group of Holders, in each case holding in the aggregate more than ten percent of the Outstanding Amount of the Storm Recovery Bonds of a Series or (c) any suit instituted by any Holder for the enforcement of the payment of (i) interest on any Storm Recovery Bond on or after the due dates expressed in such Storm Recovery Bond and in this Indenture or (ii) the unpaid principal, if any, of any Storm Recovery Bond on or after the Final Maturity Date or Final Maturity Date for such tranche therefor.

SECTION 5.14. Waiver of Stay or Extension Laws. The Issuer covenants (to the extent that it may lawfully do so) that it will not at any time insist upon or plead or, in any manner whatsoever, claim or take the benefit or advantage of, any stay or extension law wherever enacted, now or at any time hereafter in force, that may affect the covenants or the performance of this Indenture; and the Issuer (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and covenants that it will not hinder,

delay or impede the execution of any power herein granted to the Indenture Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

SECTION 5.15. Action on Storm Recovery Bonds. The Indenture Trustee's right to seek and recover judgment on the Storm Recovery Bonds or under this Indenture shall not be affected by the seeking, obtaining or application of any other relief under or with respect to this Indenture. Neither the Lien of this Indenture nor any rights or remedies of the Indenture Trustee or the Holders shall be impaired by the recovery of any judgment by the Indenture Trustee against the Issuer or by the levy of any execution under such judgment upon any portion of the Collateral or any other assets of the Issuer.

ARTICLE VI

THE INDENTURE TRUSTEE

SECTION 6.01. Duties of Indenture Trustee.

(a) If an Event of Default has occurred and is continuing, the Indenture Trustee shall exercise the rights and powers vested in it by this Indenture and use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

(b) Except during the continuance of an Event of Default:

(i) the Indenture Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Indenture Trustee; and

(ii) in the absence of bad faith on its part, the Indenture Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Indenture Trustee and conforming to the requirements of this Indenture (but need not confirm or investigate the accuracy of mathematical calculations or other facts stated therein).

(c) The Indenture Trustee may not be relieved from liability for its own negligent action, its own bad faith, its own negligent failure to act or its own willful misconduct, except that:

(i) this Section 6.01(c) does not limit the effect of Section 6.01(b);

(ii) the Indenture Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer unless it is proved that the Indenture Trustee was negligent in ascertaining the pertinent facts; and

(iii) the Indenture Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it hereunder.

(d) Every provision of this Indenture that in any way relates to the Indenture Trustee is subject to Section 6.01(a), Section 6.01(b) and Section 6.01(c).

(e) The Indenture Trustee shall not be liable for interest on any money received by it except as the Indenture Trustee may agree in writing with the Issuer.

(f) Money held in trust by the Indenture Trustee need not be segregated from other funds held by the Indenture Trustee except to the extent required by law or the terms of this Indenture, the Sale Agreement, the Servicing Agreement or the Administration Agreement.

(g) No provision of this Indenture shall require the Indenture Trustee to expend or risk its own funds or otherwise incur financial liability in the performance of any of its duties hereunder or in the exercise of any of its rights or powers, if it shall have reasonable grounds to believe that repayments of such funds or indemnity satisfactory to it against such risk or liability is not reasonably assured to it.

(h) Every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Indenture Trustee shall be subject to the provisions of this Section 6.01 and to the provisions of the Trust Indenture Act.

(i) In the event that the Indenture Trustee is also acting as Paying Agent or Storm Recovery Bond Registrar hereunder, the protections of this Article VI shall also be afforded to the Indenture Trustee in its capacity as Paying Agent or Storm Recovery Bond Registrar.

(j) Except for the express duties of the Indenture Trustee with respect to the administrative functions set forth in the Basic Documents, the Indenture Trustee shall have no obligation to administer, service or collect Property or to maintain, monitor or otherwise supervise the administration, servicing or collection of the Charges.

(k) Under no circumstance shall the Indenture Trustee be liable for any indebtedness of the Issuer, the Servicer or the Seller evidenced by or arising under the Storm Recovery Bonds or the Basic Documents.

(l) Commencing with March 15, 2022, on or before March 15th of each fiscal year ending December 31, so long as the Issuer is required to file Exchange Act reports, the Indenture Trustee shall (i) deliver to the Issuer a report (in form and substance reasonably satisfactory to the Issuer and addressed to the Issuer and signed by an authorized officer of the Indenture Trustee) regarding the Indenture Trustee's assessment of compliance, during the preceding fiscal year ended December 31, with each of the applicable servicing criteria specified on Exhibit C as required under Rule 13a-18 and Rule 15d-18 under the Exchange Act and Item 1122 of Regulation AB and (ii) deliver to the Issuer a report of an Independent registered public accounting firm reasonably acceptable to the Issuer that attests to and reports on, in accordance with Rule 1-02(a)(3) and Rule 2-02(g) of Regulation S-X under the Securities Act and the Exchange Act, the assessment of compliance made by the Indenture Trustee and delivered pursuant to Section 6.01(l)(i).

SECTION 6.02. Rights of Indenture Trustee.

(a) The Indenture Trustee may conclusively rely and shall be fully protected in relying on any document believed by it to be genuine and to have been signed or presented by the proper person. The Indenture Trustee need not investigate any fact or matter stated in such document.

(b) Before the Indenture Trustee acts or refrains from acting, it may require and shall be entitled to receive an Officer's Certificate or an Opinion of Counsel, which counsel may be an employee of or counsel to the Issuer or the Seller and which shall be reasonably satisfactory to the Indenture Trustee, or, in the Indenture Trustee's sole judgment, external counsel of the Issuer (at no cost or expense to the Indenture Trustee) that such action is required or permitted hereunder. The Indenture Trustee shall not be liable for any action it takes or omits to take in good faith in reliance on such Officer's Certificate or Opinion of Counsel.

(c) The Indenture Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys or a custodian or nominee, and the Indenture Trustee shall not be responsible for any misconduct or negligence on the part of, or for the supervision of, any such agent, attorney, custodian or nominee appointed with due care by it hereunder. The Indenture Trustee shall give prompt written notice to the Issuer, in which case the Issuer shall then give prompt written notice to the Rating Agencies, of the appointment of any such agent, custodian or nominee to whom it delegates any of its express duties under this Indenture; provided, that the Indenture Trustee shall not be obligated to give such notice (i) if the Issuer or the Holders have directed the Indenture Trustee to appoint such agent, custodian or nominee (in which event the Issuer shall give prompt notice to the Rating Agencies of any such direction) or (ii) of the appointment of any agents, custodians or nominees made at any time that an Event of Default on account of non-payment of principal or interest on the Storm Recovery Bonds or bankruptcy or insolvency of the Issuer has occurred and is continuing.

(d) The Indenture Trustee shall not be liable for any action it takes or omits to take in good faith that it believes to be authorized or within its rights or powers; provided, however, that the Indenture Trustee's conduct does not constitute willful misconduct, negligence or bad faith.

(e) The Indenture Trustee may consult with counsel, and the advice or opinion of counsel with respect to legal matters relating to this Indenture and the Storm Recovery Bonds shall be full and complete authorization and protection from liability in respect to any action taken, omitted or suffered by it hereunder in good faith and in accordance with the advice or opinion of such counsel.

(f) The Indenture Trustee shall be under no obligation to take any action or exercise any of the rights or powers vested in it by this Indenture or any other Basic Document, or to institute, conduct or defend any litigation hereunder or thereunder or in relation hereto or thereto, at the request, order or direction of any of the Holders pursuant to the provisions of this Indenture and each Series Supplement or otherwise, unless it shall have received security or indemnity satisfactory to it against the costs, expenses and liabilities that may be incurred.

(g) The Indenture Trustee may conclusively rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties.

(h) Any request or direction of the Issuer mentioned herein shall be sufficiently evidenced by an Issuer Request or an Issuer Order.

(i) Whenever in the administration of this Indenture the Indenture Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Indenture Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, conclusively rely upon an Officer's Certificate.

(j) The Indenture Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Indenture Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Indenture Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Issuer, personally or by agent or attorney at the sole cost of the Issuer, and shall incur no liability or additional liability of any kind by reason of such inquiry or investigation.

(k) In no event shall the Indenture Trustee be responsible or liable for special, indirect or consequential loss or damage of any kind whatsoever (including loss of profit) irrespective of whether the Indenture Trustee has been advised of the likelihood of such loss or damage and regardless of the form of action.

(l) In no event shall the Indenture Trustee be responsible or liable for any failure or delay in the performance of its obligations hereunder arising out of or caused by, directly or indirectly, forces beyond its control, including strikes, work stoppages, accidents, acts of war or terrorism, civil or military disturbances, nuclear or natural catastrophes or acts of God, and interruptions, loss or malfunctions of utilities, communications or computer (software and hardware) services, it being understood that the Indenture Trustee shall use reasonable efforts that are consistent with accepted practices in the banking industry to resume performance as soon as practicable under the circumstances.

SECTION 6.03. Individual Rights of Indenture Trustee. The Indenture Trustee in its individual or any other capacity may become the owner or pledgee of Storm Recovery Bonds and may otherwise deal with the Issuer or its Affiliates with the same rights it would have if it were not Indenture Trustee. Any Paying Agent, Storm Recovery Bond Registrar, co-registrar or co-paying agent or agent appointed under Section 3.02 may do the same with like rights. However, the Indenture Trustee must comply with Section 6.11 and Section 6.12.

SECTION 6.04. Indenture Trustee's Disclaimer.

(a) The Indenture Trustee shall not be responsible for and makes no representation (other than as set forth in Section 6.13) as to the validity or adequacy of this Indenture or the Storm Recovery Bonds, it shall not be accountable for the Issuer's use of the proceeds from the Storm Recovery Bonds, and it shall not be responsible for any statement of the Issuer in this Indenture or in any document issued in connection with the sale of the Storm Recovery Bonds or in the Storm Recovery Bonds other than the Indenture Trustee's certificate of authentication. The Indenture Trustee shall not be responsible for the form, character, genuineness, sufficiency, value or validity of any of the Collateral (or for the perfection or priority of the Liens thereon), or for or in respect of the Storm Recovery Bonds (other than the certificate of authentication for the Storm Recovery Bonds) or the Basic Documents, and the Indenture Trustee shall in no event assume or incur any liability, duty or obligation to any Holder, other than as expressly provided in this Indenture. The Indenture Trustee shall not be liable for the default or misconduct of the Issuer, the Seller or the Servicer under the Basic Documents or otherwise, and the Indenture Trustee shall have no obligation or liability to perform the obligations of such Persons.

(b) The Indenture Trustee shall not be responsible for (i) the validity of the title of the Issuer to the Collateral, (ii) insuring the Collateral or (iii) the payment of taxes, charges, assessments or Liens upon the Collateral or otherwise as to the maintenance of the Collateral. The Indenture Trustee shall have no duty to ascertain or inquire as to the performance or observance of any of the terms of this Indenture or any of the other Basic Documents. The Indenture Trustee shall not be responsible for filing any financing or continuation statements or recording any documents or instruments in any public office at any time or times or otherwise perfecting or maintaining the perfection of any security interest in the Collateral.

SECTION 6.05. Notice of Defaults. If a Default occurs and is continuing with respect to any Series, the Indenture Trustee shall mail to each Rating Agency, to the SRB Trustee, [to the Commission] and each Holder of Storm Recovery Bonds of all Series notice of the Default within ten Business Days after actual notice of such Default was received by a Responsible Officer of the Indenture Trustee (provided that the Indenture Trustee shall give the Rating Agencies prompt notice of any payment default in respect of the Storm Recovery Bonds). Except in the case of a Default in payment of principal of and premium, if any, or interest on any Storm Recovery Bond, the Indenture Trustee may withhold the notice of the Default if and so long as a committee of its Responsible Officers in good faith determines that withholding such notice is in the interests of Holders and SRB Noteholders. In no event shall the Indenture Trustee be deemed to have knowledge of a Default unless a Responsible Officer of the Indenture Trustee shall have actual knowledge of a Default or shall have received written notice thereof.

SECTION 6.06. Reports by Indenture Trustee to Holders.

(a) So long as Storm Recovery Bonds are Outstanding and the Indenture Trustee is the Storm Recovery Bond Registrar and Paying Agent, upon the written request of any Holder or the Issuer, within the prescribed period of time for tax reporting purposes after the end of each calendar year, the Indenture Trustee shall deliver to each relevant current or former

Holder such information in its possession as may be required to enable such Holder to prepare its U.S. federal income and any applicable local or state tax returns. If the Storm Recovery Bond Registrar and Paying Agent is other than the Indenture Trustee, such Storm Recovery Bond Registrar and Paying Agent, within the prescribed period of time for tax reporting purposes after the end of each calendar year, shall deliver to each relevant current or former Holder such information in its possession as may be required to enable such Holder to prepare its U.S. federal income and any applicable local or state tax returns.

(b) On or prior to each Payment Date or Special Payment Date therefor, the Indenture Trustee will deliver to each Holder of the Storm Recovery Bonds and to the SRB Issuer on such Payment Date or Special Payment Date and the Commission a statement as provided and prepared by the Servicer, which will include (to the extent applicable) the following information (and any other information so specified in the Series Supplement for such Series) as to the Storm Recovery Bonds with respect to such Payment Date or Special Payment Date or the period since the previous Payment Date, as applicable:

(i) the amount of the payment to Holders allocable to principal, if any;

(ii) the amount of the payment to Holders allocable to interest;

(iii) the aggregate Outstanding Amount of the Storm Recovery Bonds, before and after giving effect to any payments allocated to principal reported under Section 6.06(b)(i);

(iv) the difference, if any, between the amount specified in Section 6.06(b)(iii) and the Outstanding Amount specified in the related Expected Sinking Fund Schedule;

(v) any other transfers and payments to be made on such Payment Date or Special Payment Date, including amounts paid to the Indenture Trustee, the SRB Trustee, the Delaware Trustee and to the Servicer; and

(vi) the amounts on deposit in the Capital Subaccount and the Excess Funds Subaccount, after giving effect to the foregoing payments.

(c) The Issuer shall send a copy of each of the Certificate of Compliance delivered to it pursuant to Section 3.03 of the Servicing Agreement and the Annual Accountant's Report delivered to it pursuant to Section 3.04 of the Servicing Agreement to [the Commission], the Rating Agencies, the Indenture Trustee, the SRB Trustee and to the Servicer for posting on the 17g-5 Website in accordance with Rule 17g-5 under the Exchange Act. A copy of such certificate and report may be obtained by any Holder by a request in writing to the Indenture Trustee.

(d) The Indenture Trustee will provide the SRB Trustee the statement required to be sent to SRB Noteholders pursuant to [Section 4.03 of the SRB Indenture], such statement to be prepared by the Servicer and provided to the Indenture Trustee with the statement referenced in 6.06(b) above.

(e) The Indenture Trustee may consult with counsel and the advice or opinion of such counsel with respect to legal matters relating to this Indenture and the Storm Recovery Bonds shall be full and complete authorization and protection from liability with respect to any action taken, omitted or suffered by it hereunder in good faith and in accordance with the advice or opinion of such counsel. Any reasonable legal fees incurred by the Indenture Trustee shall be payable to the Indenture Trustee from amounts hold in the Collection Account in accordance with the provisions set forth in Section 8.02(e).

SECTION 6.07. Compensation and Indemnity. The Issuer shall pay to the Indenture Trustee from time to time reasonable compensation for its services. The Indenture Trustee's compensation shall not, to the extent permitted by law, be limited by any law on compensation of a trustee of an express trust. The Issuer shall reimburse the Indenture Trustee for all reasonable out-of-pocket expenses incurred or made by it, including costs of collection, in addition to the compensation for its services. Such expenses shall include the reasonable compensation and expenses, disbursements and advances of the Indenture Trustee's agents, counsel, accountants and experts. The Issuer shall indemnify and hold harmless the Indenture Trustee and its officers, directors, employees and agents against any and all cost, damage, loss, liability, tax or expense (including reasonable attorneys' fees and expenses) incurred by it in connection with the administration and the enforcement of this Indenture, each Series Supplement and the other Basic Documents and the Indenture Trustee's rights, powers and obligations under this Indenture, each Series Supplement and the other Basic Documents and the performance of its duties hereunder and thereunder and obligations under or pursuant to this Indenture, each Series Supplement and the other Basic Documents other than any such tax on the compensation of the Indenture Trustee for its services as Indenture Trustee. The Indenture Trustee shall notify the Issuer as soon as is reasonably practicable of any claim for which it may seek indemnity. Failure by the Indenture Trustee to so notify the Issuer shall not relieve the Issuer of its obligations hereunder. The Issuer shall defend the claim, the Indenture Trustee may have separate counsel, and the Issuer shall pay the reasonable fees and expenses of such counsel. The Issuer need not reimburse any expense or indemnify against any loss, liability or expense incurred by the Indenture Trustee through the Indenture Trustee's own willful misconduct, negligence or bad faith.

The payment obligations to the Indenture Trustee pursuant to this Section 6.07 shall survive the discharge of this Indenture and Series Supplements or the earlier resignation or removal of the Indenture Trustee. When the Indenture Trustee incurs expenses after the occurrence of a Default specified in Section 5.01(e) or Section 5.01(f) with respect to the Issuer, the expenses are intended to constitute expenses of administration under the Bankruptcy Code or any other applicable U.S. federal or state bankruptcy, insolvency or similar law.

The Issuer acknowledges and agrees that under the SRB Indenture the SRB Trustee shall pay the fees and expenses of, and shall indemnify and hold harmless the Indenture Trustee and the Delaware Trustee, to the extent that payments required to be made by the Issuer to the Indenture Trustee under this Section 6.07 or to the Delaware Trustee under the Fee and Indemnity Agreement, as the case may be, are not made by the Issuer when due.

SECTION 6.08. Replacement of Indenture Trustee and Securities Intermediary.

(a) The Indenture Trustee may resign at any time upon 30 days' prior written notice to the Issuer subject to Section 6.08(c). The Holders of a majority of the Outstanding Amount of the Storm Recovery Bonds may remove the Indenture Trustee by so notifying the Indenture Trustee not less than 31 days prior to the date of removal and may appoint a successor Indenture Trustee. The Issuer shall remove the Indenture Trustee if:

(i) the Indenture Trustee fails to comply with Section 6.11;

(ii) the Indenture Trustee is adjudged a bankrupt or insolvent;

(iii) a receiver or other public officer takes charge of the Indenture Trustee or its property;

(iv) the Indenture Trustee otherwise becomes incapable of acting; or

(v) the Indenture Trustee fails to provide to the Issuer any information reasonably requested by the Issuer pertaining to the Indenture Trustee and necessary for the Issuer or the Sponsor to comply with its respective reporting obligations under the Exchange Act and Regulation AB and such failure is not resolved to the Issuer's and the Indenture Trustee's mutual satisfaction within a reasonable period of time.

Any removal or resignation of the Indenture Trustee shall also constitute a removal or resignation of the Securities Intermediary.

(b) If the Indenture Trustee gives notice of resignation or is removed or if a vacancy exists in the office of Indenture Trustee for any reason (the Indenture Trustee in such event being referred to herein as the retiring Indenture Trustee), the Issuer shall promptly appoint a successor Indenture Trustee and Securities Intermediary.

(c) A successor Indenture Trustee shall deliver a written acceptance of its appointment as the Indenture Trustee and as the Securities Intermediary to the retiring Indenture Trustee and to the Issuer. Thereupon the resignation or removal of the retiring Indenture Trustee shall become effective, and the successor Indenture Trustee shall have all the rights, powers and duties of the Indenture Trustee and Securities Intermediary, as applicable, under this Indenture and the other Basic Documents. No resignation or removal of the Indenture Trustee pursuant to this Section 6.08 shall become effective until acceptance of the appointment by a successor Indenture Trustee having the qualifications set forth in Section 6.11. Notice of any such appointment shall be promptly given to each Rating Agency by the successor Indenture Trustee. The successor Indenture Trustee shall mail a notice of its succession to Holders. The retiring Indenture Trustee shall promptly transfer all property held by it as Indenture Trustee to the successor Indenture Trustee.

(d) If a successor Indenture Trustee does not take office within 60 days after the retiring Indenture Trustee resigns or is removed, the retiring Indenture Trustee, the Issuer or the Holders of a majority in Outstanding Amount of the Storm Recovery Bonds may petition any court of competent jurisdiction for the appointment of a successor Indenture Trustee.

(e) If the Indenture Trustee fails to comply with Section 6.11, any Holder may petition any court of competent jurisdiction for the removal of the Indenture Trustee and the appointment of a successor Indenture Trustee.

(f) Notwithstanding the replacement of the Indenture Trustee pursuant to this Section 6.08, the Issuer's obligations under Section 6.07 shall continue for the benefit of the retiring Indenture Trustee.

SECTION 6.09. Successor Indenture Trustee by Merger. If the Indenture Trustee consolidates with, merges or converts into, or transfers all or substantially all its corporate trust business or assets to, another corporation or banking association, the resulting, surviving or transferee corporation or banking association without any further act shall be the successor Indenture Trustee; provided, however, that, if such successor Indenture Trustee is not eligible under Section 6.11, then the successor Indenture Trustee shall be replaced in accordance with Section 6.08. Notice of any such event shall be promptly given to each Rating Agency by the successor Indenture Trustee.

In case at the time such successor or successors by merger, conversion, consolidation or transfer shall succeed to the trusts created by this Indenture any of the Storm Recovery Bonds shall have been authenticated but not delivered, any such successor to the Indenture Trustee may adopt the certificate of authentication of any predecessor trustee and deliver the Storm Recovery Bonds so authenticated; and, in case at that time any of the Storm Recovery Bonds shall not have been authenticated, any successor to the Indenture Trustee may authenticate the Storm Recovery Bonds either in the name of any predecessor hereunder or in the name of the successor to the Indenture Trustee; and in all such cases such certificates shall have the full force that it is anywhere in the Storm Recovery Bonds or in this Indenture provided that the certificate of the Indenture Trustee shall have.

SECTION 6.10. Appointment of Co-Trustee or Separate Trustee.

(a) Notwithstanding any other provisions of this Indenture, at any time, for the purpose of meeting any legal requirement of any jurisdiction in which any part of the trust created by this Indenture or the Collateral may at the time be located, the Indenture Trustee shall have the power and may execute and deliver all instruments to appoint one or more Persons to act as a co-trustee or co-trustees, or separate trustee or separate trustees, of all or any part of the trust created by this Indenture or the Collateral, and to vest in such Person or Persons, in such capacity and for the benefit of the Secured Parties, such title to the Collateral, or any part hereof, and, subject to the other provisions of this Section 6.10, such powers, duties, obligations, rights and trusts as the Indenture Trustee may consider necessary or desirable. No co-trustee or separate trustee hereunder shall be required to meet the terms of eligibility as a successor trustee under Section 6.11 and no notice to Holders of the appointment of any co-trustee or separate trustee shall be required under Section 6.08. Notice of any such appointment shall be promptly given to each Rating Agency, to the SRB Trustee [and to the Commission] by the Indenture Trustee.

(b) Every separate trustee and co-trustee shall, to the extent permitted by law, be appointed and act subject to the following provisions and conditions:

(i) all rights, powers, duties and obligations conferred or imposed upon the Indenture Trustee shall be conferred or imposed upon and exercised or performed by the Indenture Trustee and such separate trustee or co-trustee jointly (it being understood that such separate trustee or co-trustee is not authorized to act separately without the Indenture Trustee joining in such act), except to the extent that under any law of any jurisdiction in which any particular act or acts are to be performed the Indenture Trustee shall be incompetent or unqualified to perform such act or acts, in which event such rights, powers, duties and obligations (including the holding of title to the Collateral or any portion thereof in any such jurisdiction) shall be exercised and performed singly by such separate trustee or co-trustee, but solely at the direction of the Indenture Trustee;

(ii) no trustee hereunder shall be personally liable by reason of any act or omission of any other trustee hereunder; and

(iii) the Indenture Trustee may at any time accept the resignation of or remove any separate trustee or co-trustee.

(c) Any notice, request or other writing given to the Indenture Trustee shall be deemed to have been given to each of the then-separate trustees and co-trustees, as effectively as if given to each of them. Every instrument appointing any separate trustee or co-trustee shall refer to this Indenture and the conditions of this Article VI. Each separate trustee and co-trustee, upon its acceptance of the trusts conferred, shall be vested with the estates or property specified in its instrument of appointment, either jointly with the Indenture Trustee or separately, as may be provided therein, subject to all the provisions of this Indenture, specifically including every provision of this Indenture relating to the conduct of, affecting the liability of, or affording protection to, the Indenture Trustee. Every such instrument shall be filed with the Indenture Trustee.

(d) Any separate trustee or co-trustee may at any time constitute the Indenture Trustee, its agent or its attorney-in-fact with full power and authority, to the extent not prohibited by law, to do any lawful act under or in respect of this Indenture on its behalf and in its name. If any separate trustee or co-trustee shall die, become incapable of acting, resign or be removed, all of its estates, properties, rights, remedies and trusts shall vest in and be exercised by the Indenture Trustee, to the extent permitted by law, without the appointment of a new or successor trustee.

SECTION 6.11. Eligibility; Disqualification. The Indenture Trustee shall at all times satisfy the requirements of Section 310(a)(1) of the Trust Indenture Act, Section 310(a)(5) of the Trust Indenture Act and Rule 3a-7 of the Investment Company Act. The Indenture Trustee shall have a combined capital and surplus of at least $50,000,000 as set forth in its most recent published annual report of condition and shall have a long-term debt rating from each of S&P and Fitch in one of its generic rating categories that signifies investment grade. The Indenture Trustee shall comply with Section 310(b) of the Trust Indenture Act, including the optional provision permitted by the second sentence of Section 310(b)(9) of the Trust Indenture

Act; provided, however, that there shall be excluded from the operation of Section 310(b)(1) of the Trust Indenture Act any indenture or indentures under which other securities of the Issuer are outstanding if the requirements for such exclusion set forth in Section 310(b)(1) of the Trust Indenture Act are met.

SECTION 6.12. Preferential Collection of Claims Against Issuer. The Indenture Trustee shall comply with Section 311(a) of the Trust Indenture Act, excluding any creditor relationship listed in Section 311(b) of the Trust Indenture Act. An Indenture Trustee who has resigned or been removed shall be subject to Section 311(a) of the Trust Indenture Act to the extent indicated therein.

SECTION 6.13. Representations and Warranties of Indenture Trustee. The Indenture Trustee hereby represents and warrants that:

(a) the Indenture Trustee is a national banking association validly existing and in good standing under the laws of the United States of America; and

(b) the Indenture Trustee has full power, authority and legal right to execute, deliver and perform its obligations under this Indenture and the other Basic Documents to which the Indenture Trustee is a party and has taken all necessary action to authorize the execution, delivery and performance of obligations by it of this Indenture and such other Basic Documents.

SECTION 6.14. Annual Report by Independent Registered Public Accountants. The Indenture Trustee hereby covenants that it will cooperate fully with the firm of Independent registered public accountants performing the procedures required under Section 3.04 of the Servicing Agreement, it being understood and agreed that the Indenture Trustee will so cooperate in conclusive reliance upon the direction of the Issuer, and the Indenture Trustee makes no independent inquiry or investigation to, and shall have no obligation or liability in respect of, the sufficiency, validity or correctness of such procedures.

SECTION 6.15. Custody of Collateral. The Indenture Trustee shall hold such of the Collateral (and any other collateral that may be granted to the Indenture Trustee) as consists of instruments, deposit accounts, negotiable documents, money, goods, letters of credit and advices of credit in the State of New York. The Indenture Trustee shall hold such of the Collateral as constitute investment property through the Securities Intermediary (which, as of the date hereof, is [ ]). The initial Securities Intermediary hereby agrees (and each future Securities Intermediary shall agree) with the Indenture Trustee that (a) such investment property shall at all times be credited to a securities account of the Indenture Trustee, (b) the Securities Intermediary shall treat the Indenture Trustee as entitled to exercise the rights that comprise each financial asset credited to such securities account, (c) all property credited to such securities account shall be treated as a financial asset, (d) the Securities Intermediary shall comply with entitlement orders originated by the Indenture Trustee without the further consent of any other Person, (e) the Securities Intermediary will not agree with any Person other than the Indenture Trustee to comply with entitlement orders originated by such other Person, (f) such securities accounts and the property credited thereto shall not be subject to any Lien or right of set-off in favor of the Securities Intermediary or anyone claiming through it (other than the Indenture Trustee) and (g) such agreement shall be governed by the internal laws of the State of New York. Terms used in

the preceding sentence that are defined in the UCC and not otherwise defined herein shall have the meaning set forth in the UCC. Except as permitted by this Section 6.15 or elsewhere in this Indenture, the Indenture Trustee shall not hold Collateral through an agent or a nominee.

ARTICLE VII

HOLDERS' LISTS AND REPORTS

SECTION 7.01. Issuer To Furnish Indenture Trustee Names and Addresses of Holders. The Issuer will furnish or cause to be furnished to the Indenture Trustee (a) not more than five days after the earlier of (i) each Record Date with respect to each Series and (ii) six months after the last Record Date with respect to each Series, a list, in such form as the Indenture Trustee may reasonably require, of the names and addresses of the Holders of such Series as of such Record Date, and (b) at such other times as the Indenture Trustee may request in writing, within 30 days after receipt by the Issuer of any such request, a list of similar form and content as of a date not more than ten days prior to the time such list is furnished; provided, however, that, so long as the Indenture Trustee is the Storm Recovery Bond Registrar, no such list shall be required to be furnished.

SECTION 7.02. Preservation of Information; Communications to Holders.

(a) The Indenture Trustee shall preserve, in as current a form as is reasonably practicable, the names and addresses of the Holders contained in the most recent list furnished to the Indenture Trustee as provided in Section 7.01 and the names and addresses of Holders received by the Indenture Trustee in its capacity as Storm Recovery Bond Registrar. The Indenture Trustee may destroy any list furnished to it as provided in Section 7.01 upon receipt of a new list so furnished.

(b) Holders may communicate pursuant to Section 312(b) of the Trust Indenture Act with other Holders with respect to their rights under this Indenture or under the Storm Recovery Bonds. In addition, upon the written request of any Holder or group of Holders of any Series or of all Outstanding Series of Storm Recovery Bonds evidencing at least 10 percent of the Outstanding Amount of the Storm Recovery Bonds of that Series or of all Series, as applicable, the Indenture Trustee shall afford the Holder or Holders making such request a copy of a current list of Holders for purposes of communicating with other Holders with respect to their rights hereunder; provided, that the Indenture Trustee gives prior written notice to the Issuer of such request.

(c) The Issuer, the Indenture Trustee and the Storm Recovery Bond Registrar shall have the protection of Section 312(c) of the Trust Indenture Act.

SECTION 7.03. Reports by Issuer.

(a) The Issuer shall:

(i) so long as the Issuer or the Sponsor is required to file such documents with the SEC, provide to the Indenture Trustee and the Commission, within 15 days after the Issuer is required to file the same with the SEC, copies of the annual reports and of the

information, documents and other reports (or copies of such portions of any of the foregoing as the SEC may from time to time by rules and regulations prescribe) that the Issuer or the Sponsor may be required to file with the SEC pursuant to Section 13 or 15(d) of the Exchange Act;

(ii) provide to the Indenture Trustee and the Commission and file with the SEC, in accordance with rules and regulations prescribed from time to time by the SEC, such additional information, documents and reports with respect to compliance by the Issuer with the conditions and covenants of this Indenture as may be required from time to time by such rules and regulations; and

(iii) supply to the Indenture Trustee (and the Indenture Trustee shall transmit by mail to all Holders described in Section 313(c) of the Trust Indenture Act) and the Commission, such summaries of any information, documents and reports required to be filed by the Issuer pursuant to Section 7.03(a)(i) and Section 7.03(a)(ii) as may be required by rules and regulations prescribed from time to time by the SEC.

Except as may be provided by Section 313(c) of the Trust Indenture Act, the Issuer may fulfill its obligation to provide the materials described in this Section 7.03(a) by providing such materials in electronic format.

(b) Unless the Issuer otherwise determines, the fiscal year of the Issuer shall end on December 31 of each year and will promptly notify the Indenture Trustee regarding any change in fiscal year.

SECTION 7.04. Reports by Indenture Trustee. If required by Section 313(a) of the Trust Indenture Act, within 60 days after March 30 of each year, commencing with March 30, [2022], the Indenture Trustee shall mail to each Holder as required by Section 313(c) of the Trust Indenture Act a brief report dated as of such date that complies with Section 313(a) of the Trust Indenture Act. The Indenture Trustee also shall comply with Section 313(b) of the Trust Indenture Act; provided, however, that the initial report if required to be so issued shall be delivered not more than 12 months after the initial issuance of each Series of the Storm Recovery Bonds.

A copy of each report at the time of its mailing to Holders shall be filed by the Servicer with the SEC and each stock exchange, if any, on which the Storm Recovery Bonds are listed. The Issuer shall notify the Indenture Trustee in writing if and when the Storm Recovery Bonds are listed on any stock exchange.

ARTICLE VIII

ACCOUNTS, DISBURSEMENTS AND RELEASES

SECTION 8.01. Collection of Money. Except as otherwise expressly provided herein, the Indenture Trustee may demand payment or delivery of, and shall receive and collect, directly and without intervention or assistance of any fiscal agent or other intermediary, all money and other property payable to or receivable by the Indenture Trustee, the SRB Trustee or the Delaware Trustee pursuant to this Indenture and the other Basic Documents. The Indenture

Trustee shall apply all such money received by it as provided in this Indenture within two (2) Business Days. Except as otherwise expressly provided in this Indenture, if any default occurs in the making of any payment or performance under any agreement or instrument that is part of the Collateral, the Indenture Trustee may take such action as may be appropriate to enforce such payment or performance, subject to Article VI, including the institution and prosecution of appropriate Proceedings. Any such action shall be without prejudice to any right to claim a Default or Event of Default under this Indenture and any right to proceed thereafter as provided in Article V.

SECTION 8.02. Collection Account.

(a) Prior to the Series Closing Date for the first Series issued hereunder, the Issuer shall open or cause to be opened with the Securities Intermediary located at the Indenture Trustee's office, or at another Eligible Institution, one or more segregated trust accounts in the Indenture Trustee's name for the deposit of Storm Recovery Charge Collections for each Series of Bonds and all other amounts received with respect to the Series Collateral servicing such Series of Bonds (each a "Collection Account" and collectively, the "Collection Accounts"). The Indenture Trustee shall hold each Collection Account for the benefit of the related Holders, the Indenture Trustee and the other persons indemnified hereunder. There shall be established by the Indenture Trustee in respect of each Collection Account three subaccounts: a general subaccount (the "General Subaccount"); an excess funds subaccount (the "Excess Funds Subaccount"); a capital subaccount (the "Capital Subaccount") and, together with the General Subaccount and the Excess Funds Subaccount, the "Subaccounts"). For administrative purposes, the Subaccounts may be established by the Securities Intermediary as separate accounts. Such separate accounts will be recognized individually as a Subaccount and collectively as the "Collection Account". Prior to or concurrently with the issuance of each Series of Storm Recovery Bonds, the Member shall deposit into the Capital Subaccount for such Series an amount equal to the Required Capital Level. All amounts in the Collection Account for such Series not allocated to any other subaccount shall be allocated to the General Subaccount for such Series. Prior to the initial Payment Date for each Series, all amounts in the Collection Account for such Series (other than funds deposited into the Capital Subaccount for such Series up to the Required Capital Level) shall be allocated to the General Subaccount for such Series. All references to a Collection Account shall be deemed to include reference to all subaccounts contained therein. Withdrawals from and deposits to each of the foregoing subaccounts of the Collection Account shall be made as set forth in Section 8.02(d) and Section 8.02(e). The Collection Account for such Series shall at all times be maintained in an Eligible Account and will be under the sole dominion and exclusive control of the Indenture Trustee, through the Securities Intermediary, and only the Indenture Trustee shall have access to the applicable Collection Account for the purpose of making deposits in and withdrawals from the applicable Collection Account in accordance with this Indenture. Funds in a Collection Account shall not be commingled with any other moneys. All moneys deposited from time to time in the Collection Account for such Series, all deposits therein pursuant to this Indenture and all investments made in Eligible Investments as directed in writing by the Issuer with such moneys, including all income or other gain from such investments, shall be held by the Securities Intermediary in the Collection Account for such Series as part of the Series Collateral as herein provided. The Securities Intermediary shall have no liability in respect of losses incurred as a result of the liquidation of any Eligible Investment prior to its stated maturity or its date of

redemption or the failure of the Issuer or the Servicer to provide timely written investment direction.

(b) The Securities Intermediary hereby confirms that (i) each Collection Account is, or at inception will be established as, a "securities account" as such term is defined in Section 8-501(a) of the UCC, (ii) it is a "securities intermediary" (as such term is defined in Section 8-102(a)(14) of the UCC) and is acting in such capacity with respect to such accounts, (iii) the Indenture Trustee for the benefit of the Secured Parties is the sole "entitlement holder" (as such term is defined in Section 8-102(a)(7) of the UCC) with respect to such accounts and (iv) no other Person shall have the right to give "entitlement orders" (as such term is defined in Section 8-102(a)(8)) with respect to such accounts. The Securities Intermediary hereby further agrees that each item of property (whether investment property, financial asset, security, instrument or cash) received by it will be credited to the applicable Collection Account and shall be treated by it as a "financial asset" within the meaning of Section 8-102(a)(9) of the UCC. Notwithstanding anything to the contrary, the State of New York shall be deemed to be the jurisdiction of the Securities Intermediary for purposes of Section 8-110 of the UCC, and the Collection Accounts (as well as the securities entitlements related thereto) shall be governed by the laws of the State of New York.

(c) The Indenture Trustee shall have sole dominion and exclusive control over all moneys in the applicable Collection Account through the Securities Intermediary and shall apply such amounts therein as provided in this Section 8.02.

(d) Storm Recovery Charge Collections shall be deposited in the applicable General Subaccount as provided in Section 6.11 of the Servicing Agreement. All deposits to and withdrawals from the Collection Account, all allocations to the subaccounts of the Collection Account and any amounts to be paid to the Servicer under Section 8.02(e) shall be made by the Indenture Trustee in accordance with the written instructions provided by the Servicer in the Monthly Servicer's Certificate or the Annual Servicer's Certificate.

(e) On each Payment Date for any Series of Bonds, the Indenture Trustee shall apply all amounts on deposit in the applicable Collection Account, including all Investment Earnings thereon, in accordance with the Annual Servicer's Certificate, in the following priority:

(i) payment of the Indenture Trustee's, the SRB Trustee's and the Delaware Trustee's fees, expenses and outstanding indemnity amounts shall be paid to the Indenture Trustee, the SRB Trustee and the Delaware Trustee (subject to Section 6.07) in an amount not to exceed the amount set forth in the Series Supplement;

(ii) payment of the Servicing Fee with respect to such Payment Date, plus any unpaid Servicing Fees for prior Payment Dates shall be paid to the Servicer;

(iii) payment of the allocable share of the Administration Fee for such Payment Date shall be paid to the Administrator and the Independent Manager Fee for such Payment Date shall be paid to the Independent Managers, and in each case with any unpaid Administration Fees or Independent Manager Fees from prior Payment Dates;

(iv) payment of all other ordinary periodic Operating Expenses for such Payment Date not described above shall be paid to the parties to which such Operating Expenses are owed;

(v) payment of Periodic Interest for such Payment Date with respect to such Series, including any overdue Periodic Interest (together with, to the extent lawful, interest on such overdue Periodic Interest at the applicable Bond Interest Rate), with respect to the Storm Recovery Bonds shall be paid to the Holders of Storm Recovery Bonds;

(vi) payment of the principal required to be paid on the Storm Recovery Bonds of the Series on the Final Maturity Date for such tranche or as a result of an acceleration upon an Event of Default shall be paid to the Holders of Storm Recovery Bonds;

(vii) payment of Periodic Principal for such Payment Date, including any previously unpaid Periodic Principal, with respect to the Storm Recovery Bonds shall be paid to the Holders of Storm Recovery Bonds, pro rata if there is a deficiency;

(viii) payment of the allocable share of any other unpaid Operating Expenses (including any such amounts owed to the Indenture Trustee, the SRB Trustee and the Delaware Trustee but unpaid due to the limitation in Section 8.02(e)(i)) and any remaining amounts owed pursuant to the Basic Documents shall be paid to the parties to which such Operating Expenses or remaining amounts are owed;

(ix) replenishment of the amount, if any, by which the Required Capital Level exceeds the amount in the Capital Subaccount as of such Payment Date shall be allocated to the Capital Subaccount;

(x) the Return on Invested Capital then due and payable shall be paid to Duke Energy [Carolinas/Progress];

(xi) the balance, if any, shall be allocated to the Excess Funds Subaccount; and

(xii) after the Storm Recovery Bonds have been paid in full and discharged, and all of the other foregoing amounts are paid in full, together with all amounts due and payable to the Indenture Trustee, the SRB Trustee and the Delaware Trustee under Section 6.07 or otherwise, the balance (including all amounts then held in the Capital Subaccount and the Excess Funds Subaccount), if any, shall be paid to the Issuer, free from the Lien of this Indenture and the applicable Series Supplement.

All payments to the Holders of the Storm Recovery Bonds pursuant to Section 8.02(e)(v), Section 8.02(e)(vi) and Section 8.02(e)(vii) shall be made to such Holders pro rata based on the respective amounts of interest and/or principal owed, unless, in the case of a Series of Storm Recovery Bonds comprised of two or more tranches, the Series Supplement provides otherwise. Payments in respect of principal of and premium, if any, and interest on any tranche of Storm Recovery Bonds will be made on a pro rata basis among all the Holders of such tranche. In the case of an Event of Default, then, in accordance with Section 5.04(c), in respect of any application of moneys pursuant to Section 8.02(e)(v) or Section 8.02(e)(vi), moneys will be

applied pursuant to Section 8.02(e)(v) and Section 8.02(e)(vi), as the case may be, in such order, on a pro rata basis, based upon the interest or the principal owed.

(f) If on any Payment Date, or, for any amounts payable under Section 8.02(e)(i), Section 8.02(e)(ii), Section 8.02(e)(iii) and Section 8.02(e)(iv), on any Business Day, funds on deposit in the General Subaccount are insufficient to make the payments contemplated by Section 8.02(e)(i), Section 8.02(e)(ii), Section 8.02(e)(iii), Section 8.02(e)(iv), Section 8.02(e)(v), Section 8.02(e)(vi), Section 8.02(e)(vii), Section 8.02(e)(viii) and Section 8.02(e)(iv), the Indenture Trustee shall (i) first, draw from amounts on deposit in the Excess Funds Subaccount, and (ii) second, draw from amounts on deposit in the Capital Subaccount, in each case, up to the amount of such shortfall in order to make the payments contemplated by Section 8.02(e)(i), Section 8.02(e)(ii), Section 8.02(e)(iii), Section 8.02(e)(iv), Section 8.02(e)(v), Section 8.02(e)(vi), Section 8.02(e)(vii) and Section 8.02(e)(viii). In addition, if on any Payment Date funds on deposit in the General Subaccount are insufficient to make the allocations contemplated by Section 8.02(e)(ix), the Indenture Trustee shall draw any amounts on deposit in the Excess Funds Subaccount to make such allocations to the Capital Subaccount.

(g) On any Business Day upon which the Indenture Trustee receives a written request from the Administrator stating that any Operating Expense payable by the Issuer (but only as described in Section 8.02(e)(i), Section 8.02(e)(ii), Section 8.02(e)(iii) and Section 8.02(e)(iv)) will become due and payable prior to the next Payment Date, and setting forth the amount and nature of such Operating Expense, as well as any supporting documentation that the Indenture Trustee may reasonably request, the Indenture Trustee, upon receipt of such information, will make payment of such Operating Expenses on or before the date such payment is due from amounts on deposit in the General Subaccount, the Excess Funds Subaccount and the Capital Subaccount, in that order and only to the extent required to make such payment.

SECTION 8.03. General Provisions Regarding the Collection Account.

(a) So long as no Default or Event of Default shall have occurred and be continuing, all or a portion of the funds in the Collection Account for each Series shall be invested in Eligible Investments and reinvested by the Indenture Trustee upon Issuer Order; provided, however, that such Eligible Investments shall not mature or be redeemed later than the Business Day prior to the next Payment Date or Special Payment Date for the related Series or tranche, if applicable, for the Storm Recovery Bonds. All income or other gain from investments of moneys deposited in the Collection Account for the relevant Series shall be deposited by the Indenture Trustee in such Collection Account, and any loss resulting from such investments shall be charged to the Collection Account for the relevant Series. The Issuer will not direct the Indenture Trustee to make any investment of any funds or to sell any investment held in any Collection Account unless the security interest Granted and perfected in such account will continue to be perfected in such investment or the proceeds of such sale, in either case without any further action by any Person, and, in connection with any direction to the Indenture Trustee to make any such investment or sale, if requested by the Indenture Trustee, the Issuer shall deliver to the Indenture Trustee an Opinion of Counsel of external counsel of the Issuer (at the Issuer's cost and expense) to such effect. In no event shall the Indenture Trustee be liable for the

selection of Eligible Investments or for investment losses incurred thereon. The Indenture Trustee shall have no liability in respect of losses incurred as a result of the liquidation of any Eligible Investment prior to its stated maturity or its date of redemption or the failure of the Issuer or the Servicer to provide timely written investment direction. The Indenture Trustee shall have no obligation to invest or reinvest any amounts held hereunder in the absence of written investment direction pursuant to an Issuer Order.

(b) Subject to Section 6.01(c), the Indenture Trustee shall not in any way be held liable by reason of any insufficiency in the Collection Account resulting from any loss on any Eligible Investment included therein except for losses attributable to the Indenture Trustee's failure to make payments on such Eligible Investments issued by the Indenture Trustee, in its commercial capacity as principal obligor and not as trustee, in accordance with their terms.

(c) If (i) the Issuer shall have failed to give written investment directions for any funds on deposit in the Collection Account to the Indenture Trustee by 11:00 a.m. New York City time (or such other time as may be agreed by the Issuer and Indenture Trustee) on any Business Day or (ii) a Default or Event of Default shall have occurred and be continuing with respect to the Storm Recovery Bonds but the Storm Recovery Bonds shall not have been declared due and payable pursuant to Section 5.02, then the Indenture Trustee shall, to the fullest extent practicable, invest and reinvest funds in such Collection Account in Eligible Investments specified in the most recent written investment directions delivered by the Issuer to the Indenture Trustee; provided, that if the Issuer has never delivered written investment directions to the Indenture Trustee, the Indenture Trustee shall not invest or reinvest such funds in any investments.

(d) The parties hereto acknowledge that the Servicer may, pursuant to the Servicing Agreement, select Eligible Investments on behalf of the Issuer.

(e) Except as otherwise provided hereunder or agreed in writing among the parties hereto, the Issuer shall retain the authority to institute, participate and join in any plan of reorganization, readjustment, merger or consolidation with respect to the issuer of any Eligible Investments held hereunder, and, in general, to exercise each and every other power or right with respect to each such asset or investment as Persons generally have and enjoy with respect to their own assets and investment, including power to vote upon any Eligible Investments.

SECTION 8.04. Release of Collateral.

(a) So long as the Issuer is not in default hereunder and no Default hereunder would occur as a result of such action, the Issuer, through the Servicer, may collect, sell or otherwise dispose of written-off receivables, at any time and from time to time in the ordinary course of business, without any notice to, or release or consent by, the Indenture Trustee, but only as and to the extent permitted by the Basic Documents; provided, however, that any and all proceeds of such dispositions shall become Collateral and be deposited to the General Subaccount immediately upon receipt thereof by the Issuer or any other Person, including the Servicer. Without limiting the foregoing, the Servicer, may, at any time and from time to time without any notice to, or release or consent by, the Indenture Trustee, sell or otherwise dispose of any Collateral previously written-off as a defaulted or uncollectible account in accordance with

the terms of the Servicing Agreement and the requirements of the proviso in the preceding sentence.

(b) The Indenture Trustee may, and when required by the provisions of this Indenture shall, execute instruments to release property from the Lien of this Indenture, or convey the Indenture Trustee's interest in the same, in a manner and under circumstances that are not inconsistent with the provisions of this Indenture. No party relying upon an instrument executed by the Indenture Trustee as provided in this Article VIII shall be bound to ascertain the Indenture Trustee's authority, inquire into the satisfaction of any conditions precedent or see to the application of any moneys. The Indenture Trustee shall release property from the Lien of this Indenture pursuant to this Section 8.04(b) only upon receipt of an Issuer Request accompanied by an Officer's Certificate, an Opinion of Counsel of external counsel of the Issuer (at the Issuer's cost and expense) and (if required by the Trust Indenture Act) Independent Certificates in accordance with Section 314(c) of the Trust Indenture Act and Section 314(d)(1) of the Trust Indenture Act meeting the applicable requirements of Section 10.01.

(c) The Indenture Trustee shall, at such time as there are no Storm Recovery Bonds Outstanding for the related Series and all sums payable to the Indenture Trustee, the SRB Trustee and the Delaware Trustee pursuant to Section 6.07 or otherwise have been paid, release any remaining portion of the Series Collateral that secured the Storm Recovery Bonds for the related Series from the Lien of this Indenture and release to the Issuer or any other Person entitled thereto any funds or investments then on deposit in or credited to the Collection Account for such Series.

SECTION 8.05. Opinion of Counsel. The Indenture Trustee shall receive at least seven days' notice when requested by the Issuer to take any action pursuant to Section 8.04, accompanied by copies of any instruments involved, and the Indenture Trustee shall also require, as a condition to such action, an Opinion of Counsel of external counsel of the Issuer, in form and substance satisfactory to the Indenture Trustee, stating the legal effect of any such action, outlining the steps required to complete the same, and concluding that all conditions precedent to the taking of such action have been complied with and such action will not materially and adversely impair the security for the Storm Recovery Bonds or the rights of the Holders in contravention of the provisions of this Indenture and any Series Supplement; provided, however, that such Opinion of Counsel shall not be required to express an opinion as to the fair value of the Collateral. Counsel rendering any such opinion may rely, without independent investigation, on the accuracy and validity of any certificate or other instrument delivered to the Indenture Trustee in connection with any such action.

SECTION 8.06. Reports by Independent Registered Public Accountants. As of the date hereof, the Issuer shall appoint a firm of Independent registered public accountants of recognized national reputation for purposes of preparing and delivering the reports or certificates of such accountants required by this Indenture and the Series Supplements. In the event such firm requires the Indenture Trustee to agree to the procedures performed by such firm, the Issuer shall direct the Indenture Trustee in writing to so agree, it being understood and agreed that the Indenture Trustee will deliver such letter of agreement in conclusive reliance upon the direction of the Issuer, and the Indenture Trustee makes no independent inquiry or investigation to, and shall have no obligation or liability in respect of, the sufficiency, validity or correctness of such

procedures. Upon any resignation by, or termination by the Issuer of, such firm, the Issuer shall provide written notice thereof to the Indenture Trustee and shall promptly appoint a successor thereto that shall also be a firm of Independent registered public accountants of recognized national reputation. If the Issuer shall fail to appoint a successor to a firm of Independent registered public accountants that has resigned or been terminated within 15 days after such resignation or termination, the Indenture Trustee shall promptly notify the Issuer of such failure in writing. If the Issuer shall not have appointed a successor within ten days thereafter, the Indenture Trustee shall promptly appoint a successor firm of Independent registered public accountants of recognized national reputation; provided, that the Indenture Trustee shall have no liability with respect to such appointment. The fees of such Independent registered public accountants and its successor shall be payable by the Issuer.

ARTICLE IX

SUPPLEMENTAL INDENTURES

SECTION 9.01. Supplemental Indentures Without Consent of Holders.

(a) Without the consent of the Holders of any Storm Recovery Bonds but with prior notice to the Rating Agencies, the Issuer, the Indenture Trustee and the SRB Trustee when authorized by an Issuer Order, at any time and from time to time, may enter into one or more indentures supplemental hereto (which shall conform to the provisions of the Trust Indenture Act as in force at the date of the execution thereof), in form satisfactory to the Indenture Trustee, for any of the following purposes:

(i) to correct or amplify the description of any property, including the Collateral, at any time subject to the Lien of this Indenture, or better to assure, convey and confirm unto the Indenture Trustee any property subject or required to be subjected to the Lien of this Indenture and the Series Supplements, or to subject to the Lien of this Indenture and the Series Supplements additional property;

(ii) to evidence the succession, in compliance with the applicable provisions hereof, of another Person to the Issuer, and the assumption by any such successor of the covenants of the Issuer herein and in the Storm Recovery Bonds;

(iii) to add to the covenants of the Issuer, for the benefit of the Secured Parties, or to surrender any right or power herein conferred upon the Issuer;

(iv) to convey, transfer, assign, mortgage or pledge any property to or with the Indenture Trustee;

(v) to cure any ambiguity, to correct or supplement any provision herein or in any supplemental indenture, including any Series Supplement, that may be inconsistent with any other provision herein or in any supplemental indenture, including any Series Supplement, or to make any other provisions with respect to matters or questions arising under this Indenture or in any supplemental indenture; provided, that (A) such action shall not, as evidenced by an Opinion of Counsel of external counsel of the Issuer, adversely affect in any material respect the interests of the Holders of the Storm

Recovery Bonds and (B) the Rating Agency Condition shall have been satisfied with respect thereto;

(vi) to evidence and provide for the acceptance of the appointment hereunder by a successor trustee with respect to the Storm Recovery Bonds and to add to or change any of the provisions of this Indenture as shall be necessary to facilitate the administration of the trusts hereunder by more than one trustee, pursuant to the requirements of Article VI;

(vii) to modify, eliminate or add to the provisions of this Indenture to such extent as shall be necessary to effect the qualification of this Indenture under the Trust Indenture Act and to add to this Indenture such other provisions as may be expressly required by the Trust Indenture Act;

(viii) to qualify the Storm Recovery Bonds for registration with a Clearing Agency;

(ix) to satisfy any Rating Agency requirements;

(x) to set forth the terms of any Series that has not theretofore been authorized by a Series Supplement; or

(xi) to authorize the appointment of any fiduciary for any tranche required or advisable with the listing of any tranche on any stock exchange and otherwise amend this Indenture to incorporate changes requested or required by any government authority, stock exchange authority or fiduciary or any tranche in connection with such listing.

The Indenture Trustee is hereby authorized to join in the execution of any such supplemental indenture and to make any further appropriate agreements and stipulations that may be therein contained.

(b) The Issuer and the Indenture Trustee, when authorized by an Issuer Order, may, also without the consent of any of the Holders of the Storm Recovery Bonds, enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, this Indenture or of modifying in any manner the rights of the Holders of the Storm Recovery Bonds under this Indenture; provided, however, that (i) such action shall not, as evidenced by an Opinion of Counsel of nationally recognized counsel of the Issuer experienced in structured finance transactions, adversely affect in any material respect the interests of the Holders and (ii) the Rating Agency Condition shall have been satisfied with respect thereto.

SECTION 9.02. Supplemental Indentures with Consent of Holders. The Issuer and the Indenture Trustee, when authorized by an Issuer Order, also may, with prior notice to the Rating Agencies and with the consent of the Holders of a majority of the Outstanding Amount of the Storm Recovery Bonds of each Series or tranche to be affected, by Act of such Holders delivered to the Issuer and the Indenture Trustee, enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, this Indenture or of modifying in any manner the rights of

the Holders of the Storm Recovery Bonds under this Indenture; provided, however, that no such supplemental indenture shall, without the consent of the Holder of each Outstanding Storm Recovery Bond of each Series or tranche affected thereby:

(i) change the date of payment of any installment of principal of or premium, if any, or interest on any Storm Recovery Bond of such Series or tranche, or reduce the principal amount thereof, the interest rate thereon or premium, if any, with respect thereto;

(ii) change the provisions of this Indenture and the related applicable Series Supplement relating to the application of collections on, or the proceeds of the sale of, the Collateral to payment of principal of or premium, if any, or interest on the Storm Recovery Bonds of such Series or tranche, or change any place of payment where, or the coin or currency in which, any Storm Recovery Bond of such Series or tranche or the interest thereon is payable;

(iii) reduce the percentage of the Outstanding Amount of the Storm Recovery Bonds or of a Series or tranche thereof, the consent of the Holders of which is required for any such supplemental indenture, or the consent of the Holders of which is required for any waiver of compliance with certain provisions of this Indenture or certain defaults hereunder and their consequences provided for in this Indenture;

(iv) reduce the percentage of the Outstanding Amount of the Storm Recovery Bonds required to direct the Indenture Trustee to direct the Issuer to sell or liquidate the Series Collateral pursuant to Section 5.04;

(v) modify any provision of this Section 9.02 or any provision of the other Basic Documents similarly specifying the rights of the Holders to consent to modification thereof, except to increase any percentage specified herein or to provide that those provisions of this Indenture or the other Basic Documents referenced in this Section 9.02 cannot be modified or waived without the consent of the Holder of each Outstanding Storm Recovery Bond affected thereby;

(vi) modify any of the provisions of this Indenture in such manner as to affect the calculation of the amount of any payment of interest, principal or premium, if any, due on any Storm Recovery Bond on any Payment Date (including the calculation of any of the individual components of such calculation) or change the Expected Sinking Fund Schedule or Final Maturity Date of Storm Recovery Bonds;

(vii) decrease the Required Capital Level with respect to any Series;

(viii) permit the creation of any Lien ranking prior to or on a parity with the Lien of this Indenture with respect to any part of the Collateral or, except as otherwise permitted or contemplated herein, terminate the Lien of this Indenture on any property at any time subject hereto or deprive the Holder of any Storm Recovery Bond of the security provided by the Lien of this Indenture;

(ix) cause any material adverse U.S. federal income tax consequence to the Seller, the Issuer, the Managers, the Indenture Trustee or the then-existing Holders; or

(x) impair the right to institute suit for the enforcement of the provisions of this Indenture regarding payment or application of funds.

It shall not be necessary for any Act of Holders under this Section 9.02 to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such Act shall approve the substance thereof.

Promptly after the execution by the Issuer and the Indenture Trustee of any supplemental indenture pursuant to this Section 9.02, the Issuer shall mail to the SRB Trustee and the Rating Agencies a copy of such supplemental indenture and to the Holders of the Storm Recovery Bonds to which such supplemental indenture relates either a copy of such supplemental indenture or a notice setting forth in general terms the substance of such supplemental indenture. Any failure of the Issuer to mail such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such supplemental indenture.

SECTION 9.03. [Commission Condition. Notwithstanding anything to the contrary in this Section 9.01 or 9.02, no indenture or indentures supplemental to this Indenture, nor any waiver required by Section 5.12 hereof, shall be effective except upon satisfaction of the conditions precedent in this Section 9.03.

(a) At least 15 days prior to the effectiveness of any such Supplemental Indenture or other action and after obtaining the other necessary approvals set forth in Section 9.02 (except that the consent of the Indenture Trustee may be subject to the consent of the Holders if such consent is required or sought by the Indenture Trustee in connection with such Supplemental Indenture) or prior to the effectiveness of any waiver of a default approved by the Holders of a majority of the Outstanding Amount of all Series of Storm Recovery Bonds as provided in Section 5.12, the Servicer shall have delivered to the Commission's Staff Director of Accounting & Finance written notification of any proposed amendment, which notification shall contain:

(i) a reference to Docket No. [ ];

(ii) an Officer's Certificate stating that the proposed Supplemental Indenture has been approved by all parties to this Indenture or alternatively, the waiver of default has been approved by the Holders of a majority of the Outstanding Amount of Storm Recovery Bonds of all Series; and

(iii) a statement identifying the person to whom the Commission is to address any response to the proposed Supplemental Indenture or to request additional time.

(b) If the Commission or an authorized representative of the Commission, within 15 days (subject to extension as provided in Section 9.03(c)) of receiving a notification complying with Section 9.03(a), shall have delivered to the office of the person specified in Section 9.03(a)(iii) a written statement that the Commission might object to the proposed Supplemental Indenture, or to the waiver of default, then, subject to clause (d) below, such

proposed amendment or modification, or the waiver of default, shall not be effective unless and until the Commission subsequently delivers a written statement that it does not object to such proposed Supplemental Indenture.

(c) If the Commission or an authorized representative of the Commission, within 15 days of receiving a notification complying with Section 9.03(a), shall have delivered to the office of the person specified in Section 9.03(a)(iii) a written statement requesting an additional amount of time not to exceed thirty days (or, in the case of a waiver of default, 15 days) in which to consider such proposed Supplemental Indenture, then such proposed Supplemental Indenture shall not be effective if, within such extended period, the Commission shall have delivered to the office of the person specified in clause (d) below a written statement as described in subparagraph (iii), unless and until the Commission subsequently delivers a written statement that it does not object to such proposed Supplemental Indenture.

(d) If (A) the Commission or an authorized representative of the Commission, shall not have delivered written notice that the Commission might object to such proposed Supplemental Indenture, or the waiver of default, within the time periods described in subparagraphs (iii) or (iii), whichever is applicable, or (B) the Commission or authorized representative of the Commission, has delivered such written notice but does not within 60 days of the delivery of the notification in (a) above, provide subsequent written notice confirming that it does in fact object and the reasons therefore or advise that it has initiated a proceeding to determine what action it might take with respect to the matter, then the Commission shall be conclusively deemed not to have any objection to the proposed amendment or modification or waiver of default, as the case may be, and such amendment or modification or waiver of default, as the case may be, may subsequently become effective upon satisfaction of the other conditions specified in Section 9.01 or 9.02.

(e) Following the delivery of a statement from the Commission or an authorized representative of the Commission to the Servicer under subparagraph (iii), the Servicer and the Issuer shall have the right at any time to withdraw from the Commission further consideration of any proposed Supplemental Indenture, modification or waiver of default.

(f) For the purpose of this Section 9.03, an "authorized representative of the Commission" means any person authorized to act on behalf of the Commission, as evidenced by an Opinion of Counsel (which may be the general counsel) to the Commission.

(g) For the avoidance of doubt, this Section shall not apply to Series Supplements prepared in accordance with Section 9.01(a)(x).]

SECTION 9.04. Execution of Supplemental Indentures. In executing any supplemental indenture permitted by this Article IX or the modifications thereby of the trust created by this Indenture, the Indenture Trustee shall be fully protected in relying upon an Opinion of Counsel stating that the execution of such supplemental indenture is authorized and permitted by this Indenture and all conditions precedent, if any, provided for in this Indenture relating to such supplemental indenture or modification have been satisfied. The Indenture Trustee may, but shall not be obligated to, enter into any such supplemental indenture that affects the Indenture Trustee's own rights, duties, liabilities or immunities under this Indenture or

otherwise. All fees and expenses in connection with any such supplemental indenture shall be paid by the requesting party.

SECTION 9.05. Effect of Supplemental Indenture. Upon the execution of any supplemental indenture pursuant to the provisions hereof, this Indenture shall be and be deemed to be modified and amended in accordance therewith with respect to each Series or tranche of Storm Recovery Bonds affected thereby, and the respective rights, limitations of rights, obligations, duties, liabilities and immunities under this Indenture of the Indenture Trustee, the Issuer and the Holders shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modifications and amendments, and all the terms and conditions of any such supplemental indenture shall be and be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

SECTION 9.06. Conformity with Trust Indenture Act. Every amendment of this Indenture and every supplemental indenture executed pursuant to this Article IX shall conform to the requirements of the Trust Indenture Act as then in effect so long as this Indenture shall then be qualified under the Trust Indenture Act.

SECTION 9.07. Reference in Storm Recovery Bonds to Supplemental Indentures. Storm Recovery Bonds authenticated and delivered after the execution of any supplemental indenture pursuant to this Article IX may, and if required by the Indenture Trustee shall, bear a notation in form approved by the Indenture Trustee as to any matter provided for in such supplemental indenture. If the Issuer or the Indenture Trustee shall so determine, new Storm Recovery Bonds so modified as to conform, in the opinion of the Indenture Trustee and the Issuer, to any such supplemental indenture may be prepared and executed by the Issuer and authenticated and delivered by the Indenture Trustee in exchange for Outstanding Storm Recovery Bonds.

ARTICLE X

MISCELLANEOUS

SECTION 10.01. Compliance Certificates and Opinions, etc.

(a) Upon any application or request by the Issuer to the Indenture Trustee to take any action under any provision of this Indenture, the Issuer shall furnish to the Indenture Trustee (i) an Officer's Certificate stating that all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with, (ii) an Opinion of Counsel stating that in the opinion of such counsel the amendment is authorized and permitted and all such conditions precedent, if any, have been complied with and (iii) (if required by the Trust Indenture Act) an Independent Certificate from a firm of registered public accountants meeting the applicable requirements of this Section 10.01, except that, in the case of any such application or request as to which the furnishing of such documents is specifically required by any provision of this Indenture, no additional certificate or opinion need be furnished.

Every certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture shall include:

(i) a statement that each signatory of such certificate or opinion has read or has caused to be read such covenant or condition and the definitions herein relating thereto;

(ii) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(iii) a statement that, in the opinion of each such signatory, such signatory has made such examination or investigation as is necessary to enable such signatory to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(iv) a statement as to whether, in the opinion of each such signatory, such condition or covenant has been complied with.

(b) Prior to the deposit of any Collateral or other property or securities with the Indenture Trustee that is to be made the basis for the release of any property or securities subject to the Lien of this Indenture, the Issuer shall, in addition to any obligation imposed in Section 10.01(a) or elsewhere in this Indenture, furnish to the Indenture Trustee an Officer's Certificate certifying or stating the opinion of each person signing such certificate as to the fair value (within 90 days of such deposit) to the Issuer of the Collateral or other property or securities to be so deposited.

(c) Whenever the Issuer is required to furnish to the Indenture Trustee an Officer's Certificate certifying or stating the opinion of any signer thereof as to the matters described in Section 10.01(b), the Issuer shall also deliver to the Indenture Trustee an Independent Certificate as to the same matters, if the fair value to the Issuer of the securities to be so deposited and of all other such securities made the basis of any such withdrawal or release since the commencement of the then-current fiscal year of the Issuer, as set forth in the certificates delivered pursuant to Section 10.01(b) and this Section 10.01(c), is ten percent or more of the Outstanding Amount of the Storm Recovery Bonds, but such a certificate need not be furnished with respect to any securities so deposited, if the fair value thereof to the Issuer as set forth in the related Officer's Certificate is less than the lesser of (A) $25,000 or (B) one percent of the Outstanding Amount of the Storm Recovery Bonds.

(d) Whenever any property or securities are to be released from the Lien of this Indenture other than pursuant to Section 8.02(e), the Issuer shall also furnish to the Indenture Trustee an Officer's Certificate certifying or stating the opinion of each person signing such certificate as to the fair value (within 90 days of such release) of the property or securities proposed to be released and stating that in the opinion of such person the proposed release will not impair the security under this Indenture in contravention of the provisions hereof.

(e) Whenever the Issuer is required to furnish to the Indenture Trustee an Officer's Certificate certifying or stating the opinion of any signatory thereof as to the matters

described in Section 10.01(d), the Issuer shall also furnish to the Indenture Trustee an Independent Certificate as to the same matters if the fair value of the property or securities with respect thereto, or securities released from the Lien of this Indenture (other than pursuant to Section 8.02(e)) since the commencement of the then-current calendar year, as set forth in the certificates required by Section 10.01(d) and this Section 10.01(e), equals 10 percent or more of the Outstanding Amount of the Storm Recovery Bonds, but such certificate need not be furnished in the case of any release of property or securities if the fair value thereof as set forth in the related Officer's Certificate is less than the lesser of (A) $25,000 or (B) one percent of the then Outstanding Amount of the Storm Recovery Bonds.

(f) Notwithstanding any other provision of this Section 10.01, the Indenture Trustee may (A) collect, liquidate, sell or otherwise dispose of the Storm Recovery Property and the other Collateral as and to the extent permitted or required by the Basic Documents and (B) make cash payments out of the Collection Account as and to the extent permitted or required by the Basic Documents.

SECTION 10.02. Form of Documents Delivered to Indenture Trustee. In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

Any certificate or opinion of a Responsible Officer of the Issuer may be based, insofar as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel, unless such officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to the matters upon which his or her certificate or opinion is based are erroneous. Any such certificate of a Responsible Officer or Opinion of Counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of the Servicer or the Issuer stating that the information with respect to such factual matters is in the possession of the Servicer or the Issuer, unless such counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to such matters are erroneous.

Whenever in this Indenture, in connection with any application or certificate or report to the Indenture Trustee, it is provided that the Issuer shall deliver any document as a condition of the granting of such application, or as evidence of the Issuer's compliance with any term hereof, it is intended that the truth and accuracy, at the time of the granting of such application or at the effective date of such certificate or report (as the case may be), of the facts and opinions stated in such document shall in such case be conditions precedent to the right of the Issuer to have such application granted or to the sufficiency of such certificate or report. The foregoing shall not, however, be construed to affect the Indenture Trustee's right to rely conclusively upon the truth and accuracy of any statement or opinion contained in any such document as provided in Article VI.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

SECTION 10.03. Acts of Holders.

(a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Holders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holders in person or by agents duly appointed in writing, and except as herein otherwise expressly provided such action shall become effective when such instrument or instruments are delivered to the Indenture Trustee and, where it is hereby expressly required, to the Issuer. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the "Act" of the Holders signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Indenture and (subject to Section 6.01) conclusive in favor of the Indenture Trustee and the Issuer, if made in the manner provided in this Section 10.03.

(b) The fact and date of the execution by any Person of any such instrument or writing may be proved in any manner that the Indenture Trustee deems sufficient.

(c) The ownership of Storm Recovery Bonds shall be proved by the Storm Recovery Bond Register.

(d) Any request, demand, authorization, direction, notice, consent, waiver or other action by the Holder of any Storm Recovery Bonds shall bind the Holder of every Storm Recovery Bond issued upon the registration thereof or in exchange therefor or in lieu thereof, in respect of anything done, omitted or suffered to be done by the Indenture Trustee or the Issuer in reliance thereon, whether or not notation of such action is made upon such Storm Recovery Bond.

SECTION 10.04. Notices, etc., to Indenture Trustee, Issuer and Rating Agencies. Any notice, report or other communication given hereunder shall be in writing and shall be effective (i) upon receipt when sent through the mails, registered or certified mail, return receipt requested, postage prepaid, with such receipt to be effective the date of delivery indicated on the return receipt, (ii) upon receipt when sent by an overnight courier, (iii) on the date personally delivered to an authorized officer of the party to which sent or (iv) on the date transmitted by facsimile or other electronic transmission with a confirmation of receipt in all cases, addressed as follows:

(a) in the case of the Issuer, to [Duke Energy [Carolinas/Progress] Storm Recovery Funding], LLC at [ADDRESS], Attention: Managers, Telephone: [ ];

(b) in the case of the Indenture Trustee, to the Corporate Trust Office;

(c) in the case of SRB Issuer, to [ ];

(d) in the case of SRB Trustee, to [ ];

(e) in the case of Fitch, to Fitch Ratings, 33 Whitehall Street, New York, New York 10004, Attention: ABS Surveillance, Telephone: (212) 908-0500, Facsimile: (212) 908-0355;

(f) in the case of S&P, to Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business, Structured Credit Surveillance, 55 Water Street, New York, New York 10041, Telephone: (212) 438-8991, Email: servicer_reports@standardandpoors.com (all such notices to be delivered to S&P in writing by email); and

(g) in the case of the Commission, North Carolina Utilities Commission, [4325 Mail Service Center, Raleigh, NC 27699-4300], Attention: [Staff Director of Accounting & Finance.]

Each party hereto may, by notice given in accordance herewith to the other party or parties hereto, designate any further or different address to which subsequent notices, reports and other communications shall be sent.

SECTION 10.05. Notices to Holders; Waiver. Where this Indenture provides for notice to Holders of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and mailed, first-class, postage prepaid to each Holder affected by such event, at such Holder's address as it appears on the Storm Recovery Bond Register, not later than the latest date, and not earlier than the earliest date, prescribed for the giving of such notice. In any case where notice to Holders is given by mail, neither the failure to mail such notice nor any defect in any notice so mailed to any particular Holder shall affect the sufficiency of such notice with respect to other Holders, and any notice that is mailed in the manner herein provided shall conclusively be presumed to have been duly given.

Where this Indenture provides for notice in any manner, such notice may be waived in writing by any Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the Indenture Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such a waiver.

In case, by reason of the suspension of regular mail service as a result of a strike, work stoppage or similar activity, it shall be impractical to mail notice of any event of Holders when such notice is required to be given pursuant to any provision of this Indenture, then any manner of giving such notice as shall be satisfactory to the Indenture Trustee shall be deemed to be a sufficient giving of such notice.

Where this Indenture provides for notice to the Rating Agencies, failure to give such notice shall not affect any other rights or obligations created hereunder and shall not under any circumstance constitute a Default or Event of Default.

SECTION 10.06. Conflict with Trust Indenture Act. If any provision hereof limits, qualifies or conflicts with another provision hereof that is required to be included in this Indenture by any of the provisions of the Trust Indenture Act, such required provision shall control.

The provisions of Sections 310 through 317 of the Trust Indenture Act that impose duties on any Person (including the provisions automatically deemed included herein unless expressly excluded by this Indenture) are a part of and govern this Indenture, whether or not physically contained herein.

SECTION 10.07. Successors and Assigns. All covenants and agreements in this Indenture and the Storm Recovery Bonds by the Issuer shall bind its successors and assigns, whether so expressed or not. All agreements of the Indenture Trustee in this Indenture shall bind its successors.

SECTION 10.08. Severability. Any provision in this Indenture or in the Storm Recovery Bonds that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remainder of such provision (if any) or the remaining provisions hereof (unless such construction shall be unreasonable), and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

SECTION 10.09. Benefits of Indenture. Nothing in this Indenture or in the Storm Recovery Bonds, express or implied, shall give to any Person, other than the parties hereto and their successors hereunder, and the Holders, and any other party secured hereunder, and any other Person with an ownership interest in any part of the Collateral, any benefit or any legal or equitable right, remedy or claim under this Indenture.

SECTION 10.10. Legal Holidays. In any case where the date on which any payment is due shall not be a Business Day, then (notwithstanding any other provision of the Storm Recovery Bonds or this Indenture) payment need not be made on such date, but may be made on the next Business Day with the same force and effect as if made on the date on which nominally due, and no interest shall accrue for the period from and after any such nominal date.

SECTION 10.11. GOVERNING LAW. **This Indenture shall be governed by and construed in accordance with the laws of the State of New York, without reference to its conflict of law provisions (other than Section 5-1401 of the New York General Obligations Law and Sections 9-301 through 9-306 of the NY UCC), and the obligations, rights and remedies of the parties hereunder shall be determined in accordance with such laws; provided, that the creation, attachment and perfection of any Liens created hereunder in Property, and all rights and remedies of the Indenture Trustee and the Holders with respect to the Property, shall be governed by the laws of the State of North Carolina.**

SECTION 10.12. Counterparts. This Indenture may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

SECTION 10.13. Recording of Indenture. If this Indenture is subject to recording in any appropriate public recording offices, such recording is to be effected by the Issuer and at its expense accompanied by an Opinion of Counsel at the Issuer's cost and expense (which may be counsel to the Indenture Trustee or any other counsel reasonably acceptable to

the Indenture Trustee or, if requested by the Indenture Trustee, external counsel of the Issuer) to the effect that such recording is necessary either for the protection of the Holders or any other Person secured hereunder or for the enforcement of any right or remedy granted to the Indenture Trustee under this Indenture.

SECTION 10.14. No Recourse to Issuer. No recourse may be taken, directly or indirectly, with respect to the obligations of the Issuer or the Indenture Trustee on the Storm Recovery Bonds or under this Indenture or any certificate or other writing delivered in connection herewith or therewith, against (a) the Issuer, other than from the Series Collateral, (b) any owner of a membership interest in the Issuer (including Duke Energy [Carolinas/Progress]) or (c) any shareholder, partner, owner, beneficiary, agent, officer or employee of the Indenture Trustee, the Managers or any owner of a membership interest in the Issuer (including Duke Energy [Carolinas/ Progress]) in its respective individual capacity, or of any successor or assign of any of them in their respective individual or corporate capacities, except as any such Person may have expressly agreed in writing. Notwithstanding any provision of this Indenture or any Series Supplement to the contrary, Holders shall look only to the Series Collateral with respect to any amounts due to the Holders hereunder and under the Storm Recovery Bonds and, in the event such Series Collateral is insufficient to pay in full the amounts owed on the Storm Recovery Bonds, shall have no recourse against the Issuer in respect of such insufficiency. Each Holder by accepting a Storm Recovery Bond specifically confirms the nonrecourse nature of these obligations and waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Storm Recovery Bonds.

SECTION 10.15. Basic Documents. The Indenture Trustee is hereby authorized to execute and deliver the Servicing Agreement and to execute and deliver any other Basic Document that it is requested to acknowledge, including, upon receipt of an Issuer Request, the Intercreditor Agreement, so long as the Intercreditor Agreement is substantially in the form of the Intercreditor Agreement dated as of [ ], 2021 and does not materially and adversely affect any Holder's rights in and to any Collateral or otherwise hereunder. Such request shall be accompanied by an Opinion of Counsel of external counsel of the Issuer, upon which the Indenture Trustee may rely conclusively with no duty of independent investigation or inquiry, to the effect that all conditions precedent for the execution of the Intercreditor Agreement have been satisfied. The Intercreditor Agreement shall be binding on the Holders.

SECTION 10.16. No Petition. The Indenture Trustee, by entering into this Indenture, and each Holder, by accepting a Storm Recovery Bond (or interest therein) issued hereunder, hereby covenant and agree that they shall not, prior to the date that is one year and one day after the termination of this Indenture, acquiesce, petition or otherwise invoke or cause the Issuer or any Manager to invoke the process of any court or government authority for the purpose of commencing or sustaining a case against the Issuer under any bankruptcy or insolvency law or appointing a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official of the Issuer or any substantial part of its property, or ordering the dissolution, winding up or liquidation of the affairs of the Issuer. Nothing in this Section 10.16 shall preclude, or be deemed to estop, such Holder or the Indenture Trustee (a) from taking or omitting to take any action prior to such date in (i) any case or proceeding voluntarily filed or commenced by or on behalf of the Issuer under or pursuant to any such law or (ii) any involuntary case or proceeding pertaining to the Issuer that is filed or commenced by or on

behalf of a Person other than such Holder and is not joined in by such Holder (or any Person to which such Holder shall have assigned, transferred or otherwise conveyed any part of the obligations of the Issuer hereunder) under or pursuant to any such law or (b) from commencing or prosecuting any legal action that is not an involuntary case or proceeding under or pursuant to any such law against the Issuer or any of its properties.

SECTION 10.17. Securities Intermediary. The Securities Intermediary, in acting under this Indenture, is entitled to all rights, benefits, protections, immunities and indemnities accorded to [ ], in its capacity as Indenture Trustee under this Indenture.

SECTION 10.18. Trustee Capacities; Affiliated Parties. Each of the Holders by accepting the Storm Recovery Bonds shall be deemed to acknowledge and consent to [ ] acting in the capacity of Delaware Trustee and [ ] acting in the capacities of Indenture Trustee and SRB Trustee.

SECTION 10.19. Rule 17g-5 Compliance.

(a) The Indenture Trustee agrees that any notice, report, request for satisfaction of the Rating Agency Condition, document or other information provided by the Indenture Trustee to any Rating Agency under this Indenture or any other Basic Document to which it is a party for the purpose of determining or confirming the credit rating of the Storm Recovery Bonds or undertaking credit rating surveillance of the Storm Recovery Bonds shall be provided, substantially concurrently, to the Servicer for posting on a password-protected website (the "17g-5 Website"). The Servicer shall be responsible for posting all of the information on the 17g-5 Website.

(b) The Indenture Trustee will not be responsible for creating or maintaining the 17g-5 Website, posting any information to the 17g-5 Website or assuring that the 17g-5 Website complies with the requirements of this Indenture, Rule 17g-5 under the Exchange Act or any other law or regulation. In no event shall the Indenture Trustee be deemed to make any representation in respect of the content of the 17g-5 Website or compliance by the 17g-5 Website with this Indenture, Rule 17g-5 under the Exchange Act or any other law or regulation. The Indenture Trustee shall have no obligation to engage in or respond to any oral communications with respect to the transactions contemplated hereby, any transaction documents relating hereto or in any way relating to the Storm Recovery Bonds or for the purposes of determining the initial credit rating of the Storm Recovery Bonds or undertaking credit rating surveillance of the Storm Recovery Bonds with any Rating Agency or any of its respective officers, directors or employees. The Indenture Trustee shall not be responsible or liable for the dissemination of any identification numbers or passwords for the 17g-5 Website, including by the Servicer, the Rating Agencies, a nationally recognized statistical rating organization ("NRSRO"), any of their respective agents or any other party. Additionally, the Indenture Trustee shall not be liable for the use of the information posted on the 17g-5 Website, whether by the Servicer, the Rating Agencies, an NRSRO or any other third party that may gain access to the 17g-5 Website or the information posted thereon.

SECTION 10.20. Submission to Non-Exclusive Jurisdiction; Waiver of Jury Trial. **Each of the Issuer and the Indenture Trustee hereby irrevocably submits to the non-**

exclusive jurisdiction of any New York State court sitting in The Borough of Manhattan in The City of New York or any U.S. federal court sitting in The Borough of Manhattan in The City of New York in respect of any suit, action or proceeding arising out of or relating to this Indenture and the Storm Recovery Bonds and irrevocably accepts for itself and in respect of its respective property, generally and unconditionally, jurisdiction of the aforesaid courts. Each of the Issuer and the Indenture Trustee irrevocably waives, to the fullest extent that it may effectively do so under applicable law, trial by jury.

SECTION 10.21. Certain Tax Laws. In order to comply with applicable tax laws, rules and regulations (inclusive of directives, guidelines and interpretations promulgated by competent authorities) in effect from time to time to which a foreign financial institution, issuer, trustee, paying agent, holder or other institution is or has agreed to be subject related to the Basic Documents, the Issuer agrees (a) to provide to the Indenture Trustee sufficient information about Holders or other applicable parties and/or transactions (including any modification to the terms of such transactions) so as to enable the Indenture Trustee to determine whether it has tax-related obligations under such applicable tax laws, rules and regulations (inclusive of directives, guidelines and interpretations promulgated by competent authorities) and (b) that the Indenture Trustee shall be entitled to make any withholding or deduction from payments under the Basic Documents to the extent necessary to comply with such applicable tax laws, rules and regulations (inclusive of directives, guidelines and interpretations promulgated by competent authorities) for which the Indenture Trustee shall not have any liability.

{SIGNATURE PAGE FOLLOWS}

IN WITNESS WHEREOF, the Issuer, the Indenture Trustee and the Securities Intermediary have caused this Indenture to be duly executed by their respective officers thereunto duly authorized and duly attested, all as of the day and year first above written.

[DUKE ENERGY [CAROLINAS/PROGRESS] STORM RECOVERY FUNDING], LLC,
as Issuer

By: _____
Name: [ ]
Title: President, Chief Financial Officer and Treasurer

[ ],
as Indenture Trustee and as Securities Intermediary

By: _____
Name:
Title:

STATE OF NORTH CAROLINA)

COUNTY OF MECKLENBURG)

The foregoing instrument was acknowledged before me this ____ day of [ ], 2021, by [Stephen G. De May], President, Chief Financial Officer and Treasurer of [Duke Energy [Carolinas/Progress] Storm Recovery Funding], LLC, a Delaware limited liability company, on behalf of the company.

_____
_____, Notary Public
{Seal} State of North Carolina, County of Mecklenburg
My Commission Expires: _____
Acting in the County of Mecklenburg

STATE OF NEW YORK)
ss.
COUNTY OF NEW YORK)

The foregoing instrument was acknowledged before me this ____ day of [ ], 2021, by _____, _____ of [ ], as Indenture Trustee and Securities Intermediary, on behalf of the bank.

_____
_____, Notary Public,
State of New York
No. _____
Qualified in New York County
Certificate Filed in New York County
Commission Expires _____

EXHIBIT A

FORM OF STORM RECOVERY BOND

See attached.

UNLESS AND UNTIL IT IS EXCHANGED IN WHOLE OR IN PART FOR SECURITIES IN DEFINITIVE REGISTERED FORM, THIS SECURITY MAY NOT BE TRANSFERRED EXCEPT AS A WHOLE BY THE DEPOSITARY TO THE NOMINEE OF THE DEPOSITARY OR BY A NOMINEE OF THE DEPOSITARY TO THE DEPOSITARY OR ANOTHER NOMINEE OF THE DEPOSITARY OR BY THE DEPOSITARY OR ANY SUCH NOMINEE TO A SUCCESSOR DEPOSITARY OR A NOMINEE OF SUCH SUCCESSOR DEPOSITARY. UNLESS THIS SECURITY IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION, TO THE ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY SECURITY ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY (AND ANY PAYMENT HEREON IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON OR ENTITY IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

No. {_____} $\{$_____$\}$
tranche Designation {__} CUSIP No.: {_____}

THE PRINCIPAL OF THIS SERIES {__}, tranche {__} SENIOR SECURED STORM RECOVERY BOND, (THIS "STORM RECOVERY BOND") WILL BE PAID IN INSTALLMENTS AS SET FORTH HEREIN. ACCORDINGLY, THE OUTSTANDING PRINCIPAL AMOUNT OF THIS STORM RECOVERY BOND AT ANY TIME MAY BE LESS THAN THE AMOUNT SHOWN ABOVE. THE HOLDER OF THIS STORM RECOVERY BOND HAS NO RECOURSE TO THE ISSUER HEREOF AND AGREES TO LOOK ONLY TO THE SERIES COLLATERAL, AS DESCRIBED IN THE INDENTURE, FOR PAYMENT OF ANY AMOUNTS DUE HEREUNDER. ALL OBLIGATIONS OF THE ISSUER OF THIS STORM RECOVERY BOND UNDER THE TERMS OF THE INDENTURE WILL BE RELEASED AND DISCHARGED UPON PAYMENT IN FULL HEREOF OR AS OTHERWISE PROVIDED IN SECTION 3.10(b) OR ARTICLE IV OF THE INDENTURE. THE HOLDER OF THIS STORM RECOVERY BOND HEREBY COVENANTS AND AGREES THAT PRIOR TO THE DATE THAT IS ONE YEAR AND ONE DAY AFTER THE PAYMENT IN FULL OF THIS STORM RECOVERY BOND, IT WILL NOT INSTITUTE AGAINST, OR JOIN ANY OTHER PERSON IN INSTITUTING AGAINST, THE ISSUER ANY BANKRUPTCY, REORGANIZATION, ARRANGEMENT, INSOLVENCY OR LIQUIDATION PROCEEDINGS OR OTHER SIMILAR PROCEEDING UNDER THE LAWS OF THE UNITED STATES OR ANY STATE OF THE UNITED STATES. NOTHING IN THIS PARAGRAPH SHALL PRECLUDE, OR BE DEEMED TO ESTOP, SUCH HOLDER (A) FROM TAKING OR OMITTING TO TAKE ANY ACTION PRIOR TO SUCH DATE IN (I) ANY CASE OR PROCEEDING VOLUNTARILY FILED OR COMMENCED BY OR ON BEHALF OF THE ISSUER UNDER OR PURSUANT TO ANY SUCH LAW OR (II) ANY INVOLUNTARY CASE OR PROCEEDING PERTAINING TO THE ISSUER THAT IS FILED OR COMMENCED BY OR ON BEHALF OF A PERSON OTHER THAN SUCH HOLDER AND IS NOT JOINED IN BY SUCH HOLDER (OR ANY PERSON TO WHICH SUCH HOLDER SHALL HAVE ASSIGNED, TRANSFERRED OR

OTHERWISE CONVEYED ANY PART OF THE OBLIGATIONS OF THE ISSUER HEREUNDER) UNDER OR PURSUANT TO ANY SUCH LAW OR (B) FROM COMMENCING OR PROSECUTING ANY LEGAL ACTION THAT IS NOT AN INVOLUNTARY CASE OR PROCEEDING UNDER OR PURSUANT TO ANY SUCH LAW AGAINST THE ISSUER OR ANY OF ITS PROPERTIES.

NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF FLORIDA IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, OR INTEREST ON, THIS STORM RECOVERY BOND.

[DUKE ENERGY [CAROLINAS/PROGRESS] STORM RECOVERY FUNDING], LLC
SERIES {__} SENIOR SECURED STORM RECOVERY BONDS, tranche {__}

BOND INTEREST RATE	ORIGINAL PRINCIPAL AMOUNT	SCHEDULED FINAL PAYMENT DATE	FINAL MATURITY DATE
{____}%	$\{_____\}	{_____}, 20{__}	{_____}, 20{__}

[Duke Energy [Carolinas/Progress] Storm Recovery Funding], LLC, a limited liability company created under the laws of the State of Delaware (herein referred to as the "Issuer"), for value received, hereby promises to pay to {_____}, or registered assigns, the Original Principal Amount shown above in annual installments on the Payment Dates and in the amounts specified below or, if less, the amounts determined pursuant to Section 8.02 of the Indenture, in each year, commencing on the date determined as provided below and ending on or before the Final Maturity Date shown above and to pay interest, at the Bond Interest Rate shown above, on each {_____} and {_____} or, if any such day is not a Business Day, the next Business Day, commencing on {_____}, 20{__} and continuing until the earlier of the payment in full of the principal hereof and the Final Maturity Date (each, a "Payment Date"), on the principal amount of this Storm Recovery Bond. Interest on this Storm Recovery Bond will accrue for each Payment Date from the most recent Payment Date on which interest has been paid to but excluding such Payment Date or, if no interest has yet been paid, from the date of issuance. Interest will be computed on the basis of {_____}. Such principal of and interest on this Storm Recovery Bond shall be paid in the manner specified below.

The principal of and interest on this Storm Recovery Bond are payable in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts. All payments made by the Issuer with respect to this Storm Recovery Bond shall be applied first to interest due and payable on this Storm Recovery Bond as provided above and then to the unpaid principal of and premium, if any, on this Storm Recovery Bond, all in the manner set forth in the Indenture.

Unless the certificate of authentication hereon has been executed by the Indenture Trustee whose name appears below by manual signature, this Storm Recovery Bond shall not be entitled to any benefit under the Indenture referred to below or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Issuer has caused this instrument to be signed, manually or in facsimile, by its Responsible Officer.

Date: {_____}, 20{__}

[DUKE ENERGY [CAROLINAS/PROGRESS] STORM RECOVERY FUNDING], LLC,
as Issuer

By: _____
Name: [ ]
Title: [ ]

INDENTURE TRUSTEE'S
CERTIFICATE OF AUTHENTICATION

Dated: {_____}, 20{__}

This is one of the Series {__}, tranche {__} Senior Secured Storm Recovery Bonds, designated above and referred to in the within-mentioned Indenture.

[ ],
as Indenture Trustee

By: _____
Name: [ ]
Title: [ ]

This Senior Secured Storm Recovery Bond, Series {__}, tranche {__} is one of a duly authorized issue of Series {__} Senior Secured Storm Recovery Bonds of the Issuer (herein called the "Series {__} Bonds"), which Bonds are issuable in one or more Series, which Series are issuable in one or more tranches. The Series {__} Bonds consist of {__} tranches, including the tranche {__} Series {__} Senior Secured Storm Recovery Bonds, which include this Senior Secured Storm Recovery Bond (herein called the "tranche {__} Storm Recovery Bonds"), all issued and to be issued under that certain Indenture dated as of [ ], 2021 (as supplemented by the Series Supplement (as defined below), the "Indenture"), between the Issuer and [ ], in its capacity as indenture trustee (the "Indenture Trustee", which term includes any successor indenture trustee under the Indenture) and in its separate capacity as a securities intermediary (the "Securities Intermediary", which term includes any successor securities intermediary under the Indenture), to which Indenture and all indentures supplemental thereto reference is hereby made for a statement of the respective rights and obligations thereunder of the Issuer, the Indenture Trustee and the Holders of the Bonds. For purposes herein, "Series Supplement" means that certain Series Supplement dated as of { , 20 } between the Issuer and the Indenture Trustee. All terms used in this tranche {__} Storm Recovery Bond that are defined in the Indenture, as amended, restated, supplemented or otherwise modified from time to time, shall have the meanings assigned to such terms in the Indenture.

All tranches of Series {__} Bonds are and will be equally and ratably secured by the Series Collateral pledged as security therefor as provided in the Indenture.

The principal of this tranche {__} Storm Recovery Bond shall be payable on each Payment Date only to the extent that amounts in the Collection Account for the Series {__} Bonds are available therefor, and only until the outstanding principal balance thereof on the preceding Payment Date (after giving effect to all payments of principal, if any, made on the preceding Payment Date) has been reduced to the principal balance specified in the Expected Sinking Fund Schedule that is attached to the Series Supplement as Schedule A, unless payable earlier because an Event of Default shall have occurred and be continuing and the Indenture Trustee or the Holders representing a majority of the Outstanding Amount of the Bonds of this Series have declared the Series {__} Bonds to be immediately due and payable in accordance with Section 5.02 of the Indenture (unless such declaration shall have been rescinded and annulled in accordance with Section 5.02 of the Indenture). However, actual principal payments may be made in lesser than expected amounts and at later than expected times as determined pursuant to Section 8.02 of the Indenture. The entire unpaid principal amount of this tranche {__} Storm Recovery Bond shall be due and payable on the Final Maturity Date hereof. Notwithstanding the foregoing, the entire unpaid principal amount of the Bonds shall be due and payable, if not then previously paid, on the date on which an Event of Default shall have occurred and be continuing and the Indenture Trustee or the Holders of the Bonds representing a majority of the Outstanding Amount of the Bonds of this Series have declared the Storm Recovery Bonds to be immediately due and payable in the manner provided in Section 5.02 of the Indenture (unless such declaration shall have been rescinded and annulled in accordance with Section 5.02 of the Indenture). All principal payments on the tranche {__} Storm Recovery Bonds shall be made pro rata to the Holders of the tranche{__} Storm Recovery Bonds entitled thereto based on the respective principal amounts of the tranche {__} Storm Recovery Bonds held by them.

Payments of interest on this tranche {__} Storm Recovery Bond due and payable on each Payment Date, together with the installment of principal or premium, if any, shall be made by check mailed first-class, postage prepaid, to the Person whose name appears as the Registered Holder of this tranche {__} Storm Recovery Bond (or one or more Predecessor Storm Recovery Bonds) on the Storm Recovery Bond Register as of the close of business on the Record Date or in such other manner as may be provided in the Indenture or the Series Supplement, except that (a) upon application to the Indenture Trustee by any Holder owning a Global Storm Recovery Bond evidencing this tranche {__} Storm Recovery Bond not later than the applicable Record Date, payment will be made by wire transfer to an account maintained by such Holder, and (b) if this tranche {__} Storm Recovery Bond is held in Book-Entry Form, payments will be made by wire transfer in immediately available funds to the account designated by the Holder of the applicable Global Storm Recovery Bond evidencing this tranche {__} Storm Recovery Bond unless and until such Global Storm Recovery Bond is exchanged for Definitive Storm Recovery Bonds (in which event payments shall be made as provided above) and except for the final installment of principal and premium, if any, payable with respect to this tranche {__} Storm Recovery Bond on a Payment Date, which shall be payable as provided below. Such checks shall be mailed to the Person entitled thereto at the address of such Person as it appears on the Storm Recovery Bond Register as of the applicable Record Date without requiring that this tranche {__} Storm Recovery Bond be submitted for notation of payment. Any reduction in the principal amount of this tranche {__} Storm Recovery Bond (or any one or more Predecessor Storm Recovery Bonds) effected by any payments made on any Payment Date shall be binding upon all future Holders of this tranche {__} Storm Recovery Bond and of any Storm Recovery Bond issued upon the registration of transfer hereof or in exchange hereof or in lieu hereof, whether or not noted hereon. If funds are expected to be available, as provided in the Indenture, for payment in full of the then-remaining unpaid principal amount of this tranche {__} Storm Recovery Bond on a Payment Date, then the Indenture Trustee, in the name of and on behalf of the Issuer, will notify the Person who was the Registered Holder hereof as of the Record Date preceding such Payment Date by notice mailed no later than five days prior to such final Payment Date and shall specify that such final installment will be payable only upon presentation and surrender of this tranche {__} Storm Recovery Bond and shall specify the place where this tranche {__} Storm Recovery Bond may be presented and surrendered for payment of such installment.

The Issuer shall pay interest on overdue installments of interest at the Bond Interest Rate to the extent lawful.

This tranche {__} Storm Recovery Bond is a “storm recovery bond” as such term is defined in the Storm Recovery Law. Principal and interest due and payable on this tranche {__} Storm Recovery Bond are payable from and secured primarily by Series Property created and established by the Financing Order obtained from the North Carolina Public Service Commission pursuant to the Storm Recovery Law. Series Property consists of the rights and interests of the Seller in the Financing Order, including the right to impose, bill, collect and receive Series Charges, the right to obtain True-Up Adjustments and all revenue, collections, claims, rights to payments, payments, moneys and proceeds arising out of the rights and interests created under the Financing Order.

Under the laws of the State of North Carolina in effect on the date hereof, pursuant to N.C. Gen. Stat. § 62-172(k), the State of North Carolina has pledged to agree and work with the Holders, the Indenture Trustee, other Financing Parties that the State of North Carolina will not (a) alter the provisions of N.C. Gen. Stat. § 62-172(k) which make the Charges imposed by the Financing Order or Subsequent Financing Order irrevocable, binding, and nonbypassable charges; (b) take or permit any action that impairs or would impair the value of Property or revises the Storm Recovery Costs for which recovery is authorized; (c) in any way impair the rights and remedies of the bondholders, assignees and other financing parties; (d) or except as authorized under the Storm Recovery Law, reduce, alter, or impair Charges that are to be imposed, billed, charged, collected, and remitted for the benefit of the bondholders, any assignee, the Indenture Trustee and any 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.

The Issuer and Duke Energy [Carolinas/ Progress] hereby acknowledge that the purchase of this Storm Recovery Bond by the Holder hereof or the purchase of any beneficial interest herein by any Person are made in reliance on the foregoing pledge.

As provided in the Indenture and subject to certain limitations set forth therein, the transfer of this tranche {__} Storm Recovery Bond may be registered on the Storm Recovery Bond Register upon surrender of this tranche {__} Storm Recovery Bond for registration of transfer at the office or agency designated by the Issuer pursuant to the Indenture, duly endorsed by, or accompanied by, (a) a written instrument of transfer in form satisfactory to the Indenture Trustee duly executed by the Holder hereof or such Holder's attorney duly authorized in writing, with such signature guaranteed by: (i) The Securities Transfer Agent Medallion Program (STAMP); (ii) The New York Stock Exchange Medallion Program (MSP); (iii) The Stock Exchange Medallion Program (SEMP); or (iv) such other signature guaranty program acceptable to the Indenture Trustee, and (b) such other documents as the Indenture Trustee may require, and thereupon one or more new Storm Recovery Bonds of Authorized Denominations and in the same aggregate principal amount will be issued to the designated transferee or transferees. No service charge will be charged for any registration of transfer or exchange of this tranche {__} Storm Recovery Bond, but the transferor may be required to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any such registration of transfer or exchange, other than exchanges pursuant to Section 2.04 or Section 2.06 of the Indenture not involving any transfer.

Each Holder, by acceptance of a tranche {__} Storm Recovery Bond, covenants and agrees that no recourse may be taken, directly or indirectly, with respect to the obligations of the Issuer or the Indenture Trustee on the tranche {__} Storm Recovery Bonds or under the Indenture or any certificate or other writing delivered in connection therewith, against (a) any owner of a membership interest in the Issuer (including Duke Energy [Carolinas/ Progress]) or (b) any shareholder, partner, owner, beneficiary, agent, officer or employee of the Indenture Trustee, the Managers or any owner of a membership interest in the Issuer (including Duke Energy [Carolinas/ Progress]) in its respective individual or corporate capacities, or of any successor or assign of any of them in their individual or corporate capacities, except as any such Person may have expressly agreed in writing. Each Holder by accepting a tranche {__} Storm

Recovery Bond specifically confirms the nonrecourse nature of these obligations and waives and releases all such liability. The waiver and release are part of the consideration for issuance of the tranche {__} Storm Recovery Bonds.

Prior to the due presentment for registration of transfer of this tranche {__} Storm Recovery Bond, the Issuer, the Indenture Trustee and any agent of the Issuer or the Indenture Trustee may treat the Person in whose name this tranche {__} Storm Recovery Bond is registered (as of the day of determination) as the owner hereof for the purpose of receiving payments of principal of and premium, if any, and interest on this tranche {__} Storm Recovery Bond and for all other purposes whatsoever, whether or not this tranche {__} Storm Recovery Bond be overdue, and none of the Issuer, the Indenture Trustee or any such agent shall be affected by notice to the contrary.

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Issuer and the rights of the Holders of the Storm Recovery Bonds under the Indenture at any time by the Issuer with the consent of the Holders representing a majority of the Outstanding Amount of all Storm Recovery Bonds at the time outstanding of each Series or tranche to be affected and upon the satisfaction of the Rating Agency Condition and Commission Condition. The Indenture also contains provisions permitting the Holders representing specified percentages of the Outstanding Amount of the Storm Recovery Bonds of all Series, on behalf of the Holders of all the Storm Recovery Bonds, with the consent of the Commission, to waive compliance by the Issuer with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this tranche {__} Storm Recovery Bond (or any one of more Predecessor Storm Recovery Bonds) shall be conclusive and binding upon such Holder and upon all future Holders of this tranche {__} Storm Recovery Bond and of any tranche {__} Storm Recovery Bond issued upon the registration of transfer hereof or in exchange hereof or in lieu hereof whether or not notation of such consent or waiver is made upon this tranche {__} Storm Recovery Bond. The Indenture also permits the Indenture Trustee to amend or waive certain terms and conditions set forth in the Indenture without the consent of Holders of the Storm Recovery Bonds issued thereunder, but with the satisfaction of the Commission Condition.

The Indenture contains provisions for defeasance at any time of (a) the entire indebtedness of the Issuer on a Storm Recovery Bond of a Series and (b) certain restrictive covenants and the related Events of Default of a Series, upon compliance by the Issuer with certain conditions set forth in the Indenture, which provisions apply to this tranche {__} Storm Recovery Bond.

The term “Issuer” as used in this tranche {__} Storm Recovery Bond includes any successor to the Issuer under the Indenture.

The Issuer is permitted by the Indenture, under certain circumstances, to merge or consolidate, subject to the rights of the Indenture Trustee and the Holders under the Indenture.

The tranche {__} Storm Recovery Bonds are issuable only in registered form in denominations as provided in the Indenture and the Series Supplement subject to certain limitations therein set forth.

This tranche {__} Storm Recovery Bond, the Indenture and the Series Supplement shall be construed in accordance with the laws of the State of New York, without reference to its conflict of law provisions (other than Section 5-1401 of the New York General Obligations Law and Sections 9-301 through 9-306 of the NY UCC), and the obligations, rights and remedies of the parties hereunder and thereunder shall be determined in accordance with such laws; provided, that the creation, attachment and perfection of any Liens created under the Indenture in Property, and all rights and remedies of the Indenture Trustee and the Holders with respect to the Property, shall be governed by the laws of the State of North Carolina.

No reference herein to the Indenture and no provision of this tranche {__} Storm Recovery Bond or of the Indenture shall alter or impair the obligation, which is absolute and unconditional, to pay the principal of and interest on this tranche {__} Storm Recovery Bond at the times, place and rate and in the coin or currency herein prescribed.

The Issuer and the Indenture Trustee, by entering into the Indenture, and the Holders and any Persons holding a beneficial interest in any tranche {__} Storm Recovery Bond, by acquiring any tranche {__} Storm Recovery Bond or interest therein, (a) express their intention that, solely for the purpose of U.S. federal taxes and, to the extent consistent with applicable state, local and other tax law, solely for the purpose of state, local and other taxes, the tranche {__} Storm Recovery Bonds qualify under applicable tax law as indebtedness of the sole owner of the Issuer secured by the Series Collateral and (b) solely for purposes of U.S. federal taxes and, to the extent consistent with applicable state, local and other tax law, solely for purposes of state, local and other taxes, so long as any of the tranche {__} Storm Recovery Bonds are outstanding, agree to treat the tranche {__} Storm Recovery Bonds as indebtedness of the sole owner of the Issuer secured by the Series Collateral unless otherwise required by appropriate taxing authorities.

ABBREVIATIONS

The following abbreviations, when used above on this Storm Recovery Bond, shall be construed as though they were written out in full according to applicable laws or regulations.

TEN COM	as tenants in common
TEN ENT	as tenants by the entireties
JT TEN	as joint tenants with right of survivorship and not as tenants in common
UNIF GIFT MIN ACT	_____ Custodian _____ (Custodian) (minor) Under Uniform Gifts to Minor Act (_____) (State)

Additional abbreviations may also be used though not in the above list.

ASSIGNMENT

Social Security or taxpayer I.D. or other identifying number of assignee _____

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto

_____

(name and address of assignee)

the within tranche {__} Storm Recovery Bond and all rights thereunder, and hereby irrevocably constitutes and appoints _____, attorney, to transfer said tranche {__} Storm Recovery Bond on the books kept for registration thereof, with full power of substitution in the premises.

Dated: _____

_____
Signature Guaranteed:

_____

The signature to this assignment must correspond with the name of the registered owner as it appears on the within tranche {__} Storm Recovery Bond in every particular, without alteration, enlargement or any change whatsoever.

NOTE: Signature(s) must be guaranteed by an institution that is a member of: (i) The Securities Transfer Agent Medallion Program (STAMP); (ii) The New York Stock Exchange Medallion Program (MSP); (iii) the Stock Exchange Medallion Program (SEMP); or (iv) such other signature guaranty program acceptable to the Indenture Trustee.

EXHIBIT B

FORM OF SERIES SUPPLEMENT

See attached.

This SERIES SUPPLEMENT, dated as of { , 20 } (this "Supplement"), is by and between [DUKE ENERGY [CAROLINAS/PROGRESS] STORM RECOVERY FUNDING], LLC, a limited liability company created under the laws of the State of Delaware (the "Issuer"), and [ ] ("Bank"), in its capacity as indenture trustee (the "Indenture Trustee") for the benefit of the Secured Parties under the Indenture dated as of [ ], 2021, by and between the Issuer and [ ], in its capacity as Indenture Trustee and in its separate capacity as a securities intermediary (the "Indenture").

PRELIMINARY STATEMENT

Section 9.01 of the Indenture provides, among other things, that the Issuer and the Indenture Trustee may at any time enter into an indenture supplemental to the Indenture for the purposes of authorizing the issuance by the Issuer of a Series of the Storm Recovery Bonds and specifying the terms thereof. The Issuer has duly authorized the creation of a Series of the Storm Recovery Bonds with an initial aggregate principal amount of ${_____} to be known as Series {__}Senior Secured Storm Recovery Bonds (the "Series {__} Storm Recovery Bonds"), and the Issuer and the Indenture Trustee are executing and delivering this Supplement in order to provide for the Series {__} Storm Recovery Bonds.

All terms used in this Supplement that are defined in the Indenture, either directly or by reference therein, have the meanings assigned to them therein, except to the extent such terms are defined or modified in this Supplement or the context clearly requires otherwise. In the event that any term or provision contained herein shall conflict with or be inconsistent with any term or provision contained in the Indenture, the terms and provisions of this Supplement shall govern.

GRANTING CLAUSE

With respect to the Series {__} Storm Recovery Bonds, the Issuer hereby Grants to the Indenture Trustee, as Indenture Trustee for the benefit of the Secured Parties of the Series {__} Storm Recovery Bonds, all of the Issuer's right, title and interest (whether now owned or hereafter acquired or arising) in and to (a) the Series Property created under and pursuant to the Financing Order and the Storm Recovery Law, and transferred by the Seller to the Issuer on the date hereof pursuant to the Sale Agreement (including, to the fullest extent permitted by law, the right to impose, bill, collect and receive the Series Charges, the right to obtain periodic adjustments to the Series Charges, and all revenue, collections, claims, rights to payments, payments, money and proceeds arising out of the rights and interests created under the Financing Order), (b) all Series Charges related to the Series Property, (c) the Sale Agreement and the Bill of Sale executed in connection therewith and all property and interests in property transferred under the Sale Agreement and the Bill of Sale with respect to the Series Property and the Series {__} Storm Recovery Bonds, (d) the Servicing Agreement, the Administration Agreement, the Intercreditor Agreement and any subservicing, agency, administration or collection agreements executed in connection therewith, to the extent related to the foregoing Series Property and the Series {__} Storm Recovery Bonds, (e) the Collection Account for the Series {__} Storm Recovery Bonds, all subaccounts thereof and all amounts of cash, instruments, investment property or other assets on deposit therein or credited thereto from time to time and all financial assets and securities entitlements carried therein or credited thereto, (f) all rights to compel the

Servicer to file for and obtain periodic adjustments to the Series Charges in accordance with N.C. Gen. Stat. § 62-172(b)(3)b.6. and the Financing Order, (g) all present and future claims, demands, causes and choses in action in respect of any or all of the foregoing, whether such claims, demands, causes and choses in action constitute Series Property, accounts, general intangibles, instruments, contract rights, chattel paper or proceeds of such items or any other form of property, (h) all accounts, chattel paper, deposit accounts, documents, general intangibles, goods, instruments, investment property, letters of credit, letters-of-credit rights, money, commercial tort claims and supporting obligations related to the foregoing, and (i) all payments on or under, and all proceeds in respect of, any or all of the foregoing (the "Series {__} Collateral"), **it being understood that the following do not constitute Series {__} Collateral**: (x) cash that has been released pursuant to the terms of the Indenture, including Section 8.02(e)(x) of the Indenture and, following retirement of all Outstanding Series {__} Storm Recovery Bonds, pursuant to Section 8.02(e)(xii) of the Indenture, (y) amounts deposited with the Issuer on the Series Closing Date, for payment of costs of issuance with respect to the Series {__} Storm Recovery Bonds (together with any interest earnings thereon) or (z) proceeds from the sale of the Series {__} Storm Recovery Bonds required to pay the purchase price for the Series Property and paid pursuant to the Sale Agreement for such Series and upfront Financing Costs, it being understood that such amounts described in clause (x) and clause (y) above shall not be subject to Section 3.17 of the Indenture. For the avoidance of doubt, any Series Property created with respect to an Additional Series shall not be Series {__} Collateral.

The foregoing Grant is made in trust to secure the Secured Obligations equally and ratably without prejudice, priority or distinction, except as expressly provided in the Indenture, to secure compliance with the provisions of the Indenture with respect to the Series {__} Storm Recovery Bonds, all as provided in the Indenture and to secure the performance by the Issuer of all of its obligations under the Indenture. The Indenture and this Supplement constitute a security agreement within the meaning of the Storm Recovery Law and under the UCC to the extent that the provisions of the UCC are applicable hereto.

The Indenture Trustee, as indenture trustee on behalf of the Secured Parties of the Series {__} Storm Recovery Bonds, acknowledges such Grant and accepts the trusts under this Supplement and the Indenture in accordance with the provisions of this Supplement and the Indenture.

SECTION 1. Designation. The Series {__} Storm Recovery Bonds shall be designated generally as the Storm Recovery Bonds {, and further denominated as tranches {__} through {__}}.

SECTION 2. Initial Principal Amount; Bond Interest Rate; Scheduled Final Payment Date; Final Maturity Date; Required Capital Level. The Series {__} Storm Recovery Bonds {of each tranche} shall have the initial principal amount, bear interest at the rates per annum (the "Bond Interest Rate") and shall have the Scheduled Final Payment Dates and the Final Maturity Dates set forth below:

Weighted Average Life	Initial Principal Amount	Bond Interest Rate	Scheduled Final Payment Date	Final Maturity Date

{__}	${_____}	{____}%	{_____}, 20{__}	{_____}, 20{__}
{__}	${_____}	{____}%	{_____}, 20{__}	{_____}, 20{__}
{__}	${_____}	{____}%	{_____}, 20{__}	{_____}, 20{__}
{__}	${_____}	{____}%	{_____}, 20{__}	{_____}, 20{__}

The Bond Interest Rate shall be computed on the basis of a 360-day year of twelve 30-day months.

The Required Capital Level for the Series {__} Storm Recovery Bonds shall be equal to {__}% of the initial principal amount thereof.

SECTION 3. Authentication Date; Payment Dates; Expected Sinking Fund Schedule for Principal; Periodic Interest; Book-Entry Storm Recovery Bonds; Waterfall Caps.

(a) Authentication Date. The Series {__} Storm Recovery Bonds that are authenticated and delivered by the Indenture Trustee to or upon the order of the Issuer on {_____} (the "Series Closing Date") shall have as their date of authentication {_____}.

(b) Payment Dates. The "Payment Dates" for the Series {__} Storm Recovery Bonds are {_____} and {_____} of each year or, if any such date is not a Business Day, the next Business Day, commencing on {_____}, 20{__} and continuing until the earlier of repayment of the Series {__} Storm Recovery Bonds in full and the Final Maturity Date.

(c) Expected Sinking Fund Schedule for Principal. Unless an Event of Default shall have occurred and be continuing, on each Payment Date, the Indenture Trustee shall distribute to the Holders of record as of the related Record Date amounts payable pursuant to Section 8.02(e) of the Indenture as principal, in the following order and priority: {(1) to the holders of the Series {__}, tranche {__} Storm Recovery Bonds, until the Outstanding Amount of such Series {__}, tranche {__} Storm Recovery Bonds thereof has been reduced to zero; (2) to the holders of the Series {__}, tranche {__}Storm Recovery Bonds, until the Outstanding Amount of such Series {__}, WSL {__} Storm Recovery Bonds thereof has been reduced to zero; (3) to the holders of the Series {__}, tranche {__} Storm Recovery Bonds, until the Outstanding Amount of such Series {__}, tranche {__} of Storm Recovery Bonds thereof has been reduced to zero; and (4) to the holders of the Series {__}, tranche {__} Storm Recovery Bonds, until the Outstanding Amount of such Series {__}, tranche {__} of Storm Recovery Bonds thereof has been reduced to zero; provided, however, that in no event shall a principal payment pursuant to this Section 3(c) on any tranche on a Payment Date be greater than the amount necessary to reduce the Outstanding Amount of such tranche of Storm Recovery Bonds to the amount specified in the Expected Sinking Fund Schedule that is attached as Schedule A hereto for such tranche and Payment Date}.

(d) Periodic Interest. "Periodic Interest" will be payable on {each tranche of} the Series {__} Storm Recovery Bonds on each Payment Date in an amount equal to one-half of the product of (i) the applicable Bond Interest Rate and (ii) the Outstanding Amount of the {related tranche of} Series {__} Storm Recovery Bonds as of the close of business on the preceding Payment Date after giving effect to all payments of principal made to the Holders of

the {related tranche of} Series {__} Storm Recovery Bonds on such preceding Payment Date; provided, however, that, with respect to the initial Payment Date, or if no payment has yet been made, interest on the outstanding principal balance will accrue from and including the Series Closing Date to, but excluding, the following Payment Date.

(e) Book-Entry Storm Recovery Bonds. The Series {__} Storm Recovery Bonds shall be Book-Entry Storm Recovery Bonds, and the applicable provisions of Section 2.11 of the Indenture shall apply to the Series {__} Storm Recovery Bonds.

(f) Waterfall Caps. The amount payable with respect to the Series {__} Storm Recovery Bonds pursuant to Section 8.02(e)(i) of the Indenture shall not exceed ${_____} annually.

SECTION 4. Authorized Denominations. The Series {__} Storm Recovery Bonds shall be issuable in denominations of {$2,000 and integral multiples of $1,000 in excess thereof, except for one bond, which may be a smaller denomination} (the "Authorized Denominations").

SECTION 5. Delivery and Payment for the Series {__} Storm Recovery Bonds; Form of the Series {__} Storm Recovery Bonds. The Indenture Trustee shall deliver the Series {__} Storm Recovery Bonds to the Issuer when authenticated in accordance with Section 2.03 of the Indenture. The Series {__} Storm Recovery Bonds {of each tranche} shall be in the form of Exhibit{s} {__} hereto.

SECTION 6. Ratification of Indenture. As supplemented by this Supplement, the Indenture is in all respects ratified and confirmed and the Indenture, as so supplemented by this Supplement, shall be read, taken and construed as one and the same instrument. This Supplement amends, modifies and supplements the Indenture only insofar as it relates to the Series {__} Storm Recovery Bonds.

SECTION 7. Counterparts. This Supplement may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all of such counterparts shall together constitute but one and the same instrument.

SECTION 8. Governing Law. **This Supplement shall be governed by and construed in accordance with the laws of the State of New York, without reference to its conflict of law provisions (other than Section 5-1401 of the New York General Obligations Law and Sections 9-301 through 9-306 of the NY UCC), and the obligations, rights and remedies of the parties hereunder shall be determined in accordance with such laws; provided, that, except as set forth in Section 8.02(b) of the Indenture, the creation, attachment and perfection of any Liens created under the Indenture in Property, and all rights and remedies of the Indenture Trustee and the Holders with respect to the Property, shall be governed by the laws of the State of North Carolina.**

SECTION 9. Issuer Obligation. No recourse may be taken directly or indirectly by the Holders with respect to the obligations of the Issuer on the Series {__} Storm Recovery Bonds, under the Indenture or this Supplement or any certificate or other writing delivered in connection herewith or therewith, against (a) any owner of a beneficial interest in the Issuer

(including Duke Energy [Carolinas/ Progress]) or (b) any shareholder, partner, owner, beneficiary, officer, director, employee or agent of the Indenture Trustee, the Managers or any owner of a beneficial interest in the Issuer (including Duke Energy [Carolinas/Progress]) in its individual capacity, or of any successor or assign of any of them in their respective individual or corporate capacities, except as any such Person may have expressly agreed. Each Holder by accepting a Series {__} Storm Recovery Bond specifically confirms the nonrecourse nature of these obligations and waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Series {__} Storm Recovery Bonds.

SECTION 10. Indenture Trustee Disclaimer. The Indenture Trustee is not responsible for the validity or sufficiency of this Supplement or for the recitals contained herein.

SECTION 11. Submission to Non-Exclusive Jurisdiction; Waiver of Jury Trial. **Each of the Issuer and the Indenture Trustee hereby irrevocably submits to the non-exclusive jurisdiction of any New York State court sitting in The Borough of Manhattan in The City of New York or any U.S. federal court sitting in The Borough of Manhattan in The City of New York in respect of any suit, action or proceeding arising out of or relating to this Supplement and the Series {__} Storm Recovery Bonds and irrevocably accepts for itself and in respect of its respective property, generally and unconditionally, jurisdiction of the aforesaid courts. Each of the Issuer and the Indenture Trustee irrevocably waives, to the fullest extent that it may effectively do so under applicable law, trial by jury.**

IN WITNESS WHEREOF, the Issuer and the Indenture Trustee have caused this Supplement to be duly executed by their respective officers thereunto duly authorized as of the day and year first above written.

[DUKE ENERGY [CAROLINAS/PROGRESS] STORM RECOVERY FUNDING], LLC,
as Issuer

By: _____
Name: [ ]
Title: [ ]

[ ],
as Indenture Trustee and as Securities Intermediary

By: _____
Name: [ ]
Title: [ ]

SCHEDULE A
TO SERIES SUPPLEMENT

EXPECTED SINKING FUND SCHEDULE

OUTSTANDING PRINCIPAL BALANCE

Date	tranche {__}	tranche {__}	tranche {__}	tranche {__}
Series Closing Date	${_____}	${_____}	${_____}	${_____}
{_____}, 20{__}	${_____}	${_____}	${_____}	${_____}
{_____}, 20{__}	${_____}	${_____}	${_____}	${_____}
{_____}, 20{__}	${_____}	${_____}	${_____}	${_____}

EXHIBIT {__}
TO SERIES SUPPLEMENT

FORM OF {Series {__} tranche {__} OF} STORM RECOVERY BONDS

{_____}

EXHIBIT C

SERVICING CRITERIA TO BE ADDRESSED BY INDENTURE TRUSTEE IN ASSESSMENT OF COMPLIANCE

Regulation AB Reference	Servicing Criteria	Applicable Indenture Trustee Responsibility
	General Servicing Considerations	
1122(d)(1)(i)	Policies and procedures are instituted to monitor any performance or other triggers and events of default in accordance with the transaction agreements.	
1122(d)(1)(ii)	If any material servicing activities are outsourced to third parties, policies and procedures are instituted to monitor the third party's performance and compliance with such servicing activities.	
1122(d)(1)(iii)	Any requirements in the transaction agreements to maintain a back-up servicer for the pool assets are maintained.	
1122(d)(1)(iv)	A fidelity bond and errors and omissions policy is in effect on the party participating in the servicing function throughout the reporting period in the amount of coverage required by and otherwise in accordance with the terms of the transaction agreements.	
1122(d)(1)(v)	Aggregation of information, as applicable, is mathematically accurate and the information conveyed accurately reflects the information.	
	Cash Collection and Administration	
1122(d)(2)(i)	Payments on pool assets are deposited into the appropriate custodial bank accounts and related bank clearing accounts no more than two business days following receipt, or such other number of days specified in the transaction agreements.	**X**
1122(d)(2)(ii)	Disbursements made via wire transfer on behalf of an obligor or to an investor are made only by authorized personnel.	**X**
1122(d)(2)(iii)	Advances of funds or guarantees regarding collections, cash flows or distributions, and any interest or other fees charged for such advances, are made, reviewed and approved as specified in the transaction agreements.	
1122(d)(2)(iv)	The related accounts for the transaction, such as cash reserve accounts or accounts established as a form of overcollateralization, are separately maintained (e.g., with respect to commingling of cash) as set forth in the transaction agreements.	**X**
1122(d)(2)(v)	Each custodial account is maintained at a federally insured depository institution as set forth in the transaction agreements. For purposes of this criterion, "federally insured depository institution" with respect to a foreign financial institution means a foreign financial institution that meets the requirements of Rule 13k-1(b)(1) under the Exchange Act.	
1122(d)(2)(vi)	Unissued checks are safeguarded so as to prevent unauthorized access.	
1122(d)(2)(vii)	Reconciliations are prepared on a monthly basis for all asset-backed securities related bank accounts, including custodial accounts and related bank clearing accounts. These reconciliations are: (A) mathematically accurate; (B) prepared within 30 calendar days after the bank statement cutoff date, or such other number of days specified in the transaction agreements; (C) reviewed and approved by someone other than the person who prepared the reconciliation; and (D) contain explanations for reconciling items. These reconciling items are resolved within 90 calendar days of their original identification, or such other number of days specified in the transaction agreements.	
	Investor Remittances and Reporting	
1122(d)(3)(i)	Reports to investors, including those to be filed with the SEC, are maintained in accordance with the transaction agreements and applicable SEC requirements. Specifically, such reports: (A) are prepared in accordance with timeframes and other terms set forth in the transaction agreements; (B) provide information calculated in accordance with the terms specified in the transaction agreements; (C) are filed with the SEC as required by its rules and regulations; and (D) agree with investors' or the trustee's records as to the total unpaid principal balance and number of pool assets serviced by the servicer.	
1122(d)(3)(ii)	Amounts due to investors are allocated and remitted in accordance with timeframes, distribution priority and other terms set forth in the transaction agreements.	**X**
1122(d)(3)(iii)	Disbursements made to an investor are posted within two business days to the servicer's investor records, or such other number of days specified in the transaction agreements.	**X**

Regulation AB Reference	Servicing Criteria	Applicable Indenture Trustee Responsibility
1122(d)(3)(iv)	Amounts remitted to investors per the investor reports agree with cancelled checks, or other form of payment, or custodial bank statements.	**X**
	Pool Asset Administration	
1122(d)(4)(i)	Collateral or security on pool assets is maintained as required by the transaction agreements or related pool asset documents.	**X**
1122(d)(4)(ii)	Pool assets and related documents are safeguarded as required by the transaction agreements.	
1122(d)(4)(iii)	Any additions, removals or substitutions to the asset pool are made, reviewed and approved in accordance with any conditions or requirements in the transaction agreements.	
1122(d)(4)(iv)	Payments on pool assets, including any payoffs, made in accordance with the related pool asset documents are posted to the servicer's obligor records maintained no more than two business days after receipt, or such other number of days specified in the transaction agreements, and allocated to principal, interest or other items (e.g., escrow) in accordance with the related pool asset documents.	
1122(d)(4)(v)	The servicer's records regarding the pool assets agree with the servicer's records with respect to an obligor's unpaid principal balance.	
1122(d)(4)(vi)	Changes with respect to the terms or status of an obligor's pool assets (e.g., loan modifications or re-agings) are made, reviewed and approved by authorized personnel in accordance with the transaction agreements and related pool asset documents.	
1122(d)(4)(vii)	Loss mitigation or recovery actions (e.g., forbearance plans, modifications and deeds in lieu of foreclosure, foreclosures and repossessions, as applicable) are initiated, conducted and concluded in accordance with the timeframes or other requirements established by the transaction agreements.	
1122(d)(4)(viii)	Records documenting collection efforts are maintained during the period a pool asset is delinquent in accordance with the transaction agreements. Such records are maintained on at least a monthly basis, or such other period specified in the transaction agreements, and describe the entity's activities in monitoring delinquent pool assets, including, for example, phone calls, letters and payment rescheduling plans in cases where delinquency is deemed temporary (e.g., illness or unemployment).	
1122(d)(4)(ix)	Adjustments to interest rates or rates of return for pool assets with variable rates are computed based on the related pool asset documents.	
1122(d)(4)(x)	Regarding any funds held in trust for an obligor (such as escrow accounts): (A) such funds are analyzed, in accordance with the obligor's pool asset documents, on at least an annual basis, or such other period specified in the transaction agreements; (B) interest on such funds is paid, or credited, to obligors in accordance with applicable pool asset documents and state laws; and (C) such funds are returned to the obligor within 30 calendar days of full repayment of the related pool assets, or such other number of days specified in the transaction agreements.	
1122(d)(4)(xi)	Payments made on behalf of an obligor (such as tax or insurance payments) are made on or before the related penalty or expiration dates, as indicated on the appropriate bills or notices for such payments, provided that such support has been received by the servicer at least 30 calendar days prior to these dates, or such other number of days specified in the transaction agreements.	
1122(d)(4)(xii)	Any late payment penalties in connection with any payment to be made on behalf of an obligor are paid from the servicer's funds and not charged to the obligor, unless the late payment was due to the obligor's error or omission.	
1122(d)(4)(xiii)	Disbursements made on behalf of an obligor are posted within two business days to the obligor's records maintained by the servicer, or such other number of days specified in the transaction agreements.	
1122(d)(4)(xiv)	Delinquencies, charge-offs and uncollectible accounts are recognized and recorded in accordance with the transaction agreements.	
1122(d)(4)(xv)	Any external enhancement or other support, identified in Item 1114(a)(1) through (3) or Item 1115 of Regulation AB, is maintained as set forth in the transaction agreements.	

APPENDIX A

DEFINITIONS AND RULES OF CONSTRUCTION

A. Defined Terms. The following terms have the following meanings:

"17g-5 Website" is defined in Section 10.18(a) of the Indenture.

"Account Records" is defined in Section 1(a)(i) of the Administration Agreement.

"Act" is defined in Section 10.03(a) of the Indenture.

"Additional Series" means issuance by the Issuer of any series of Storm Recovery Bonds issued after the date hereof, that will be undertaken only if (i) such issuance has been authorized by the Commission, (ii) the Rating Agency Condition has been satisfied and it is a condition of issuance for each Series of Storm Recovery Bonds that the new Series receive a rating or ratings as required by the Financing Order or a Subsequent Financing Order, (iii) the Issuer has delivered to the Indenture Trustee an Opinion of Counsel of a nationally recognized firm experienced in such matters to the effect that after such issuance, in the opinion of such counsel, if either or both of Duke Energy [Carolinas/Progress] or the Seller were to become a debtor in a case under the United States Bankruptcy Code (Title 11, U.S.C.), a federal court exercising bankruptcy jurisdiction and exercising reasonable judgment after full consideration of all relevant factors would not order substantive consolidation of the assets and liabilities of the Issuer with those of the bankruptcy estate of Duke Energy [Carolinas/Progress] or the Seller, subject to the customary exceptions, qualifications and assumptions contained therein.

"Administration Agreement" means the Administration Agreement, dated as of the date hereof, by and between Duke Energy [Carolinas/Progress] and the Issuer.

"Administration Fee" is defined in Section 2 of the Administration Agreement.

"Administrator" means Duke Energy [Carolinas/Progress], as Administrator under the Administration Agreement, or any successor Administrator to the extent permitted under the Administration Agreement.

"Affiliate" means, with respect to any specified Person, any other Person controlling or controlled by or under common control with such specified Person. For the purposes of this definition, "control" when used with respect to any specified Person means the power to direct the management and policies of such specified Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise, and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Amendatory Schedule" means a revision to service riders or any other notice filing filed with the Commission in respect of the Storm Recovery Rate Schedule pursuant to a True-Up Adjustment.

"Annual Accountant's Report" is defined in Section 3.04(a) of the Servicing Agreement.

"Authorized Denomination" means, with respect to any Storm Recovery Bond, the authorized denomination therefor specified in the Series Supplement, which shall be at least $2,000 and, except as otherwise provided in the Series Supplement, integral multiples of $1,000 in excess thereof, except for one Storm Recovery bond which may be of a smaller denomination.

"Bankruptcy Code" means Title 11 of the United States Code (11 U.S.C. §§ 101 et seq.).

"Basic Documents" means the Indenture, each Series Supplement, the Certificate of Formation, the LLC Agreement, the Declaration of Trust, the SRB Indenture, the Administration Agreement, and, with respect to each Series, the applicable Sale Agreement, Bill of Sale, Servicing Agreement, Intercreditor Agreement, Letter of Representations, Underwriting Agreement and all other documents and certificates delivered in connection therewith.

"Bill of Sale" means a bill of sale substantially in the form of Exhibit A to the Sale Agreement delivered pursuant to Section 2.02(a) of the Sale Agreement.

"Billed Storm Recovery Charges" means the amounts of Storm Recovery Charges billed by the Servicer.

"Billing Period" means the period created by dividing the calendar year into 12 consecutive periods of approximately 21 Servicer Business Days.

"Bills" means each of the regular monthly bills, summary bills, opening bills and closing bills issued to Customers by Duke Energy [Carolinas/Progress] in its capacity as Servicer.

"Bond Interest Rate" means, with respect to any Series or Tranche of Storm Recovery Bonds, the rate at which interest accrues on the Storm Recovery Bonds of such Series or Tranche, as specified in the applicable Series Supplement.

"Book-Entry Form" means, with respect to any Storm Recovery Bond, that such Storm Recovery Bond is not certificated and the ownership and transfers thereof shall be made through book entries by a Clearing Agency as described in Section 2.11 of the Indenture and the Series Supplement pursuant to which such Storm Recovery Bond was issued.

"Book-Entry Storm Recovery Bonds" means any Storm Recovery Bonds issued in Book-Entry Form; provided, however, that, after the occurrence of a condition

whereupon book-entry registration and transfer are no longer permitted and Definitive Storm Recovery Bonds are to be issued to the Holder of such Storm Recovery Bonds, such Storm Recovery Bonds shall no longer be "Book-Entry Storm Recovery Bonds".

"Business Day" means any day other than a Saturday, a Sunday or a day on which banking institutions in Raleigh, North Carolina, Charlotte, North Carolina or New York, New York are, or DTC or the Corporate Trust Office is, authorized or obligated by law, regulation or executive order to be closed.

"Capital Contribution" means the amount of cash contributed to the Issuer by Duke Energy [Carolinas/Progress] as specified in the LLC Agreement.

"Capital Subaccount" is defined in Section 8.02(a) of the Indenture.

"Certificate of Compliance" means the certificate referred to in Section 3.03 of the Servicing Agreement and substantially in the form of Exhibit E to the Servicing Agreement.

"Certificate of Formation" means the Certificate of Formation filed with the Secretary of State of the State of Delaware on [ ], 20[21] pursuant to which the Issuer was formed.

"Charge" means any storm-recovery charges as defined in Section 62-172(a)(13) of the Storm Recovery Law that are authorized by the Financing Order or any Subsequent Financing Order.

"Claim" means a "claim" as defined in Section 101(5) of the Bankruptcy Code.

"Clearing Agency" means an organization registered as a "clearing agency" pursuant to Section 17A of the Exchange Act.

"Clearing Agency Participant" means a securities broker, dealer, bank, trust company, clearing corporation or other financial institution or other Person for whom from time to time a Clearing Agency effects book entry transfers and pledges of securities deposited with such Clearing Agency.

"Code" means the Internal Revenue Code of 1986.

"Collateral" is defined in the preamble of the Indenture.

"Collection Account" is defined in Section 8.02(a) of the Indenture for such Series.

"Collection in Full of the Charges" means the day on which the aggregate amounts on deposit in the General Subaccount and the Excess Funds Subaccount are sufficient to pay in full all the Outstanding Storm Recovery Bonds and to replenish any shortfall in the Capital Subaccount.

"Collection Period" means any period commencing on the first Servicer Business Day of any Billing Period and ending on the last Servicer Business Day of such Billing Period.

"Commission" means the North Carolina Utilities Commission.

["Commission Condition" means the satisfaction of any precondition to any amendment or modification to or action under any Basic Documents through the obtaining of Commission consent or acquiescence, as described in the related Basic Document.]

"Commission Regulations" means any regulations, including temporary regulations, promulgated by the North Carolina Utilities Commission pursuant to North Carolina law.

"Company Minutes" is defined in Section 1(a)(iv) of the Administration Agreement.

"Corporate Trust Office" means the office of the Indenture Trustee at which, at any particular time, its corporate trust business shall be administered, which office as of the date hereof is located at [BNY Mellon Global Corporate Trust, 10161 Centurion Parkway North, Jacksonville, Florida 32256]; Telephone: [904-998-4714]; Facsimile: [904-645-1930], or at such other address as the Indenture Trustee may designate from time to time by notice to the Holders of Storm Recovery Bonds and the Issuer, or the principal corporate trust office of any successor trustee designated by like notice.

"Covenant Defeasance Option" is defined in Section 4.01(b) of the Indenture.

"Customer" means any existing or future customer (including individuals, corporations, other businesses, and federal, state and local governmental entities) receiving transmission or distribution service from Duke Energy [Carolinas/Progress] or its successors or assignees under Commission-approved rate schedules or under special contracts, even if such customer elects to purchase electricity from an AES following a fundamental change in regulation of public utilities in North Carolina.

"Daily Remittance" is defined in Section 6.11(a) of the Servicing Agreement.

"Declaration of Trust" means the Declaration of Trust filed with the Secretary of State of the State of Delaware on [ ]. 20[21] pursuant to which the SRB Trust was formed.

"Default" means any occurrence that is, or with notice or the lapse of time or both would become, an Event of Default.

"Definitive Storm Recovery Bonds" is defined in Section 2.11 of the Indenture.

"Delaware Trustee" means the Person acting as Delaware trustee under the Declaration of Trust.

"Delaware UCC" means the Uniform Commercial Code as in effect on the Series Closing Date in the State of Delaware.

"DTC" means The Depository Trust Company.

["Duke Energy Carolinas" means Duke Energy Carolinas, LLC, a North Carolina limited liability company.

"Duke Energy Progress" means Duke Energy Progress, LLC, a North Carolina limited liability company.]

"[Duke Energy Carolinas/Progress Storm Recovery Funding], LLC" means the Issuer.

"Eligible Account" means a segregated non-interest-bearing trust account with an Eligible Institution.

"Eligible Institution" means:

(a) the corporate trust department of the Indenture Trustee or a subsidiary thereof, so long as any of the securities of the Indenture Trustee has a credit rating from each Rating Agency in one of its generic rating categories that signifies investment grade; or

(b) a depository institution organized under the laws of the United States of America or any State (or any domestic branch of a foreign bank) (i) that has either (A) a long-term issuer rating of "AA-" or higher by S&P, "A2" or higher by Moody's and "AA" or higher by Fitch, if rated by Fitch, or (B) a short-term issuer rating of "A-1+" or higher by S&P, "P-1" or higher by Moody's and "F1" or higher by Fitch, if rated by Fitch, or any other long-term, short-term or certificate of deposit rating acceptable to the Rating Agencies, and (ii) whose deposits are insured by the Federal Deposit Insurance Corporation.

If so qualified under clause (b) of this definition, the Indenture Trustee may be considered an Eligible Institution for the purposes of clause (a) of this definition.

"Eligible Investments" means instruments or investment property that evidence:

(a) direct obligations of, or obligations fully and unconditionally guaranteed as to timely payment by, the United States of America;

(b) demand or time deposits of, unsecured certificates of deposit of, money market deposit accounts of, bank deposit products of or bankers' acceptances issued by, any depository institution (including, but not limited to, bank deposit products of the Indenture Trustee, acting in its commercial capacity) incorporated or organized under the laws of the United States of America or any State thereof and subject to supervision and examination by U.S. federal or state banking authorities, so long as the commercial paper or other short-term debt obligations of such depository institution are, at the time of deposit, rated at least "A-1" and "P-1" or their equivalents by each of S&P and Moody's and, if Fitch provides ratings thereon by Fitch, or such lower rating as will not result in the downgrading or withdrawal of the ratings of the Storm Recovery Bonds;

(c) commercial paper (including commercial paper of the Indenture Trustee, acting in its commercial capacity, and other than commercial paper of Duke Energy [Carolinas/Progress] or any of its Affiliates), which at the time of purchase is rated at least "A-1" and "P-1" or their equivalents by each of S&P and Moody's or such lower rating as will not result in the downgrading or withdrawal of the ratings of the Storm Recovery Bonds;

(d) investments in money market funds having a rating in the highest investment category granted thereby (including funds for which the Indenture Trustee or any of its Affiliates is investment manager or advisor) from Moody's, S&P and Fitch, if rated by Fitch;

(e) repurchase obligations with respect to any security that is a direct obligation of, or fully guaranteed by, the United States of America or its agencies or instrumentalities, entered into with Eligible Institutions;

(f) repurchase obligations with respect to any security or whole loan entered into with an Eligible Institution or with a registered broker/dealer acting as principal and that meets the ratings criteria set forth below:

(i) a broker/dealer (acting as principal) registered as a broker or dealer under Section 15 of the Exchange Act (any such broker/dealer being referred to in this definition as a "broker/dealer"), the unsecured short-term debt obligations of which are rated at least "P-1" by Moody's, "A-1+" by S&P and, if Fitch provides a rating thereon, "F-1+" by Fitch at the time of entering into such repurchase obligation; or

(ii) an unrated broker/dealer, acting as principal, that is a wholly-owned subsidiary of a non-bank or bank holding company the unsecured short-term debt obligations of which are rated at least "P-1" by Moody's, "A-1+" by S&P and, if Fitch provides a rating thereon, "F-1+" by Fitch at the time of purchase so long as the obligations of such unrated broker/dealer are unconditionally guaranteed by such non-bank or bank holding company; and

(g) any other investment permitted by each of the Rating Agencies;

in each case maturing not later than the Business Day preceding the next Payment Date or Special Payment Date, if applicable (for the avoidance of doubt, investments in money market funds or similar instruments that are redeemable on demand shall be deemed to satisfy the foregoing requirement). Notwithstanding the foregoing: (1) no securities or investments that mature in 30 days or more shall be "Eligible Investments" unless the issuer thereof has either a short-term unsecured debt rating of at least "P-1" from Moody's or a long-term unsecured debt rating of at least "A1" from Moody's and also has a long-term unsecured debt rating of at least "A" from S&P; (2) no securities or investments described in clauses (b) through (d) above that have maturities of more than 30 days but less than or equal to 3 months shall be "Eligible Investments" unless the issuer thereof has a long-term unsecured debt rating of at least "A1" from Moody's and a short-term unsecured debt rating of at least "P-1" from Moody's; and (3) no securities or investments described in clauses (b) through (d) above that have maturities of more than 3 months shall be "Eligible Investments" unless the issuer thereof has a long-term unsecured debt rating of at least "A1" from Moody's and a short-term unsecured debt rating of at least "P-1" from Moody's.

"Event of Default" is defined in Section 5.01 of the Indenture.

"Excess Funds Subaccount" is defined in Section 8.02(a) of the Indenture.

"Exchange Act" means the Securities Exchange Act of 1934.

"Expected Sinking Fund Schedule" means, with respect to any Tranche, the expected sinking fund schedule related thereto set forth in the applicable Series Supplement.

"Federal Book-Entry Regulations" means 31 C.F.R. Part 357 et seq. (Department of Treasury).

"Final" means, with respect to the Financing Order or Subsequent Financing Order, that the Financing Order has become final, that the Financing Order is not being appealed and that the time for filing an appeal thereof has expired.

"Final Maturity Date" means, with respect to each Series of Tranche of Storm Recovery Bonds, the final maturity date therefor as specified in the applicable Series Supplement.

"Financing Costs" means all financing costs as defined in Section 62-172(a)(4)of the Storm Recovery Law allowed to be recovered by Duke Energy [Carolinas/Progress] under the Financing Order.

"Financing Order" means the financing order issued by the Commission to Duke Energy [Carolinas/Progress] on [ ], 20[21], Docket No. [ ], authorizing the creation of the Storm Recovery Property.

"Financing Party" means any and all of the following: the Holders, the Indenture Trustee, Duke Energy [Carolinas/Progress], collateral agents, any party under the Basic Documents, or any other person acting for the benefit of the Holders.

"Fitch" means Fitch Ratings or any successor thereto. References to Fitch are effective so long as Fitch is a Rating Agency.

"North Carolina Secured Transactions Registry" means the centralized database in which all initial financing statements, amendments, assignments, and other statements of charge authorized to be filed under N.C. Gen. Stat. 25- [ ].

"North Carolina UCC" means the Uniform Commercial Code as in effect on the Series Closing Date in the State of North Carolina.

"General Subaccount" is defined in Section 8.02(a) of the Indenture for such Series.

"Global Storm Recovery Bond" means a Storm Recovery Bond to be issued to the Holders thereof in Book-Entry Form, which Global Storm Bond shall be issued to the Clearing Agency, or its nominee, in accordance with Section 2.11 of the Indenture and the Series Supplement.

"Governmental Authority" means any nation or government, any U.S. federal, state, local or other political subdivision thereof and any court, administrative agency or other instrumentality or entity exercising executive, legislative, judicial, regulatory or administrative functions of government.

"Grant" means mortgage, pledge, bargain, sell, warrant, alienate, remise, release, convey, grant, transfer, create, grant a lien upon, a security interest in and right of set-off against, deposit, set over and confirm pursuant to the Indenture and the Series Supplement. A Grant of the Collateral shall include all rights, powers and options (but none of the obligations) of the granting party thereunder, including the immediate and continuing right to claim for, collect, receive and give receipt for payments in respect of the Collateral and all other moneys payable thereunder, to give and receive notices and other communications, to make waivers or other agreements, to exercise all rights and options, to bring Proceedings in the name of the granting party or otherwise and generally to do and receive anything that the granting party is or may be entitled to do or receive thereunder or with respect thereto.

"Holder" means the Person in whose name a Storm Recovery Bond is registered on the Storm Recovery Bond Register.

"Indemnified Losses" is defined in Section 5.03 of the Servicing Agreement.

"Indemnified Party" is defined in Section 6.02(a) of the Servicing Agreement.

"Indemnified Person" is defined in Section 5.01(f) of the Sale Agreement.

"Indenture" means the Indenture, dated as [ ], by and between the Issuer and [ ], as Indenture Trustee and as Securities Intermediary.

"Indenture Trustee" means [ ], a national banking association, as indenture trustee for the benefit of the Secured Parties, or any successor indenture trustee for the benefit of the Secured Parties, under the Indenture.

"Independent" means, when used with respect to any specified Person, that such specified Person (a) is in fact independent of the Issuer, any other obligor on the Storm Recovery Bonds, the Seller, the Servicer and any Affiliate of any of the foregoing Persons, (b) does not have any direct financial interest or any material indirect financial interest in the Issuer, any such other obligor, the Seller, the Servicer or any Affiliate of any of the foregoing Persons and (c) is not connected with the Issuer, any such other obligor, the Seller, the Servicer or any Affiliate of any of the foregoing Persons as an officer, employee, promoter, underwriter, trustee, partner, director (other than as an independent director or manager) or person performing similar functions.

"Independent Certificate" means a certificate to be delivered to the Indenture Trustee under the circumstances described in, and otherwise complying with, the applicable requirements of Section 10.01 of the Indenture, made by an Independent appraiser or other expert appointed by an Issuer Order and consented to by the Indenture Trustee, and such certificate shall state that the signer has read the definition of "Independent" in the Indenture and that the signer is Independent within the meaning thereof.

"Independent Manager" is defined in Section 4.01(a) of the LLC Agreement.

"Independent Manager Fee" is defined in Section 4.01(a) of the LLC Agreement.

"Insolvency Event" means, with respect to a specified Person: (a) the filing of a decree or order for relief by a court having jurisdiction in the premises in respect of such specified Person or any substantial part of its property in an involuntary case under any applicable U.S. federal or state bankruptcy, insolvency or other similar law in effect as of the date hereof or thereafter, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official for such specified Person or for any substantial part of its property, or ordering the winding-up or liquidation of such specified Person's affairs, and such decree or order shall remain unstayed and in effect for a period of 60 consecutive days; or (b) the commencement by such specified Person of a voluntary case under any applicable U.S. federal or state bankruptcy, insolvency or other similar law in effect as of the Series Closing Date or thereafter, or the consent by such specified Person to the entry of an order for relief in an involuntary case under any

such law, or the consent by such specified Person to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official for such specified Person or for any substantial part of its property, or the making by such specified Person of any general assignment for the benefit of creditors, or the failure by such specified Person generally to pay its debts as such debts become due, or the taking of action by such specified Person in furtherance of any of the foregoing.

"Intercreditor Agreement" means the Intercreditor Agreement, dated as of the date hereof, by and among the Issuer, the Indenture Trustee, Duke Energy [Carolinas/Progress] and the parties to the accounts receivables sale program Duke Energy [Carolinas/Progress] Receivables LLC, and any subsequent such agreement.

"Investment Company Act" means the Investment Company Act of 1940.

"Investment Earnings" means investment earnings on funds deposited in the Collection Account net of losses and investment expenses.

"Issuer" means [Duke Energy [Carolinas/Progress] Storm Recovery Funding], LLC, a Delaware limited liability company, named as such in the Indenture until a successor replaces it and, thereafter, means the successor and, for purposes of any provision contained herein and required by the Trust Indenture Act, each other obligor on the Storm Recovery Bonds.

"Issuer Documents" is defined in Section 1(a)(iv) of the Administration Agreement.

"Issuer Order" means a written order signed in the name of the Issuer by any one of its Responsible Officers and delivered to the Indenture Trustee or Paying Agent, as applicable.

"Issuer Request" means a written request signed in the name of the Issuer by any one of its Responsible Officers and delivered to the Indenture Trustee or Paying Agent, as applicable.

"Legal Defeasance Option" is defined in Section 4.01(b) of the Indenture.

"Letter of Representations" means any applicable agreement between the Issuer and the applicable Clearing Agency, with respect to such Clearing Agency's rights and obligations (in its capacity as a Clearing Agency) with respect to any Book-Entry Storm Recovery Bonds.

"Lien" means a security interest, lien, mortgage, charge, pledge, claim or encumbrance of any kind.

"LLC Agreement" means the Amended and Restated Limited Liability Company Agreement of [Duke Energy [Carolinas/Progress] Storm Recovery Funding], LLC, dated as of [ ], 20[21].

"Losses" means (a) any and all amounts of principal of and interest on the Storm Recovery Bonds not paid when due or when scheduled to be paid in accordance with their terms and the amounts of any deposits by or to the Issuer required to have been made in accordance with the terms of the Basic Documents or the Financing Order or Subsequent that are not made when so required and (b) any and all other liabilities, obligations, losses, claims, damages, payments, costs or expenses of any kind whatsoever.

"Manager" means each manager of the Issuer under the LLC Agreement.

"Member" has the meaning specified in the first paragraph of the LLC Agreement.

"Monthly Servicer's Certificate" is defined in Section 3.01(b)(i) of the Servicing Agreement.

"Moody's" means Moody's Investors Service, Inc. References to Moody's are effective so long as Moody's is a Rating Agency.

"North Carolina UCC" means the Uniform Commercial Code as in effect on the Series Closing Date in the State of North Carolina.

"NRSRO" is defined in Section 10.19(b) of the Indenture.

"NY UCC" means the Uniform Commercial Code as in effect on the date hereof in the State of New York.

"Officer's Certificate" means a certificate signed by a Responsible Officer of the Issuer under the circumstances described in, and otherwise complying with, the applicable requirements of Section 10.01 of the Indenture, and delivered to the Indenture Trustee.

"Ongoing Financing Costs" means the Financing Costs described as such in the Financing Order, including Operating Expenses and any other costs identified in the Basic Documents; provided, however, that Ongoing Financing Costs do not include the Issuer's costs of issuance of the Storm Recovery Bonds.

"Operating Expenses" means all unreimbursed fees, costs and out-of-pocket expenses of the Issuer, including all amounts owed by the Issuer to the Indenture Trustee (including indemnities, legal, audit fees and expenses), the Delaware Trustee, the SRB Trustee or any Manager, the Servicing Fee, the Administration Fee, legal and accounting fees, Rating Agency fees, any Regulatory Assessment Fees and related fees (i.e. website provider fees) and any franchise or other taxes owed by the Issuer, including on investment income in the Collection Account.

"Opinion of Counsel" means one or more written opinions of counsel, who may, except as otherwise expressly provided in the Basic Documents, be employees of or counsel to the party providing such opinion of counsel, which counsel shall be

reasonably acceptable to the party receiving such opinion of counsel, and shall be in form and substance reasonably acceptable to such party.

"Optional Interim True-Up Adjustment" means any Optional Interim True-Up Adjustment made pursuant to Section 4.01(b)(ii) of the Servicing Agreement.

"Outstanding" means, as of the date of determination, all Storm Recovery Bonds theretofore authenticated and delivered under the Indenture, except:

(a) Storm Recovery Bonds theretofore canceled by the Storm Recovery Bond Registrar or delivered to the Storm Recovery Bond Registrar for cancellation;

(b) Storm Recovery Bonds or portions thereof the payment for which money in the necessary amount has been theretofore deposited with the Indenture Trustee or any Paying Agent in trust for the Holders of such Storm Recovery Bonds; and

(c) Storm Recovery Bonds in exchange for or in lieu of other Storm Recovery Bonds that have been issued pursuant to the Indenture unless proof satisfactory to the Indenture Trustee is presented that any such Storm Recovery Bonds are held by a Protected Purchaser; provided, that, in determining whether the Holders of the requisite Outstanding Amount of the Storm Recovery Bonds or any Series or Tranche thereof have given any request, demand, authorization, direction, notice, consent or waiver under any Basic Document, Storm Recovery Bonds owned by the Issuer, any other obligor upon the Storm Recovery Bonds, the Member, the Seller, the Servicer or any Affiliate of any of the foregoing Persons shall be disregarded and deemed not to be Outstanding (unless one or more such Persons owns 100% of such Storm Recovery Bonds), except that, in determining whether the Indenture Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Storm Recovery Bonds that the Indenture Trustee actually knows to be so owned shall be so disregarded. Storm Recovery Bonds so owned that have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Indenture Trustee the pledgee's right so to act with respect to such Storm Recovery Bonds and that the pledgee is not the Issuer, any other obligor upon the Storm Recovery Bonds, the Member, the Seller, the Servicer or any Affiliate of any of the foregoing Persons.

"Outstanding Amount" means the aggregate principal amount of all Storm Recovery Bonds, or, if the context requires, all Storm Recovery Bonds of a Series or Tranche, Outstanding at the date of determination.

"Paying Agent" means, with respect to the Indenture, the Indenture Trustee and any other Person appointed as a paying agent for the Storm Recovery Bonds pursuant to the Indenture.

"Payment Date" means, with respect to any Series or Tranche of Storm Recovery Bonds, the dates specified in the applicable Series Supplement; provided, that if any such date is not a Business Day, the Payment Date shall be the Business Day succeeding such date.

"Periodic Billing Requirement" means, for any Remittance Period, the aggregate amount of Charges calculated by the Servicer as necessary to be billed during such period in order to collect the Periodic Payment Requirement on a timely basis.

"Periodic Interest" means, with respect to any Payment Date, the periodic interest for such Payment Date as specified in the Series Supplement.

"Periodic Payment Requirement" for any Remittance Period means the total dollar amount of Storm Recovery Charge Collections reasonably calculated by the Servicer in accordance with Section 4.01 of the Servicing Agreement as necessary to be received during such Remittance Period (after giving effect to the allocation and distribution of amounts on deposit in the Excess Funds Subaccount at the time of calculation and that are projected to be available for payments on the Storm Recovery Bonds at the end of such Remittance Period and including any shortfalls in Periodic Payment Requirements for any prior Remittance Period) in order to ensure that, as of the last Payment Date occurring in such Remittance Period, (a) all accrued and unpaid principal of and interest on the Storm Recovery Bonds then due shall have been paid in full on a timely basis, (b) the Outstanding Amount of the Storm Recovery Bonds is equal to the Projected Unpaid Balance on each Payment Date during such Remittance Period, (c) the balance on deposit in the Capital Subaccount equals the Required Capital Level and (d) all other fees and expenses due and owing and required or allowed to be paid under Section 8.02 of the Indenture as of such date shall have been paid in full; provided, that, with respect to any Semi-Annual True-Up Adjustment or Optional Interim True-Up Adjustment occurring after the date that is one year prior to the last Scheduled Final Payment Date for the Storm Recovery Bonds, the Periodic Payment Requirements shall be calculated to ensure that sufficient Storm Recovery Charges will be collected to retire the Storm Recovery Bonds in full as of the next Payment Date.

"Periodic Principal" means, with respect to any Payment Date, the excess, if any, of the Outstanding Amount of Storm Recovery Bonds over the outstanding principal balance specified for such Payment Date on the Expected Sinking Fund Schedule.

"Permitted Lien" means the Lien created by the Indenture.

"Permitted Successor" is defined in Section 5.02 of the Sale Agreement.

"Person" means any individual, corporation, limited liability company, estate, partnership, joint venture, association, joint stock company, trust (including any beneficiary thereof), unincorporated organization or Governmental Authority.

"Predecessor Storm Recovery Bond" means, with respect to any particular Storm Recovery Bond, every previous Storm Recovery Bond evidencing all or a portion

of the same debt as that evidenced by such particular Storm Recovery Bond, and, for the purpose of this definition, any Storm Recovery Bond authenticated and delivered under Section 2.06 of the Indenture in lieu of a mutilated, lost, destroyed or stolen Storm Recovery Bond shall be deemed to evidence the same debt as the mutilated, lost, destroyed or stolen Storm Recovery Bond.

"Premises" is defined in Section 1(g) of the Administration Agreement.

"Proceeding" means any suit in equity, action at law or other judicial or administrative proceeding.

"Projected Unpaid Balance" means, as of any Payment Date, the sum of the projected outstanding principal amount of each Tranche of Storm Recovery Bonds for such Payment Date set forth in the Expected Sinking Fund Schedule.

"Protected Purchaser" has the meaning specified in Section 8-303 of the UCC.

"Rating Agency" means, with respect to any Tranche of Storm Recovery Bonds, any of Moody's, S&P or Fitch that provides a rating with respect to the Storm Recovery Bonds. If no such organization (or successor) is any longer in existence, "Rating Agency" shall be a nationally recognized statistical rating organization or other comparable Person designated by the Issuer, notice of which designation shall be given to the Indenture Trustee and the Servicer.

"Rating Agency Condition" means, with respect to any action, at least ten Business Days' prior written notification to each Rating Agency of such action, and written confirmation from each of S&P and Moody's to the Servicer, the Indenture Trustee and the Issuer that such action will not result in a suspension, reduction or withdrawal of the then current rating by such Rating Agency of any Tranche of Storm Recovery Bonds; provided, that, if, within such ten Business Day period, any Rating Agency (other than S&P) has neither replied to such notification nor responded in a manner that indicates that such Rating Agency is reviewing and considering the notification, then (a) the Issuer shall be required to confirm that such Rating Agency has received the Rating Agency Condition request and, if it has, promptly request the related Rating Agency Condition confirmation and (b) if the Rating Agency neither replies to such notification nor responds in a manner that indicates it is reviewing and considering the notification within five Business Days following such second request, the applicable Rating Agency Condition requirement shall not be deemed to apply to such Rating Agency. For the purposes of this definition, any confirmation, request, acknowledgment or approval that is required to be in writing may be in the form of electronic mail or a press release (which may contain a general waiver of a Rating Agency's right to review or consent).

"Record Date" means one Business Day prior to the applicable Payment Date.

"Registered Holder" means the Person in whose name a Storm Recovery Bond is registered on the Storm Recovery Bond Register.

"Regulation AB" means the rules of the SEC promulgated under Subpart 229.1100 – Asset Backed Securities (Regulation AB), 17 C.F.R. §§229.1100-229.1123.

"Reimbursable Expenses" is defined in Section 2 of the Administration Agreement and Section 6.06(a) of the Servicing Agreement.

"Released Parties" is defined in Section 6.02(d) of the Servicing Agreement.

"Remittance Period" means, with respect to any True-Up Adjustment, the period comprised of 6 consecutive Collection Periods beginning with the Collection Period three months prior to when such True-Up Adjustment would go into effect, from the Series Closing Date to the first Scheduled Payment Date, and for each subsequent period between Scheduled Payment Dates.

"Required Capital Level" means, with respect to any Series of Storm Recovery Bonds, the amount specified as such in the Series Supplement therefor.

"Requirement of Law" means any foreign, U.S. federal, state or local laws, statutes, regulations, rules, codes or ordinances enacted, adopted, issued or promulgated by any Governmental Authority or common law.

"Responsible Officer" means, with respect to: (a) the Issuer, any Manager or any duly authorized officer; (b) the Indenture Trustee, any officer within the Corporate Trust Office of such trustee (including the President, any Vice President, any Assistant Vice President, any Secretary, any Assistant Treasurer or any other officer of the Indenture Trustee customarily performing functions similar to those performed by persons who at the time shall be such officers, respectively, and that has direct responsibility for the administration of the Indenture and also, with respect to a particular matter, any other officer to whom such matter is referred to because of such officer's knowledge and familiarity with the particular subject); (c) any corporation (other than the Indenture Trustee), the Chief Executive Officer, the President, any Vice President, the Chief Financial Officer, the Treasurer, any Assistant Treasurer or any other duly authorized officer of such Person who has been authorized to act in the circumstances; (d) any partnership, any general partner thereof; and (e) any other Person (other than an individual), any duly authorized officer or member of such Person, as the context may require, who is authorized to act in matters relating to such Person.

"Return on Invested Capital" means, for any Payment Date with respect to any Remittance Period, the sum of (i) rate of return, payable to Duke Energy [Carolinas/Progress], on its Capital Contribution equal to the rate of interest payable on the longest maturing Tranche of Storm Recovery Bonds plus (ii) any Return on Invested Capital not paid on any prior Payment Date.

"S&P" means Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business. References to S&P are effective so long as S&P is a Rating Agency.

"Sale Agreement" means the Storm Recovery Property Purchase and Sale Agreement, dated as of the date hereof, or any subsequent Storm Recovery Property Purchase and Sale Agreement relating to another Series of Storm Recovery Bonds by and between the Issuer and Duke Energy [Carolinas/Progress] , and acknowledged and accepted by the Indenture Trustee.

"Scheduled Final Payment Date" means, with respect to each Series of Storm Recovery Bonds, the date when all interest and principal is scheduled to be paid with respect to that applicable Series in accordance with the Expected Sinking Fund Schedule, as specified in the Series Supplement. For the avoidance of doubt, the Scheduled Final Payment Date with respect to any Series shall be the last Scheduled Payment Date set forth in the Expected Sinking Fund Schedule relating to such Series. The "last Scheduled Final Payment Date" means the Scheduled Final Payment Date of the latest maturing Tranche of a Series of Storm Recovery Bonds.

"Scheduled Payment Date" means, with respect to each Series or Tranche of Storm Recovery Bonds, each Payment Date on which principal for such Series or Tranche is to be paid in accordance with the Expected Sinking Fund Schedule for such Series or Tranche.

"SEC" means the Securities and Exchange Commission.

"Secured Obligations" means the payment of principal of and premium, if any, interest on, and any other amounts owing in respect of, the Storm Recovery Bonds and all fees, expenses, counsel fees and other amounts due and payable to the Indenture Trustee.

"Secured Parties" means the Indenture Trustee, the Holders and any credit enhancer described in a Series Supplement.

"Securities Act" means the Securities Act of 1933.

"Securities Intermediary" means [ ], a national banking association, solely in the capacity of a "securities intermediary" as defined in the NY UCC and Federal Book-Entry Regulations or any successor securities intermediary under the Indenture.

"Seller" is defined in the preamble to the Sale Agreement.

"Semi-Annual Servicer's Certificate" is defined in Section 4.01(c)(ii) of the Servicing Agreement.

"Semi-Annual True-Up Adjustment" means each adjustment to the Storm Recovery Charges made in accordance with Section 4.01(b)(i) of the Servicing Agreement.

"Semi-Annual True-Up Adjustment Date" means the first billing cycle of [January and July] of each year, commencing in [ ], 2021.

"Series" means any series of Storm Recovery Bonds.

"Series A Storm Recovery Bonds" means the Series A Senior Secured Storm Recovery Bonds issued by the Issuer on [ ].

"Series Charges" means Charges for the benefit of a particular Series of Storm Recovery Bonds.

"Series Closing Date" means the date on which a Series of the Storm Recovery Bonds are originally issued in accordance with Section 2.10 of the Indenture and the respective Series Supplement.

"Series Collateral" means Collateral for the benefit of a particular Series of Storm Recovery Bonds.

"Series Property" means Property for the benefit of a particular Series of Storm Recovery Bonds.

"Series Supplement" means an indenture supplemental to the Indenture in the form attached as Exhibit B to the Indenture that authorizes the issuance of Storm Recovery Bonds.

"Servicer" means Duke Energy [Carolinas/Progress], as Servicer under the Servicing Agreement.

"Servicer Business Day" means any day other than a Saturday, a Sunday or a day on which banking institutions in St. Petersburg, Florida, Charlotte, North Carolina or New York, New York are authorized or obligated by law, regulation or executive order to be closed, on which the Servicer maintains normal office hours and conducts business.

"Servicer Default" is defined in Section 7.01 of the Servicing Agreement.

"Servicer Policies and Practices" means, with respect to the Servicer's duties under Exhibit A to the Servicing Agreement, the policies and practices of the Servicer applicable to such duties that the Servicer follows with respect to comparable assets that it services for itself and, if applicable, others.

"Servicing Agreement" means the Storm Recovery Property Servicing Agreement, dated as of the date hereof, or any subsequent Storm Recovery Property Servicing Agreement relating to another Series of Storm Recovery Bonds by and between the Issuer and Duke Energy [Carolinas/Progress], and acknowledged and accepted by the Indenture Trustee.

"Servicing Fee" is defined in Section 6.06(a) of the Servicing Agreement.

"Servicing Standard" means the obligation of the Servicer to calculate, apply, remit and reconcile proceeds of the Property, including Storm Recovery Charge Payments, and all other Collateral for the benefit of the Issuer and the Holders (a) with the same degree of care and diligence as the Servicer applies with respect to payments owed to it for its own account, (b) in accordance with all applicable procedures and requirements established by the Commission for collection of electric utility tariffs and (c) in accordance with the other terms of the Servicing Agreement.

"Special Payment Date" means the date on which, with respect to any Series or Tranche of Storm Recovery Bonds, any payment of principal of or interest (including any interest accruing upon default) on, or any other amount in respect of, the Storm Recovery Bonds of such Series or Tranche that is not actually paid within five days of the Payment Date applicable thereto is to be made by the Indenture Trustee to the Holders.

"Special Record Date" means, with respect to any Special Payment Date, the close of business on the fifteenth day (whether or not a Business Day) preceding such Special Payment Date.

"Sponsor" means Duke Energy [Carolinas/Progress], in its capacity as "sponsor" of the Storm Recovery Bonds within the meaning of Regulation AB.

"SRB Indenture" means the indenture, as from time to time supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof, as so supplemented or amended or both, and shall include the forms and terms of the SRB Notes established hereunder.

"SRB Issuer" means the issuer of the SRB Notes.

"SRB Noteholder" means any holders of the SRB Notes.

"SRB Notes" means the notes issued by the SRB Issuer pursuant to the SRB Indenture.

"SRB Securities Intermediary" means [ ], solely in its capacity as a "securities intermediary" as defined in Section 8-102(a)(14) of the UCC, or any successor securities intermediary.

"SRB Trustee" means [ ], as SRB Trustee under the SRB Indenture, and its successors in interest, and any successor SRB Trustee appointed as provided herein. "State" means any one of the fifty states of the United States of America or the District of Columbia.

"State Pledge" means the pledge of the State of North Carolina as set forth in Section 62-172(k) of the Storm Recovery Law.

"Storms" means Hurricanes Florence[,Dorian] and Michael and Winter Storm Diego.

"Storm Recovery Bond Register" is defined in Section 2.05 of the Indenture.

"Storm Recovery Bond Registrar" is defined in Section 2.05 of the Indenture.

"Storm Recovery Bonds" means all Series of the Storm recovery bonds issued under the Indenture.

"Storm Recovery Charge Collections" means Charges actually received by the Servicer to be remitted to the Collection Account.

"Storm Recovery Charge Payments" means the payments made by Customers based on the Charges.

"Storm Recovery Costs" means (i) Duke Energy [Carolinas'/Progress's] deferred asset balance associated with the Storms, including a return on the unrecovered balance, and with respect to the capital investments, including a deferral of depreciation expense and a return on the investment determined by the Commission to be prudently incurred in Docket No. [E-7, Sub 1214/E-2, Sub 1219] including carrying costs in the amount of X through the projected issuances date of the [Series A] Storm Recovery Bonds, calculated at the Company's approved weighted average cost of capital, (ii) plus up-front Financing Costs "Storm Recovery Law" means the laws of the State of North Carolina adopted in 2019 enacted as Section 62-172, North Carolina Statutes.

"Storm Recovery Property" means all storm recovery property as defined in Section 62-172(a)(15)a. of the Storm Recovery Law created pursuant to the Financing Order or a Subsequent Financing Order and under the Storm Recovery Law, including the right to impose, bill, charge, collect and receive the Charges authorized under the Financing Order and to obtain periodic adjustments of the Charges and all revenue, collections, claims, rights to payments, payments, money, or proceeds arising from the rights and interests specified in Section 62-172(a)(15)b., regardless of whether such revenues, collections, claims, rights to 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.

"Storm Recovery Property Records" is defined in Section 5.01 of the Servicing Agreement.

"Storm Recovery Rate Class" means one of the [five] separate rate classes to whom Charges are allocated for ratemaking purposes in accordance with the Financing Order.

"Storm Recovery Rate Schedule" means the Tariff sheets to be filed with the Commission stating the amounts of the Charges, as such Tariff sheets may be amended or modified from time to time pursuant to a True-Up Adjustment.

"Subaccounts" is defined in Section 8.02(a) of the Indenture.

"Subsequent Financing Order" means, a financing order of the Commission under the Storm Recovery Law issued to Duke Energy [Carolinas/Progress] subsequent to the Financing Order.

"Successor" means any successor to Duke Energy [Carolinas/Progress] under the Storm Recovery Law, whether pursuant to any bankruptcy, reorganization or other insolvency proceeding or pursuant to any merger, conversion, acquisition, sale or transfer, by operation of law, as a result of electric utility restructuring, or otherwise.

"Successor Servicer" is defined in Section 3.07(e) of the Indenture.

"Tariff" means the most current version on file with the Commission of [ ], 2021.

"Tax Returns" is defined in Section 1(a)(iii) of the Administration Agreement.

"Temporary Storm Recovery Bonds" means Storm Recovery Bonds executed and, upon the receipt of an Issuer Order, authenticated and delivered by the Indenture Trustee pending the preparation of Definitive Storm Recovery Bonds pursuant to Section 2.04 of the Indenture.

"Termination Notice" is defined in Section 7.01 of the Servicing Agreement.

"TPS" means a third party supplier which is authorized by law to sell electric service to a customer using the transmission or distribution system of Duke Energy [Carolinas/Progress].

"Tranche Maturity Date" means, with respect to any Tranche of Storm Recovery Bonds, the maturity date therefor, as specified in the Series Supplement therefor.

"True-Up Adjustment" means any Semi-Annual True-Up Adjustment or Optional Interim True-Up Adjustment, as the case may be.

"Trust Indenture Act" means the Trust Indenture Act of 1939 as in force on the Series Closing Date, unless otherwise specifically provided.

"UCC" means the Uniform Commercial Code as in effect in the relevant jurisdiction.

"Underwriters" means the underwriters who purchase Storm Recovery Bonds of any Series from the Issuer and sell such Storm Recovery Bonds in a public offering.

"Underwriting Agreement" means the Underwriting Agreement, dated [ ], 2020, by and among Duke Energy [Carolinas/Progress], the representatives of the several Underwriters named therein and the Issuer.

"U.S. Government Obligations" means direct obligations (or certificates representing an ownership interest in such obligations) of the United States of America (including any agency or instrumentality thereof) for the payment of which the full faith and credit of the United States of America is pledged and that are not callable at the option of the issuer thereof.

"Weighted Average Days Outstanding" means the weighted average number of days Duke Energy [Carolinas/Progress] monthly bills to Customers remain outstanding during the calendar year preceding the calculation thereof pursuant to Section 4.01(b)(i) of the Servicing Agreement.

B. Rules of Construction. Unless the context otherwise requires, in each Basic Document to which this Appendix A is attached:

(a) All accounting terms not specifically defined herein shall be construed in accordance with United States generally accepted accounting principles. To the extent that the definitions of accounting terms in any Basic Document are inconsistent with the meanings of such terms under generally accepted accounting principles or regulatory accounting principles, the definitions contained in such Basic Document shall control.

(b) The term "including" means "including without limitation", and other forms of the verb "include" have correlative meanings.

(c) All references to any Person shall include such Person's permitted successors and assigns, and any reference to a Person in a particular capacity excludes such Person in other capacities.

(d) Unless otherwise stated in any of the Basic Documents, in the computation of a period of time from a specified date to a later specified date, the word "from" means "from and including" and each of the words "to" and "until" means "to but excluding".

(e) The words "hereof", "herein" and "hereunder" and words of similar import when used in any Basic Document shall refer to such Basic Document as a whole and not to any particular provision of such Basic Document. References to Articles, Sections, Appendices and Exhibits in any Basic Document are references to Articles, Sections, Appendices and Exhibits in or to such Basic Document unless otherwise specified in such Basic Document.

(f) The various captions (including the tables of contents) in each Basic Document are provided solely for convenience of reference and shall not affect the meaning or interpretation of any Basic Document.

(g) The definitions contained in this Appendix A apply equally to the singular and plural forms of such terms, and words of the masculine, feminine or neuter gender shall mean and include the correlative words of other genders.

(h) Unless otherwise specified, references to an agreement or other document include references to such agreement or document as from time to time amended, restated, reformed, supplemented or otherwise modified in accordance with the terms thereof (subject to any restrictions on such amendments, restatements, reformations, supplements or modifications set forth in such agreement or document) and include any attachments thereto.

(i) References to any law, rule, regulation or order of a Governmental Authority shall include such law, rule, regulation or order as from time to time in effect, including any amendment, modification, codification, replacement or reenactment thereof or any substitution therefor.

(j) The word “will” shall be construed to have the same meaning and effect as the word “shall”.

(k) The word “or” is not exclusive.

(l) All terms defined in the relevant Basic Document to which this Appendix A is attached shall have the defined meanings when used in any certificate or other document made or delivered pursuant thereto unless otherwise defined therein.

(m) A term has the meaning assigned to it.

ADMINISTRATION AGREEMENT

This ADMINISTRATION AGREEMENT, dated as of [ ], 2021, is entered into by and between Duke Energy [Carolinas/Progress], LLC, a North Carolina limited liability company ("[DEC/DEP]"), as administrator, and [Duke Energy [Carolinas/Progress] Storm Recovery Funding], LLC, a Delaware limited liability company.

Capitalized terms used but not otherwise defined in this Administration Agreement shall have the respective meanings given to such terms in Appendix A, which is hereby incorporated by reference into this Administration Agreement as if set forth fully in this Administration Agreement. Not all terms defined in Appendix A are used in this Administration Agreement. The rules of construction set forth in Appendix A shall apply to this Administration Agreement and are hereby incorporated by reference into this Administration Agreement as if set forth fully in this Administration Agreement.

W I T N E S S E T H:

WHEREAS, the Issuer is issuing [Series A] Storm Recovery Bonds pursuant to the Indenture and the Series Supplement dated the date hereof;

WHEREAS, the Issuer has entered into certain agreements in connection with the issuance of Storm Recovery Bonds, including (a) the Indenture, (b) the Servicing Agreement for the [Series A] Storm Recovery Bonds, (c) the Sale Agreement for the [Series A] Storm Recovery Bonds and (d) the other Basic Documents to which the Issuer is a party relating to the [Series A] Storm Recovery Bonds;

WHEREAS, pursuant to the Basic Documents, the Issuer is required to perform certain duties in connection with the Basic Documents, the [Series A] Storm Recovery Bonds and the Series Collateral pledged to the Indenture Trustee pursuant to the Indenture and Series Supplement dated the date hereof;

WHEREAS, pursuant to the Indenture, the Issuer may issue Additional Series of Storm Recovery Bonds, whereby the Issuer would be required to perform certain duties in connection with the Basic Documents, the Additional Series of Storm Recovery Bonds and the Collateral pledged to the Indenture Trustee for such Series pursuant to the Indenture and applicable Series Supplement(s);

WHEREAS, the Issuer has no employees, other than its officers and managers, and does not intend to hire any employees, and consequently desires to have the Administrator perform certain of the duties of the Issuer referred to above and to provide such additional services consistent with the terms of this Administration Agreement and the other Basic Documents as the Issuer may from time to time request; and

WHEREAS, the Administrator has the capacity to provide the services and the facilities required thereby and is willing to perform such services and provide such facilities for the Issuer on the terms set forth herein;

NOW, THEREFORE, in consideration of the mutual covenants contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

Section 1. Duties of the Administrator; Management Services. The Administrator hereby agrees to provide the following corporate management services to the Issuer and to cause third parties to provide professional services required for or contemplated by such services in accordance with the provisions of this Administration Agreement:

(a) furnish the Issuer with ordinary clerical, bookkeeping and other corporate administrative services necessary and appropriate for the Issuer, including the following services:

(i) maintain at the Premises general accounting records of the Issuer (the "Account Records"), subject to year-end audit, in accordance with generally accepted accounting principles, separate and apart from its own accounting records, prepare or cause to be prepared such quarterly and annual financial statements as may be necessary or appropriate and arrange for year-end audits of the Issuer's financial statements by the Issuer's independent accountants;

(ii) prepare and, after execution by the Issuer, file with the SEC and any applicable state agencies documents required to be filed by the Issuer with the SEC and any applicable state agencies, including periodic reports required to be filed under the Exchange Act;

(iii) prepare for execution by the Issuer and cause to be filed such income, franchise or other tax returns of the Issuer as shall be required to be filed by applicable law (the "Tax Returns") and cause to be paid on behalf of the Issuer from the Issuer's funds any taxes required to be paid by the Issuer under applicable law;

(iv) prepare or cause to be prepared for execution by the Issuer's Managers minutes of the meetings of the Issuer's Managers and such other documents deemed appropriate by the Issuer to maintain the separate limited liability company existence and good standing of the Issuer (the "Company Minutes") or otherwise required under the Basic Documents (together with the Account Records, the Tax Returns, the Company Minutes, the LLC Agreement and the Certificate of Formation, the "Issuer Documents") and any other documents deliverable by the Issuer thereunder or in connection therewith; and

(v) hold, maintain and preserve at the Premises (or such other place as shall be required by any of the Basic Documents) executed copies (to the extent applicable) of the Issuer Documents and other documents executed by the Issuer thereunder or in connection therewith;

(b) take such actions on behalf of the Issuer as are necessary or desirable for the Issuer to keep in full effect its existence, rights and franchises as a limited liability company under the laws of the State of Delaware and obtain and preserve its qualification to do business in each jurisdiction in which it becomes necessary to be so qualified;

(c) take such actions on the behalf of the Issuer as are necessary for the issuance and delivery of Storm Recovery Bonds;

(d) provide for the performance by the Issuer of its obligations under each of the Basic Documents, and prepare, or cause to be prepared, all documents, reports, filings, instruments, notices, certificates and opinions that it shall be the duty of the Issuer to prepare, file or deliver pursuant to the Basic Documents;

(e) to the full extent allowable under applicable law, enforce each of the rights of the Issuer under the Basic Documents, at the direction of the Indenture Trustee or the SRB Trustee;

(f) provide for the defense, at the direction of the Issuer's Managers, of any action, suit or proceeding brought against the Issuer or affecting the Issuer or any of its assets;

(g) provide office space (the "Premises") for the Issuer and such reasonable ancillary services as are necessary to carry out the obligations of the Administrator hereunder, including telecopying, duplicating and word processing services;

(h) undertake such other administrative services as may be appropriate, necessary or requested by the Issuer; and

(i) provide such other services as are incidental to the foregoing or as the Issuer and the Administrator may agree.

In providing the services under this Section 1 and as otherwise provided under this Administration Agreement, the Administrator will not knowingly take any actions on behalf of the Issuer that (i) the Issuer is prohibited from taking under the Basic Documents, or (ii) would cause the Issuer to be in violation of any U.S. federal, state or local law or the LLC Agreement.

In performing its duties hereunder, the Administrator shall use the same degree of care and diligence that the Administrator exercises with respect to performing such duties for its own account and, if applicable, for others.

Section 2. Compensation. As compensation for the performance of the Administrator's obligations under this Administration Agreement (including the compensation of Persons serving as Manager(s), other than the Independent Manager(s), and officers of the Issuer, but, for the avoidance of doubt, excluding the performance by Duke Energy [Carolinas/Progress] of its obligations in its capacity as Servicer), the Administrator shall be entitled to $50,000 annually (the "Administration Fee"), payable by the Issuer in full on the first Payment Date following the issuance of the [Series A] Storm Recovery Bonds and every second Payment Date thereafter. In addition, the Administrator shall be entitled to be reimbursed by the Issuer for all costs and expenses of services performed by unaffiliated third parties and actually incurred by the Administrator in connection with the performance of its obligations under this Administration Agreement in accordance with Section 3 (but, for the avoidance of doubt, excluding any such costs and expenses incurred by Duke Energy [Carolinas/Progress] in its capacity as Servicer), to the extent that such costs and expenses are supported by invoices or other customary documentation and are reasonably allocated to the Issuer ("Reimbursable Expenses").

Section 3. Third Party Services. Any services required for or contemplated by the performance of the above-referenced services by the Administrator to be provided by unaffiliated third parties (including independent accountants' fees and counsel fees) may, if provided for or otherwise contemplated by the Financing Order or a Subsequent Financing Order and if the Issuer deems it necessary or desirable, be arranged by the Issuer or by the Administrator at the direction (which may be general or specific) of the Issuer. Costs and expenses associated with the contracting for such third-party professional services may be paid directly by the Issuer or paid by the Administrator and reimbursed by the Issuer in accordance with Section 2, or otherwise as the Administrator and the Issuer may mutually arrange.

Section 4. Additional Information to be Furnished to the Issuer. The Administrator shall furnish to the Issuer from time to time such additional information regarding the Series Collateral or the Collateral, as applicable, an as the Issuer shall reasonably request.

Section 5. Independence of the Administrator. For all purposes of this Administration Agreement, the Administrator shall be an independent contractor and shall not be subject to the supervision of the Issuer with respect to the manner in which it accomplishes the performance of its obligations hereunder. Unless expressly authorized by the Issuer, the Administrator shall have no authority, and shall not hold itself out as having the authority, to act for or represent the Issuer in any way and shall not otherwise be deemed an agent of the Issuer.

Section 6. No Joint Venture. Nothing contained in this Administration Agreement (a) shall constitute the Administrator and the Issuer as partners or co-members of any partnership, joint venture, association, syndicate, unincorporated business or other separate entity, (b) shall be construed to impose any liability as such on either of them or (c) shall be deemed to confer on either of them any express, implied or apparent authority to incur any obligation or liability on behalf of the other.

Section 7. Other Activities of Administrator. Nothing herein shall prevent the Administrator or any of its members, managers, officers, employees or affiliates from engaging in other businesses or, in its sole discretion, from acting in a similar capacity as an administrator for any other Person even though such Person may engage in business activities similar to those of the Issuer.

Section 8. Term of Agreement; Resignation and Removal of Administrator.

(a) This Administration Agreement shall continue in force until the payment in full of all Series of Storm Recovery Bonds and any other amount that may become due and payable under the Indenture, upon which event this Administration Agreement shall automatically terminate. Notwithstanding the foregoing, the Administrator's obligation under Section 11(c) to indemnify [DEC/DEP] Customers shall survive termination of this Administration Agreement.

(b) Subject to Section 8(e) and Section 8(f), the Administrator may resign its duties hereunder by providing the Issuer, the Commission and the Rating Agencies with at least 60 days' prior written notice.

(c) Subject to Section 8(e) and Section 8(f), the Issuer may remove the Administrator without cause by providing the Administrator, the Commission and the Rating Agencies with at least 60 days' prior written notice.

(d) Subject to Section 8(e) and Section 8(f), at the sole option of the Issuer, the Administrator may be removed immediately upon written notice of termination from the Issuer to the Administrator and the Rating Agencies if any of the following events shall occur:

(i) the Administrator shall default in the performance of any of its duties under this Administration Agreement and, after notice of such default, shall fail to cure such default within ten days (or, if such default cannot be cured in such time, shall (A) fail to give within ten days such assurance of cure as shall be reasonably satisfactory to the Issuer and (B) fail to cure such default within 30 days thereafter);

(ii) a court of competent jurisdiction shall enter a decree or order for relief, and such decree or order shall not have been vacated within 60 days, in respect of the Administrator in any involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or such court shall appoint a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official for the Administrator or any substantial part of its property or order the winding-up or liquidation of its affairs; or

(iii) the Administrator shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, shall consent to the entry of an order for relief in an involuntary case under any such law, shall consent to the appointment of a receiver, liquidator, assignee, trustee, custodian, sequestrator or similar official for the Administrator or any substantial part of its property, shall consent to the taking of possession by any such official of any substantial part of its property, shall make any general assignment for the benefit of creditors or shall fail generally to pay its debts as they become due.

The Administrator agrees that if any of the events specified in Section 8(d)(ii) or Section 8(d)(iii) shall occur, it shall give written notice thereof to the Issuer, the Commission, the Indenture Trustee and the SRB Trustee as soon as practicable but in any event within seven days after the happening of such event.

(e) No resignation or removal of the Administrator pursuant to this Section 8 shall be effective until a successor Administrator has been appointed by the Issuer, the Rating Agency Condition shall have been satisfied with respect to the proposed appointment, [the Commission Condition set forth in Section 13(b) of this Administration Agreement has been satisfied,] and such successor Administrator has agreed in writing to be bound by the terms of this Administration Agreement in the same manner as the Administrator is bound hereunder.

(f) The appointment of any successor Administrator shall be effective only after satisfaction of the Rating Agency Condition [and the Commission Condition] with respect to the proposed appointment.

Section 9. Action upon Termination, Resignation or Removal. Promptly upon the effective date of termination of this Administration Agreement pursuant to Section 8(a), the resignation of the Administrator pursuant to Section 8(b) or the removal of the Administrator pursuant to Section 8(c) or Section 8(d), the Administrator shall be entitled to be paid a pro-rated portion of the annual fee described in Section 2 through the date of termination and all Reimbursable Expenses incurred by it through the date of such termination, resignation or removal. The Administrator shall forthwith upon such termination pursuant to Section 8(a) deliver to the Issuer all property and documents of or relating to the Collateral then in the custody of the Administrator. In the event of the resignation of the Administrator pursuant to Section 8(b) or the removal of the Administrator pursuant to Section 8(c) or Section 8(d), the Administrator shall cooperate with the Issuer and take all reasonable steps requested to assist the Issuer in making an orderly transfer of the duties of the Administrator.

Section 10. Administrator's Liability. (a) Except as otherwise provided herein, the Administrator assumes no liability other than to render or stand ready to render the services called for herein, and neither the Administrator nor any of its members, managers, officers, employees or affiliates shall be responsible for any action of the Issuer or any of the members, managers, officers, employees or affiliates of the Issuer (other than the Administrator itself). The Administrator shall not be liable for nor shall it have any obligation with regard to any of the liabilities, whether direct or indirect, absolute or contingent, of the Issuer or any of the members, managers, officers, employees or affiliates of the Issuer (other than the Administrator itself).

(b) The Administrator acknowledges that the Commission has authority to enforce all provisions of this Administration Agreement for the benefit of [DEC/DEP] Customers, including without limitation the enforcement of Section 11(c). Notwithstanding anything to the contrary contained in this Administration Agreement, for the avoidance of doubt, any right, remedy or claim to which any [DEC/DEP] Customer may be entitled pursuant to this Administration Agreement may be asserted or exercised only by the Commission for the benefit of such [DEC/DEP] Customer.

Section 11. Indemnity.

(a) Subject to the priority of payments set forth in the Indenture, the Issuer shall indemnify the Administrator and its shareholders, directors, officers, employees and affiliates against all losses, claims, damages, penalties, judgments, liabilities and expenses (including all expenses of litigation or preparation therefor whether or not the Administrator is a party thereto) that any of them may pay or incur arising out of or relating to this Administration Agreement and the services called for herein; provided, however, that such indemnity shall not apply to any such loss, claim, damage, penalty, judgment, liability or expense resulting from the Administrator's negligence or willful misconduct in the performance of its obligations hereunder.

(b) The Administrator shall indemnify the Issuer and its members, managers, officers and employees against all losses, claims, damages, penalties, judgments, liabilities and expenses (including all expenses of litigation or preparation therefor whether or not the Issuer is a party thereto) that any of them may incur as a result of the Administrator's negligence or willful misconduct in the performance of its obligations hereunder.

(c) If the Administrator remains an entity subject to the Commission's regulatory authority as a public utility (or otherwise for ratemaking purposes), the Administrator hereby acknowledges and agrees that the Commission, subject to the outcome of an appropriate Commission proceeding, may take such action as it deems necessary or appropriate under its regulatory authority to require the Administrator to make [DEC/DEP] Customers whole for any Losses they incur by reason of the Administrator's negligence, recklessness or willful misconduct, including without limitation Losses attributable to higher Charges imposed on [DEC/DEP] Customers by reason of additional Operating Expenses. The Administrator hereby acknowledges and agrees that such action by the Commission may include, but is not limited to, adjustments to the Administrator's other regulated rates and charges or credits to [DEC/DEP] Customers. If the Administrator does not remain, or is not subject to, the Commission's regulatory authority as a public utility (or otherwise for ratemaking purposes), such Administrator shall indemnify the Commission, on behalf of the [DEC/DEP] Customers, for any Losses incurred by [DEC/DEP] Customers by reason of the Administrator's negligence, recklessness or willful misconduct, including without limitation Losses attributable to higher Charges imposed on [DEC/DEP] Customers by reason of additional Operating Expenses. The Administrator's indemnification under this Section 11(c) shall survive the termination of this Administration Agreement, and any amounts paid with respect thereto shall be remitted and deposited with the Indenture Trustee for deposit into the Collection Account, unless otherwise directed by the Commission.

Section 12. Notices. Any notice, report or other communication given hereunder shall be in writing and shall be effective (i) upon receipt when sent through the mails, registered or certified mail, return receipt requested, postage prepaid, with such receipt to be effective the date of delivery indicated on the return receipt, (ii) upon receipt when sent by an overnight courier, (iii) on the date personally delivered to an authorized officer of the party to which sent or (iv) on the date transmitted by facsimile or other electronic transmission with a confirmation of receipt in all cases, addressed as follows:

(a) if to the Issuer, to [Duke Energy [Carolinas/Progress] Storm Recovery Funding], LLC, at [ADDRESS], Attention: Manager, Telephone: [ ];

(b) if to the Administrator, to Duke Energy [Carolinas/Progress], LLC, at [ADDRESS], Attention: Director, Rates and Regulatory Strategy, Telephone: [727-820-4560] in care of (c/o): Director, Rates and Regulatory Planning and at 550 South Tryon Street, Charlotte, North Carolina 28202, Attention: Treasurer, Telephone: 704-382-3853 c/o Assistant Treasurer; and

(c) if to the Indenture Trustee, to the Corporate Trust Office; and

(d) if to the SRB Trustee, to the SRB Corporate Trust Office.

Each party hereto may, by notice given in accordance herewith to the other party or parties hereto, designate any further or different address to which subsequent notices, reports and other communications shall be sent.

Section 13. Amendments.

(a) Subject to Section 13(b), this Administration Agreement may be amended from time to time by a written amendment duly executed and delivered by each of the Issuer and the Administrator, with the prior written consent of the Indenture Trustee and the SRB Trustee, the satisfaction of the Rating Agency Condition; provided, that any such amendment may not adversely affect the interest of any Bondholder or SRB Noteholder in any material respect without the consent of the Bondholder or SRB Noteholders of a majority of the outstanding principal amount of all Storm Recovery Bonds. Promptly after the execution of any such amendment or consent, the Issuer shall furnish copies of such amendment or consent to each of the Rating Agencies.

(b) [Commission Condition. Notwithstanding anything to the contrary in this Section 13, no amendment or modification of this Administration Agreement shall be effective, nor shall any action requiring satisfaction of this condition pursuant to Section 8(e), Section 8(f), or Section 14 of this Administration Agreement be taken or be effective except upon satisfaction of the conditions precedent in this paragraph (b).

(i) At least 15 days prior to the effectiveness of any such amendment or modification and after obtaining the other necessary approvals set forth in Section 13(a) (except that the consent of the Indenture Trustee may be subject to the consent of Holders of the Storm Recovery Bonds if such consent is required or sought by the Indenture Trustee in connection with such amendment or modification) the Administrator shall have delivered to the Commission's [Name Appropriate Party] written notification of any proposed amendment, which notification shall contain:

(A) a reference to Docket No. [ ];

(B) an Officer's Certificate stating that the proposed amendment or modification has been approved by all parties to this Administration Agreement; and

(C) a statement identifying the person to whom the Commission is to address any response to the proposed amendment or to request additional time.

(ii) If the Commission or an authorized representative of the Commission, within 15 days (subject to extension as provided in clause (iii)) of receiving a notification complying with subparagraph (i), shall have delivered to the office of the person specified in clause (i)(C) a written statement that the Commission might object to the proposed amendment or modification, then, subject to clause (iv) below, such proposed amendment or modification shall not be effective unless and until the Commission subsequently delivers a written statement that it does not object to such proposed amendment or modification; or

(iii) If the Commission or an authorized representative of the Commission, within 15 days of receiving a notification complying with subparagraph (i), shall have delivered to the office of the person specified in clause (i)(C) a written statement requesting an additional amount of time not to exceed thirty days in which to consider such proposed amendment or modification, then such proposed amendment or

modification shall not be effective if, within such extended period, the Commission shall have delivered to the office of the person specified in clause (i)(C) a written statement as described in subparagraph (ii), unless and until the Commission subsequently delivers a written statement that it does not object to such proposed amendment or modification.

(iv) If (A) the Commission or an authorized representative of the Commission, shall not have delivered written notice that the Commission might object to such proposed amendment or modification within the time periods described in subparagraphs (ii) or (iii), whichever is applicable, or (B) the Commission or authorized representative of the Commission, has delivered such written notice but does not within 60 days of the delivery of the notification in (a) above, provide subsequent written notice confirming that it does in fact object and the reasons therefore or advise that it has initiated a proceeding to determine what action it might take with respect to the matter, then the Commission shall be conclusively deemed not to have any objection to the proposed amendment or modification and such amendment or modification may subsequently become effective upon satisfaction of the other conditions specified in Section 13(a).

(v) Following the delivery of a statement from the Commission or an authorized representative of the Commission to the Administrator under subparagraph (ii), the Administrator and the Issuer shall have the right at any time to withdraw from the Commission further consideration of any proposed amendment, modification or other action.

(vi) For the purpose of this Section 13, an "authorized representative of the Commission" means any person authorized to act on behalf of the Commission, as evidenced by an Opinion of Counsel (which may be the general counsel) to the Commission.]

Section 14. Successors and Assigns. This Administration Agreement may not be assigned by the Administrator unless such assignment is previously consented to in writing by the Issuer, the Commission and the Indenture Trustee and subject to the satisfaction of the Rating Agency Condition in connection therewith. Any assignment with such consent and satisfaction, if accepted by the assignee, shall bind the assignee hereunder in the same manner as the Administrator is bound hereunder. Notwithstanding the foregoing, this Administration Agreement may be assigned by the Administrator without the consent of the Issuer, the Commission or the Indenture Trustee and without satisfaction of the Rating Agency Condition to a corporation or other organization that is a successor (by merger, reorganization, consolidation or purchase of assets) to the Administrator, including any Permitted Successor; provided, that such successor or organization executes and delivers to the Issuer and the Commission an agreement in which such corporation or other organization agrees to be bound hereunder by the terms of said assignment in the same manner as the Administrator is bound hereunder. Subject to the foregoing, this Administration Agreement shall bind any successors or assigns of the parties hereto. Upon satisfaction of all of the conditions of this Section 14, the preceding Administrator shall automatically and without further notice be released from all of its obligations hereunder.

Section 15. Governing Law. This Administration Agreement shall be construed in accordance with the laws of the State of North Carolina, without reference to its conflict of law

provisions, and the obligations, rights and remedies of the parties hereunder shall be determined in accordance with such laws.

Section 16. Counterparts. This Administration Agreement may be executed in counterparts, each of which when so executed shall be an original, but all of which together shall constitute but one and the same Administration Agreement.

Section 17. Severability. Any provision of this Administration Agreement that is prohibited or unenforceable in any jurisdiction shall be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

Section 18. Nonpetition Covenant. Notwithstanding any prior termination of this Administration Agreement, the Administrator covenants that it shall not, prior to the date that is one year and one day after payment in full of all Storm Recovery Bonds, acquiesce, petition or otherwise invoke or cause the Issuer to invoke the process of any court or government authority for the purpose of commencing or sustaining an involuntary case against the Issuer under any U.S. federal or state bankruptcy, insolvency or similar law or appointing a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official of the Issuer or any substantial part of its property or ordering the winding up or liquidation of the affairs of the Issuer.

Section 19. Assignment to Indenture Trustee. The Administrator hereby acknowledges and consents to any mortgage, pledge, assignment and grant of a security interest by the Issuer to the Indenture Trustee for the benefit of the Holders pursuant to the Indenture of any or all of the Issuer's rights hereunder and the assignment of any or all of the Issuer's rights hereunder to the Indenture Trustee for the benefit of the Holders and the collateral assignment by the Sole Holder to the SRB Trustee pursuant to the SRB Indenture for the benefit of the SRB Noteholders and the SRB Trustee in all of the Holder's rights in all rights of the SRB Trustee or the SRB Issuer, as Holder of the [Series A] Storm Recovery Bonds, in and to this Administration Agreement.

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IN WITNESS WHEREOF, the parties have caused this Administration Agreement to be duly executed and delivered as of the day and year first above written.

[Duke Energy [Carolinas/Progress] Storm Recovery Funding], LLC,
as Issuer

By:_____
Name: [ ] Title: President, Chief Financial Officer and Treasurer

Duke Energy [Carolinas/Progress], LLC,
as Administrator

By:_____
Name: [ ]
Title: Senior Vice President, Tax and Treasurer

APPENDIX A

DEFINITIONS AND RULES OF CONSTRUCTION

A. Defined Terms. The following terms have the following meanings:

"17g-5 Website" is defined in Section 10.18(a) of the Indenture.

"Account Records" is defined in Section 1(a)(i) of the Administration Agreement.

"Act" is defined in Section 10.03(a) of the Indenture.

"Additional Series" means issuance by the Issuer of any series of Storm Recovery Bonds issued after the date hereof, that will be undertaken only if (i) such issuance has been authorized by the Commission, (ii) the Rating Agency Condition has been satisfied and it is a condition of issuance for each Series of Storm Recovery Bonds that the new Series receive a rating or ratings as required by the Financing Order or a Subsequent Financing Order, (iii) the Issuer has delivered to the Indenture Trustee an Opinion of Counsel of a nationally recognized firm experienced in such matters to the effect that after such issuance, in the opinion of such counsel, if either or both of Duke Energy [Carolinas/Progress] or the Seller were to become a debtor in a case under the United States Bankruptcy Code (Title 11, U.S.C.), a federal court exercising bankruptcy jurisdiction and exercising reasonable judgment after full consideration of all relevant factors would not order substantive consolidation of the assets and liabilities of the Issuer with those of the bankruptcy estate of Duke Energy [Carolinas/Progress] or the Seller, subject to the customary exceptions, qualifications and assumptions contained therein.

"Administration Agreement" means the Administration Agreement, dated as of the date hereof, by and between Duke Energy [Carolinas/Progress] and the Issuer.

"Administration Fee" is defined in Section 2 of the Administration Agreement.

"Administrator" means Duke Energy [Carolinas/Progress], as Administrator under the Administration Agreement, or any successor Administrator to the extent permitted under the Administration Agreement.

"Affiliate" means, with respect to any specified Person, any other Person controlling or controlled by or under common control with such specified Person. For the purposes of this definition, "control" when used with respect to any specified Person means the power to direct the management and policies of such specified Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise, and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Amendatory Schedule" means a revision to service riders or any other notice filing filed with the Commission in respect of the Storm Recovery Rate Schedule pursuant to a True-Up Adjustment.

"Annual Accountant's Report" is defined in Section 3.04(a) of the Servicing Agreement.

"Authorized Denomination" means, with respect to any Storm Recovery Bond, the authorized denomination therefor specified in the Series Supplement, which shall be at least $2,000 and, except as otherwise provided in the Series Supplement, integral multiples of $1,000 in excess thereof, except for one Storm Recovery bond which may be of a smaller denomination.

"Bankruptcy Code" means Title 11 of the United States Code (11 U.S.C. §§ 101 et seq.).

"Basic Documents" means the Indenture, each Series Supplement, the Certificate of Formation, the LLC Agreement, the Declaration of Trust, the SRB Indenture, the Administration Agreement, and, with respect to each Series, the applicable Sale Agreement, Bill of Sale, Servicing Agreement, Intercreditor Agreement, Letter of Representations, Underwriting Agreement and all other documents and certificates delivered in connection therewith.

"Bill of Sale" means a bill of sale substantially in the form of Exhibit A to the Sale Agreement delivered pursuant to Section 2.02(a) of the Sale Agreement.

"Billed Storm Recovery Charges" means the amounts of Storm Recovery Charges billed by the Servicer.

"Billing Period" means the period created by dividing the calendar year into 12 consecutive periods of approximately 21 Servicer Business Days.

"Bills" means each of the regular monthly bills, summary bills, opening bills and closing bills issued to Customers by Duke Energy [Carolinas/Progress] in its capacity as Servicer.

"Bond Interest Rate" means, with respect to any Series or Tranche of Storm Recovery Bonds, the rate at which interest accrues on the Storm Recovery Bonds of such Series or Tranche, as specified in the applicable Series Supplement.

"Book-Entry Form" means, with respect to any Storm Recovery Bond, that such Storm Recovery Bond is not certificated and the ownership and transfers thereof shall be made through book entries by a Clearing Agency as described in Section 2.11 of the Indenture and the Series Supplement pursuant to which such Storm Recovery Bond was issued.

"Book-Entry Storm Recovery Bonds" means any Storm Recovery Bonds issued in Book-Entry Form; provided, however, that, after the occurrence of a condition

whereupon book-entry registration and transfer are no longer permitted and Definitive Storm Recovery Bonds are to be issued to the Holder of such Storm Recovery Bonds, such Storm Recovery Bonds shall no longer be "Book-Entry Storm Recovery Bonds".

"Business Day" means any day other than a Saturday, a Sunday or a day on which banking institutions in Raleigh, North Carolina, Charlotte, North Carolina or New York, New York are, or DTC or the Corporate Trust Office is, authorized or obligated by law, regulation or executive order to be closed.

"Capital Contribution" means the amount of cash contributed to the Issuer by Duke Energy [Carolinas/Progress] as specified in the LLC Agreement.

"Capital Subaccount" is defined in Section 8.02(a) of the Indenture.

"Certificate of Compliance" means the certificate referred to in Section 3.03 of the Servicing Agreement and substantially in the form of Exhibit E to the Servicing Agreement.

"Certificate of Formation" means the Certificate of Formation filed with the Secretary of State of the State of Delaware on [ ], 20[21] pursuant to which the Issuer was formed.

"Charge" means any storm-recovery charges as defined in Section 62-172(a)(13) of the Storm Recovery Law that are authorized by the Financing Order or any Subsequent Financing Order.

"Claim" means a "claim" as defined in Section 101(5) of the Bankruptcy Code.

"Clearing Agency" means an organization registered as a "clearing agency" pursuant to Section 17A of the Exchange Act.

"Clearing Agency Participant" means a securities broker, dealer, bank, trust company, clearing corporation or other financial institution or other Person for whom from time to time a Clearing Agency effects book entry transfers and pledges of securities deposited with such Clearing Agency.

"Code" means the Internal Revenue Code of 1986.

"Collateral" is defined in the preamble of the Indenture.

"Collection Account" is defined in Section 8.02(a) of the Indenture for such Series.

"Collection in Full of the Charges" means the day on which the aggregate amounts on deposit in the General Subaccount and the Excess Funds Subaccount are sufficient to pay in full all the Outstanding Storm Recovery Bonds and to replenish any shortfall in the Capital Subaccount.

"Collection Period" means any period commencing on the first Servicer Business Day of any Billing Period and ending on the last Servicer Business Day of such Billing Period.

"Commission" means the North Carolina Utilities Commission.

["Commission Condition" means the satisfaction of any precondition to any amendment or modification to or action under any Basic Documents through the obtaining of Commission consent or acquiescence, as described in the related Basic Document.]

"Commission Regulations" means any regulations, including temporary regulations, promulgated by the North Carolina Utilities Commission pursuant to North Carolina law.

"Company Minutes" is defined in Section 1(a)(iv) of the Administration Agreement.

"Corporate Trust Office" means the office of the Indenture Trustee at which, at any particular time, its corporate trust business shall be administered, which office as of the date hereof is located at [BNY Mellon Global Corporate Trust, 10161 Centurion Parkway North, Jacksonville, Florida 32256]; Telephone: [904-998-4714]; Facsimile: [904-645-1930], or at such other address as the Indenture Trustee may designate from time to time by notice to the Holders of Storm Recovery Bonds and the Issuer, or the principal corporate trust office of any successor trustee designated by like notice.

"Covenant Defeasance Option" is defined in Section 4.01(b) of the Indenture.

"Customer" means any existing or future customer (including individuals, corporations, other businesses, and federal, state and local governmental entities) receiving transmission or distribution service from Duke Energy [Carolinas/Progress] or its successors or assignees under Commission-approved rate schedules or under special contracts, even if such customer elects to purchase electricity from an AES following a fundamental change in regulation of public utilities in North Carolina.

"Daily Remittance" is defined in Section 6.11(a) of the Servicing Agreement.

"Declaration of Trust" means the Declaration of Trust filed with the Secretary of State of the State of Delaware on [ ]. 20[21] pursuant to which the SRB Trust was formed.

"Default" means any occurrence that is, or with notice or the lapse of time or both would become, an Event of Default.

"Definitive Storm Recovery Bonds" is defined in Section 2.11 of the Indenture.

"Delaware Trustee" means the Person acting as Delaware trustee under the Declaration of Trust.

"Delaware UCC" means the Uniform Commercial Code as in effect on the Series Closing Date in the State of Delaware.

"DTC" means The Depository Trust Company.

["Duke Energy Carolinas" means Duke Energy Carolinas, LLC, a North Carolina limited liability company.

"Duke Energy Progress" means Duke Energy Progress, LLC, a North Carolina limited liability company.]

"[Duke Energy Carolinas/Progress Storm Recovery Funding], LLC" means the Issuer.

"Eligible Account" means a segregated non-interest-bearing trust account with an Eligible Institution.

"Eligible Institution" means:

(a) the corporate trust department of the Indenture Trustee or a subsidiary thereof, so long as any of the securities of the Indenture Trustee has a credit rating from each Rating Agency in one of its generic rating categories that signifies investment grade; or

(b) a depository institution organized under the laws of the United States of America or any State (or any domestic branch of a foreign bank) (i) that has either (A) a long-term issuer rating of "AA-" or higher by S&P, "A2" or higher by Moody's and "AA" or higher by Fitch, if rated by Fitch, or (B) a short-term issuer rating of "A-1+" or higher by S&P, "P-1" or higher by Moody's and "F1" or higher by Fitch, if rated by Fitch, or any other long-term, short-term or certificate of deposit rating acceptable to the Rating Agencies, and (ii) whose deposits are insured by the Federal Deposit Insurance Corporation.

If so qualified under clause (b) of this definition, the Indenture Trustee may be considered an Eligible Institution for the purposes of clause (a) of this definition.

"Eligible Investments" means instruments or investment property that evidence:

(a) direct obligations of, or obligations fully and unconditionally guaranteed as to timely payment by, the United States of America;

(b) demand or time deposits of, unsecured certificates of deposit of, money market deposit accounts of, bank deposit products of or bankers' acceptances issued by, any depository institution (including, but not limited to, bank deposit products of the Indenture Trustee, acting in its commercial capacity) incorporated or organized under the laws of the United States of America or any State thereof and subject to supervision and examination by U.S. federal or state banking authorities, so long as the commercial paper or other short-term debt obligations of such depository institution are, at the time of deposit, rated at least "A-1" and "P-1" or their equivalents by each of S&P and Moody's and, if Fitch provides ratings thereon by Fitch, or such lower rating as will not result in the downgrading or withdrawal of the ratings of the Storm Recovery Bonds;

(c) commercial paper (including commercial paper of the Indenture Trustee, acting in its commercial capacity, and other than commercial paper of Duke Energy [Carolinas/Progress] or any of its Affiliates), which at the time of purchase is rated at least "A-1" and "P-1" or their equivalents by each of S&P and Moody's or such lower rating as will not result in the downgrading or withdrawal of the ratings of the Storm Recovery Bonds;

(d) investments in money market funds having a rating in the highest investment category granted thereby (including funds for which the Indenture Trustee or any of its Affiliates is investment manager or advisor) from Moody's, S&P and Fitch, if rated by Fitch;

(e) repurchase obligations with respect to any security that is a direct obligation of, or fully guaranteed by, the United States of America or its agencies or instrumentalities, entered into with Eligible Institutions;

(f) repurchase obligations with respect to any security or whole loan entered into with an Eligible Institution or with a registered broker/dealer acting as principal and that meets the ratings criteria set forth below:

(i) a broker/dealer (acting as principal) registered as a broker or dealer under Section 15 of the Exchange Act (any such broker/dealer being referred to in this definition as a "broker/dealer"), the unsecured short-term debt obligations of which are rated at least "P-1" by Moody's, "A-1+" by S&P and, if Fitch provides a rating thereon, "F-1+" by Fitch at the time of entering into such repurchase obligation; or

(ii) an unrated broker/dealer, acting as principal, that is a wholly-owned subsidiary of a non-bank or bank holding company the unsecured short-term debt obligations of which are rated at least "P-1" by Moody's, "A-1+" by S&P and, if Fitch provides a rating thereon, "F-1+" by Fitch at the time of purchase so long as the obligations of such unrated broker/dealer are unconditionally guaranteed by such non-bank or bank holding company; and

(g) any other investment permitted by each of the Rating Agencies;

in each case maturing not later than the Business Day preceding the next Payment Date or Special Payment Date, if applicable (for the avoidance of doubt, investments in money market funds or similar instruments that are redeemable on demand shall be deemed to satisfy the foregoing requirement). Notwithstanding the foregoing: (1) no securities or investments that mature in 30 days or more shall be "Eligible Investments" unless the issuer thereof has either a short-term unsecured debt rating of at least "P-1" from Moody's or a long-term unsecured debt rating of at least "A1" from Moody's and also has a long-term unsecured debt rating of at least "A" from S&P; (2) no securities or investments described in clauses (b) through (d) above that have maturities of more than 30 days but less than or equal to 3 months shall be "Eligible Investments" unless the issuer thereof has a long-term unsecured debt rating of at least "A1" from Moody's and a short-term unsecured debt rating of at least "P-1" from Moody's; and (3) no securities or investments described in clauses (b) through (d) above that have maturities of more than 3 months shall be "Eligible Investments" unless the issuer thereof has a long-term unsecured debt rating of at least "A1" from Moody's and a short-term unsecured debt rating of at least "P-1" from Moody's.

"Event of Default" is defined in Section 5.01 of the Indenture.

"Excess Funds Subaccount" is defined in Section 8.02(a) of the Indenture.

"Exchange Act" means the Securities Exchange Act of 1934.

"Expected Sinking Fund Schedule" means, with respect to any Tranche, the expected sinking fund schedule related thereto set forth in the applicable Series Supplement.

"Federal Book-Entry Regulations" means 31 C.F.R. Part 357 et seq. (Department of Treasury).

"Final" means, with respect to the Financing Order or Subsequent Financing Order, that the Financing Order has become final, that the Financing Order is not being appealed and that the time for filing an appeal thereof has expired.

"Final Maturity Date" means, with respect to each Series of Tranche of Storm Recovery Bonds, the final maturity date therefor as specified in the applicable Series Supplement.

"Financing Costs" means all financing costs as defined in Section 62-172(a)(4)of the Storm Recovery Law allowed to be recovered by Duke Energy [Carolinas/Progress] under the Financing Order.

"Financing Order" means the financing order issued by the Commission to Duke Energy [Carolinas/Progress] on [ ], 20[21], Docket No. [ ], authorizing the creation of the Storm Recovery Property.

"Financing Party" means any and all of the following: the Holders, the Indenture Trustee, Duke Energy [Carolinas/Progress], collateral agents, any party under the Basic Documents, or any other person acting for the benefit of the Holders.

"Fitch" means Fitch Ratings or any successor thereto. References to Fitch are effective so long as Fitch is a Rating Agency.

"North Carolina Secured Transactions Registry" means the centralized database in which all initial financing statements, amendments, assignments, and other statements of charge authorized to be filed under N.C. Gen. Stat. 25- [ ].

"North Carolina UCC" means the Uniform Commercial Code as in effect on the Series Closing Date in the State of North Carolina.

"General Subaccount" is defined in Section 8.02(a) of the Indenture for such Series.

"Global Storm Recovery Bond" means a Storm Recovery Bond to be issued to the Holders thereof in Book-Entry Form, which Global Storm Bond shall be issued to the Clearing Agency, or its nominee, in accordance with Section 2.11 of the Indenture and the Series Supplement.

"Governmental Authority" means any nation or government, any U.S. federal, state, local or other political subdivision thereof and any court, administrative agency or other instrumentality or entity exercising executive, legislative, judicial, regulatory or administrative functions of government.

"Grant" means mortgage, pledge, bargain, sell, warrant, alienate, remise, release, convey, grant, transfer, create, grant a lien upon, a security interest in and right of set-off against, deposit, set over and confirm pursuant to the Indenture and the Series Supplement. A Grant of the Collateral shall include all rights, powers and options (but none of the obligations) of the granting party thereunder, including the immediate and continuing right to claim for, collect, receive and give receipt for payments in respect of the Collateral and all other moneys payable thereunder, to give and receive notices and other communications, to make waivers or other agreements, to exercise all rights and options, to bring Proceedings in the name of the granting party or otherwise and generally to do and receive anything that the granting party is or may be entitled to do or receive thereunder or with respect thereto.

"Holder" means the Person in whose name a Storm Recovery Bond is registered on the Storm Recovery Bond Register.

"Indemnified Losses" is defined in Section 5.03 of the Servicing Agreement.

"Indemnified Party" is defined in Section 6.02(a) of the Servicing Agreement.

"Indemnified Person" is defined in Section 5.01(f) of the Sale Agreement.

"Indenture" means the Indenture, dated as [ ], by and between the Issuer and [ ], as Indenture Trustee and as Securities Intermediary.

"Indenture Trustee" means [ ], a national banking association, as indenture trustee for the benefit of the Secured Parties, or any successor indenture trustee for the benefit of the Secured Parties, under the Indenture.

"Independent" means, when used with respect to any specified Person, that such specified Person (a) is in fact independent of the Issuer, any other obligor on the Storm Recovery Bonds, the Seller, the Servicer and any Affiliate of any of the foregoing Persons, (b) does not have any direct financial interest or any material indirect financial interest in the Issuer, any such other obligor, the Seller, the Servicer or any Affiliate of any of the foregoing Persons and (c) is not connected with the Issuer, any such other obligor, the Seller, the Servicer or any Affiliate of any of the foregoing Persons as an officer, employee, promoter, underwriter, trustee, partner, director (other than as an independent director or manager) or person performing similar functions.

"Independent Certificate" means a certificate to be delivered to the Indenture Trustee under the circumstances described in, and otherwise complying with, the applicable requirements of Section 10.01 of the Indenture, made by an Independent appraiser or other expert appointed by an Issuer Order and consented to by the Indenture Trustee, and such certificate shall state that the signer has read the definition of "Independent" in the Indenture and that the signer is Independent within the meaning thereof.

"Independent Manager" is defined in Section 4.01(a) of the LLC Agreement.

"Independent Manager Fee" is defined in Section 4.01(a) of the LLC Agreement.

"Insolvency Event" means, with respect to a specified Person: (a) the filing of a decree or order for relief by a court having jurisdiction in the premises in respect of such specified Person or any substantial part of its property in an involuntary case under any applicable U.S. federal or state bankruptcy, insolvency or other similar law in effect as of the date hereof or thereafter, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official for such specified Person or for any substantial part of its property, or ordering the winding-up or liquidation of such specified Person's affairs, and such decree or order shall remain unstayed and in effect for a period of 60 consecutive days; or (b) the commencement by such specified Person of a voluntary case under any applicable U.S. federal or state bankruptcy, insolvency or other similar law in effect as of the Series Closing Date or thereafter, or the consent by such specified Person to the entry of an order for relief in an involuntary case under any

such law, or the consent by such specified Person to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official for such specified Person or for any substantial part of its property, or the making by such specified Person of any general assignment for the benefit of creditors, or the failure by such specified Person generally to pay its debts as such debts become due, or the taking of action by such specified Person in furtherance of any of the foregoing.

"Intercreditor Agreement" means the Intercreditor Agreement, dated as of the date hereof, by and among the Issuer, the Indenture Trustee, Duke Energy [Carolinas/Progress] and the parties to the accounts receivables sale program Duke Energy [Carolinas/Progress] Receivables LLC, and any subsequent such agreement.

"Investment Company Act" means the Investment Company Act of 1940.

"Investment Earnings" means investment earnings on funds deposited in the Collection Account net of losses and investment expenses.

"Issuer" means [Duke Energy [Carolinas/Progress] Storm Recovery Funding], LLC, a Delaware limited liability company, named as such in the Indenture until a successor replaces it and, thereafter, means the successor and, for purposes of any provision contained herein and required by the Trust Indenture Act, each other obligor on the Storm Recovery Bonds.

"Issuer Documents" is defined in Section 1(a)(iv) of the Administration Agreement.

"Issuer Order" means a written order signed in the name of the Issuer by any one of its Responsible Officers and delivered to the Indenture Trustee or Paying Agent, as applicable.

"Issuer Request" means a written request signed in the name of the Issuer by any one of its Responsible Officers and delivered to the Indenture Trustee or Paying Agent, as applicable.

"Legal Defeasance Option" is defined in Section 4.01(b) of the Indenture.

"Letter of Representations" means any applicable agreement between the Issuer and the applicable Clearing Agency, with respect to such Clearing Agency's rights and obligations (in its capacity as a Clearing Agency) with respect to any Book-Entry Storm Recovery Bonds.

"Lien" means a security interest, lien, mortgage, charge, pledge, claim or encumbrance of any kind.

"LLC Agreement" means the Amended and Restated Limited Liability Company Agreement of [Duke Energy [Carolinas/Progress] Storm Recovery Funding], LLC, dated as of [ ], 20[21].

"Losses" means (a) any and all amounts of principal of and interest on the Storm Recovery Bonds not paid when due or when scheduled to be paid in accordance with their terms and the amounts of any deposits by or to the Issuer required to have been made in accordance with the terms of the Basic Documents or the Financing Order or Subsequent that are not made when so required and (b) any and all other liabilities, obligations, losses, claims, damages, payments, costs or expenses of any kind whatsoever.

"Manager" means each manager of the Issuer under the LLC Agreement.

"Member" has the meaning specified in the first paragraph of the LLC Agreement.

"Monthly Servicer's Certificate" is defined in Section 3.01(b)(i) of the Servicing Agreement.

"Moody's" means Moody's Investors Service, Inc. References to Moody's are effective so long as Moody's is a Rating Agency.

"North Carolina UCC" means the Uniform Commercial Code as in effect on the Series Closing Date in the State of North Carolina.

"NRSRO" is defined in Section 10.19(b) of the Indenture.

"NY UCC" means the Uniform Commercial Code as in effect on the date hereof in the State of New York.

"Officer's Certificate" means a certificate signed by a Responsible Officer of the Issuer under the circumstances described in, and otherwise complying with, the applicable requirements of Section 10.01 of the Indenture, and delivered to the Indenture Trustee.

"Ongoing Financing Costs" means the Financing Costs described as such in the Financing Order, including Operating Expenses and any other costs identified in the Basic Documents; provided, however, that Ongoing Financing Costs do not include the Issuer's costs of issuance of the Storm Recovery Bonds.

"Operating Expenses" means all unreimbursed fees, costs and out-of-pocket expenses of the Issuer, including all amounts owed by the Issuer to the Indenture Trustee (including indemnities, legal, audit fees and expenses), the Delaware Trustee, the SRB Trustee or any Manager, the Servicing Fee, the Administration Fee, legal and accounting fees, Rating Agency fees, any Regulatory Assessment Fees and related fees (i.e. website provider fees) and any franchise or other taxes owed by the Issuer, including on investment income in the Collection Account.

"Opinion of Counsel" means one or more written opinions of counsel, who may, except as otherwise expressly provided in the Basic Documents, be employees of or counsel to the party providing such opinion of counsel, which counsel shall be

reasonably acceptable to the party receiving such opinion of counsel, and shall be in form and substance reasonably acceptable to such party.

"Optional Interim True-Up Adjustment" means any Optional Interim True-Up Adjustment made pursuant to Section 4.01(b)(ii) of the Servicing Agreement.

"Outstanding" means, as of the date of determination, all Storm Recovery Bonds theretofore authenticated and delivered under the Indenture, except:

(a) Storm Recovery Bonds theretofore canceled by the Storm Recovery Bond Registrar or delivered to the Storm Recovery Bond Registrar for cancellation;

(b) Storm Recovery Bonds or portions thereof the payment for which money in the necessary amount has been theretofore deposited with the Indenture Trustee or any Paying Agent in trust for the Holders of such Storm Recovery Bonds; and

(c) Storm Recovery Bonds in exchange for or in lieu of other Storm Recovery Bonds that have been issued pursuant to the Indenture unless proof satisfactory to the Indenture Trustee is presented that any such Storm Recovery Bonds are held by a Protected Purchaser; provided, that, in determining whether the Holders of the requisite Outstanding Amount of the Storm Recovery Bonds or any Series or Tranche thereof have given any request, demand, authorization, direction, notice, consent or waiver under any Basic Document, Storm Recovery Bonds owned by the Issuer, any other obligor upon the Storm Recovery Bonds, the Member, the Seller, the Servicer or any Affiliate of any of the foregoing Persons shall be disregarded and deemed not to be Outstanding (unless one or more such Persons owns 100% of such Storm Recovery Bonds), except that, in determining whether the Indenture Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Storm Recovery Bonds that the Indenture Trustee actually knows to be so owned shall be so disregarded. Storm Recovery Bonds so owned that have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Indenture Trustee the pledgee's right so to act with respect to such Storm Recovery Bonds and that the pledgee is not the Issuer, any other obligor upon the Storm Recovery Bonds, the Member, the Seller, the Servicer or any Affiliate of any of the foregoing Persons.

"Outstanding Amount" means the aggregate principal amount of all Storm Recovery Bonds, or, if the context requires, all Storm Recovery Bonds of a Series or Tranche, Outstanding at the date of determination.

"Paying Agent" means, with respect to the Indenture, the Indenture Trustee and any other Person appointed as a paying agent for the Storm Recovery Bonds pursuant to the Indenture.

"Payment Date" means, with respect to any Series or Tranche of Storm Recovery Bonds, the dates specified in the applicable Series Supplement; provided, that if any such date is not a Business Day, the Payment Date shall be the Business Day succeeding such date.

"Periodic Billing Requirement" means, for any Remittance Period, the aggregate amount of Charges calculated by the Servicer as necessary to be billed during such period in order to collect the Periodic Payment Requirement on a timely basis.

"Periodic Interest" means, with respect to any Payment Date, the periodic interest for such Payment Date as specified in the Series Supplement.

"Periodic Payment Requirement" for any Remittance Period means the total dollar amount of Storm Recovery Charge Collections reasonably calculated by the Servicer in accordance with Section 4.01 of the Servicing Agreement as necessary to be received during such Remittance Period (after giving effect to the allocation and distribution of amounts on deposit in the Excess Funds Subaccount at the time of calculation and that are projected to be available for payments on the Storm Recovery Bonds at the end of such Remittance Period and including any shortfalls in Periodic Payment Requirements for any prior Remittance Period) in order to ensure that, as of the last Payment Date occurring in such Remittance Period, (a) all accrued and unpaid principal of and interest on the Storm Recovery Bonds then due shall have been paid in full on a timely basis, (b) the Outstanding Amount of the Storm Recovery Bonds is equal to the Projected Unpaid Balance on each Payment Date during such Remittance Period, (c) the balance on deposit in the Capital Subaccount equals the Required Capital Level and (d) all other fees and expenses due and owing and required or allowed to be paid under Section 8.02 of the Indenture as of such date shall have been paid in full; provided, that, with respect to any Semi-Annual True-Up Adjustment or Optional Interim True-Up Adjustment occurring after the date that is one year prior to the last Scheduled Final Payment Date for the Storm Recovery Bonds, the Periodic Payment Requirements shall be calculated to ensure that sufficient Storm Recovery Charges will be collected to retire the Storm Recovery Bonds in full as of the next Payment Date.

"Periodic Principal" means, with respect to any Payment Date, the excess, if any, of the Outstanding Amount of Storm Recovery Bonds over the outstanding principal balance specified for such Payment Date on the Expected Sinking Fund Schedule.

"Permitted Lien" means the Lien created by the Indenture.

"Permitted Successor" is defined in Section 5.02 of the Sale Agreement.

"Person" means any individual, corporation, limited liability company, estate, partnership, joint venture, association, joint stock company, trust (including any beneficiary thereof), unincorporated organization or Governmental Authority.

"Predecessor Storm Recovery Bond" means, with respect to any particular Storm Recovery Bond, every previous Storm Recovery Bond evidencing all or a portion

of the same debt as that evidenced by such particular Storm Recovery Bond, and, for the purpose of this definition, any Storm Recovery Bond authenticated and delivered under Section 2.06 of the Indenture in lieu of a mutilated, lost, destroyed or stolen Storm Recovery Bond shall be deemed to evidence the same debt as the mutilated, lost, destroyed or stolen Storm Recovery Bond.

"Premises" is defined in Section 1(g) of the Administration Agreement.

"Proceeding" means any suit in equity, action at law or other judicial or administrative proceeding.

"Projected Unpaid Balance" means, as of any Payment Date, the sum of the projected outstanding principal amount of each Tranche of Storm Recovery Bonds for such Payment Date set forth in the Expected Sinking Fund Schedule.

"Protected Purchaser" has the meaning specified in Section 8-303 of the UCC.

"Rating Agency" means, with respect to any Tranche of Storm Recovery Bonds, any of Moody's, S&P or Fitch that provides a rating with respect to the Storm Recovery Bonds. If no such organization (or successor) is any longer in existence, "Rating Agency" shall be a nationally recognized statistical rating organization or other comparable Person designated by the Issuer, notice of which designation shall be given to the Indenture Trustee and the Servicer.

"Rating Agency Condition" means, with respect to any action, at least ten Business Days' prior written notification to each Rating Agency of such action, and written confirmation from each of S&P and Moody's to the Servicer, the Indenture Trustee and the Issuer that such action will not result in a suspension, reduction or withdrawal of the then current rating by such Rating Agency of any Tranche of Storm Recovery Bonds; provided, that, if, within such ten Business Day period, any Rating Agency (other than S&P) has neither replied to such notification nor responded in a manner that indicates that such Rating Agency is reviewing and considering the notification, then (a) the Issuer shall be required to confirm that such Rating Agency has received the Rating Agency Condition request and, if it has, promptly request the related Rating Agency Condition confirmation and (b) if the Rating Agency neither replies to such notification nor responds in a manner that indicates it is reviewing and considering the notification within five Business Days following such second request, the applicable Rating Agency Condition requirement shall not be deemed to apply to such Rating Agency. For the purposes of this definition, any confirmation, request, acknowledgment or approval that is required to be in writing may be in the form of electronic mail or a press release (which may contain a general waiver of a Rating Agency's right to review or consent).

"Record Date" means one Business Day prior to the applicable Payment Date.

"Registered Holder" means the Person in whose name a Storm Recovery Bond is registered on the Storm Recovery Bond Register.

"Regulation AB" means the rules of the SEC promulgated under Subpart 229.1100 – Asset Backed Securities (Regulation AB), 17 C.F.R. §§229.1100-229.1123.

"Reimbursable Expenses" is defined in Section 2 of the Administration Agreement and Section 6.06(a) of the Servicing Agreement.

"Released Parties" is defined in Section 6.02(d) of the Servicing Agreement.

"Remittance Period" means, with respect to any True-Up Adjustment, the period comprised of 6 consecutive Collection Periods beginning with the Collection Period three months prior to when such True-Up Adjustment would go into effect, from the Series Closing Date to the first Scheduled Payment Date, and for each subsequent period between Scheduled Payment Dates.

"Required Capital Level" means, with respect to any Series of Storm Recovery Bonds, the amount specified as such in the Series Supplement therefor.

"Requirement of Law" means any foreign, U.S. federal, state or local laws, statutes, regulations, rules, codes or ordinances enacted, adopted, issued or promulgated by any Governmental Authority or common law.

"Responsible Officer" means, with respect to: (a) the Issuer, any Manager or any duly authorized officer; (b) the Indenture Trustee, any officer within the Corporate Trust Office of such trustee (including the President, any Vice President, any Assistant Vice President, any Secretary, any Assistant Treasurer or any other officer of the Indenture Trustee customarily performing functions similar to those performed by persons who at the time shall be such officers, respectively, and that has direct responsibility for the administration of the Indenture and also, with respect to a particular matter, any other officer to whom such matter is referred to because of such officer's knowledge and familiarity with the particular subject); (c) any corporation (other than the Indenture Trustee), the Chief Executive Officer, the President, any Vice President, the Chief Financial Officer, the Treasurer, any Assistant Treasurer or any other duly authorized officer of such Person who has been authorized to act in the circumstances; (d) any partnership, any general partner thereof; and (e) any other Person (other than an individual), any duly authorized officer or member of such Person, as the context may require, who is authorized to act in matters relating to such Person.

"Return on Invested Capital" means, for any Payment Date with respect to any Remittance Period, the sum of (i) rate of return, payable to Duke Energy [Carolinas/Progress], on its Capital Contribution equal to the rate of interest payable on the longest maturing Tranche of Storm Recovery Bonds plus (ii) any Return on Invested Capital not paid on any prior Payment Date.

"S&P" means Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business. References to S&P are effective so long as S&P is a Rating Agency.

"Sale Agreement" means the Storm Recovery Property Purchase and Sale Agreement, dated as of the date hereof, or any subsequent Storm Recovery Property Purchase and Sale Agreement relating to another Series of Storm Recovery Bonds by and between the Issuer and Duke Energy [Carolinas/Progress] , and acknowledged and accepted by the Indenture Trustee.

"Scheduled Final Payment Date" means, with respect to each Series of Storm Recovery Bonds, the date when all interest and principal is scheduled to be paid with respect to that applicable Series in accordance with the Expected Sinking Fund Schedule, as specified in the Series Supplement. For the avoidance of doubt, the Scheduled Final Payment Date with respect to any Series shall be the last Scheduled Payment Date set forth in the Expected Sinking Fund Schedule relating to such Series. The "last Scheduled Final Payment Date" means the Scheduled Final Payment Date of the latest maturing Tranche of a Series of Storm Recovery Bonds.

"Scheduled Payment Date" means, with respect to each Series or Tranche of Storm Recovery Bonds, each Payment Date on which principal for such Series or Tranche is to be paid in accordance with the Expected Sinking Fund Schedule for such Series or Tranche.

"SEC" means the Securities and Exchange Commission.

"Secured Obligations" means the payment of principal of and premium, if any, interest on, and any other amounts owing in respect of, the Storm Recovery Bonds and all fees, expenses, counsel fees and other amounts due and payable to the Indenture Trustee.

"Secured Parties" means the Indenture Trustee, the Holders and any credit enhancer described in a Series Supplement.

"Securities Act" means the Securities Act of 1933.

"Securities Intermediary" means [ ], a national banking association, solely in the capacity of a "securities intermediary" as defined in the NY UCC and Federal Book-Entry Regulations or any successor securities intermediary under the Indenture.

"Seller" is defined in the preamble to the Sale Agreement.

"Semi-Annual Servicer's Certificate" is defined in Section 4.01(c)(ii) of the Servicing Agreement.

"Semi-Annual True-Up Adjustment" means each adjustment to the Storm Recovery Charges made in accordance with Section 4.01(b)(i) of the Servicing Agreement.

"Semi-Annual True-Up Adjustment Date" means the first billing cycle of [January and July] of each year, commencing in [ ], 2021.

"Series" means any series of Storm Recovery Bonds.

"Series A Storm Recovery Bonds" means the Series A Senior Secured Storm Recovery Bonds issued by the Issuer on [ ].

"Series Charges" means Charges for the benefit of a particular Series of Storm Recovery Bonds.

"Series Closing Date" means the date on which a Series of the Storm Recovery Bonds are originally issued in accordance with Section 2.10 of the Indenture and the respective Series Supplement.

"Series Collateral" means Collateral for the benefit of a particular Series of Storm Recovery Bonds.

"Series Property" means Property for the benefit of a particular Series of Storm Recovery Bonds.

"Series Supplement" means an indenture supplemental to the Indenture in the form attached as Exhibit B to the Indenture that authorizes the issuance of Storm Recovery Bonds.

"Servicer" means Duke Energy [Carolinas/Progress], as Servicer under the Servicing Agreement.

"Servicer Business Day" means any day other than a Saturday, a Sunday or a day on which banking institutions in St. Petersburg, Florida, Charlotte, North Carolina or New York, New York are authorized or obligated by law, regulation or executive order to be closed, on which the Servicer maintains normal office hours and conducts business.

"Servicer Default" is defined in Section 7.01 of the Servicing Agreement.

"Servicer Policies and Practices" means, with respect to the Servicer's duties under Exhibit A to the Servicing Agreement, the policies and practices of the Servicer applicable to such duties that the Servicer follows with respect to comparable assets that it services for itself and, if applicable, others.

"Servicing Agreement" means the Storm Recovery Property Servicing Agreement, dated as of the date hereof, or any subsequent Storm Recovery Property Servicing Agreement relating to another Series of Storm Recovery Bonds by and between the Issuer and Duke Energy [Carolinas/Progress], and acknowledged and accepted by the Indenture Trustee.

"Servicing Fee" is defined in Section 6.06(a) of the Servicing Agreement.

"Servicing Standard" means the obligation of the Servicer to calculate, apply, remit and reconcile proceeds of the Property, including Storm Recovery Charge Payments, and all other Collateral for the benefit of the Issuer and the Holders (a) with the same degree of care and diligence as the Servicer applies with respect to payments owed to it for its own account, (b) in accordance with all applicable procedures and requirements established by the Commission for collection of electric utility tariffs and (c) in accordance with the other terms of the Servicing Agreement.

"Special Payment Date" means the date on which, with respect to any Series or Tranche of Storm Recovery Bonds, any payment of principal of or interest (including any interest accruing upon default) on, or any other amount in respect of, the Storm Recovery Bonds of such Series or Tranche that is not actually paid within five days of the Payment Date applicable thereto is to be made by the Indenture Trustee to the Holders.

"Special Record Date" means, with respect to any Special Payment Date, the close of business on the fifteenth day (whether or not a Business Day) preceding such Special Payment Date.

"Sponsor" means Duke Energy [Carolinas/Progress], in its capacity as "sponsor" of the Storm Recovery Bonds within the meaning of Regulation AB.

"SRB Indenture" means the indenture, as from time to time supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof, as so supplemented or amended or both, and shall include the forms and terms of the SRB Notes established hereunder.

"SRB Issuer" means the issuer of the SRB Notes.

"SRB Noteholder" means any holders of the SRB Notes.

"SRB Notes" means the notes issued by the SRB Issuer pursuant to the SRB Indenture.

"SRB Securities Intermediary" means [ ], solely in its capacity as a "securities intermediary" as defined in Section 8-102(a)(14) of the UCC, or any successor securities intermediary.

"SRB Trustee" means [ ], as SRB Trustee under the SRB Indenture, and its successors in interest, and any successor SRB Trustee appointed as provided herein. "State" means any one of the fifty states of the United States of America or the District of Columbia.

"State Pledge" means the pledge of the State of North Carolina as set forth in Section 62-172(k) of the Storm Recovery Law.

"Storms" means Hurricanes Florence[,Dorian] and Michael and Winter Storm Diego.

"Storm Recovery Bond Register" is defined in Section 2.05 of the Indenture.

"Storm Recovery Bond Registrar" is defined in Section 2.05 of the Indenture.

"Storm Recovery Bonds" means all Series of the Storm recovery bonds issued under the Indenture.

"Storm Recovery Charge Collections" means Charges actually received by the Servicer to be remitted to the Collection Account.

"Storm Recovery Charge Payments" means the payments made by Customers based on the Charges.

"Storm Recovery Costs" means (i) Duke Energy [Carolinas'/Progress's] deferred asset balance associated with the Storms, including a return on the unrecovered balance, and with respect to the capital investments, including a deferral of depreciation expense and a return on the investment determined by the Commission to be prudently incurred in Docket No. [E-7, Sub 1214/E-2, Sub 1219] including carrying costs in the amount of X through the projected issuances date of the [Series A] Storm Recovery Bonds, calculated at the Company's approved weighted average cost of capital, (ii) plus up-front Financing Costs "Storm Recovery Law" means the laws of the State of North Carolina adopted in 2019 enacted as Section 62-172, North Carolina Statutes.

"Storm Recovery Property" means all storm recovery property as defined in Section 62-172(a)(15)a. of the Storm Recovery Law created pursuant to the Financing Order or a Subsequent Financing Order and under the Storm Recovery Law, including the right to impose, bill, charge, collect and receive the Charges authorized under the Financing Order and to obtain periodic adjustments of the Charges and all revenue, collections, claims, rights to payments, payments, money, or proceeds arising from the rights and interests specified in Section 62-172(a)(15)b., regardless of whether such revenues, collections, claims, rights to 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.

"Storm Recovery Property Records" is defined in Section 5.01 of the Servicing Agreement.

"Storm Recovery Rate Class" means one of the [five] separate rate classes to whom Charges are allocated for ratemaking purposes in accordance with the Financing Order.

"Storm Recovery Rate Schedule" means the Tariff sheets to be filed with the Commission stating the amounts of the Charges, as such Tariff sheets may be amended or modified from time to time pursuant to a True-Up Adjustment.

"Subaccounts" is defined in Section 8.02(a) of the Indenture.

"Subsequent Financing Order" means, a financing order of the Commission under the Storm Recovery Law issued to Duke Energy [Carolinas/Progress] subsequent to the Financing Order.

"Successor" means any successor to Duke Energy [Carolinas/Progress] under the Storm Recovery Law, whether pursuant to any bankruptcy, reorganization or other insolvency proceeding or pursuant to any merger, conversion, acquisition, sale or transfer, by operation of law, as a result of electric utility restructuring, or otherwise.

"Successor Servicer" is defined in Section 3.07(e) of the Indenture.

"Tariff" means the most current version on file with the Commission of [ ], 2021.

"Tax Returns" is defined in Section 1(a)(iii) of the Administration Agreement.

"Temporary Storm Recovery Bonds" means Storm Recovery Bonds executed and, upon the receipt of an Issuer Order, authenticated and delivered by the Indenture Trustee pending the preparation of Definitive Storm Recovery Bonds pursuant to Section 2.04 of the Indenture.

"Termination Notice" is defined in Section 7.01 of the Servicing Agreement.

"TPS" means a third party supplier which is authorized by law to sell electric service to a customer using the transmission or distribution system of Duke Energy [Carolinas/Progress].

"Tranche Maturity Date" means, with respect to any Tranche of Storm Recovery Bonds, the maturity date therefor, as specified in the Series Supplement therefor.

"True-Up Adjustment" means any Semi-Annual True-Up Adjustment or Optional Interim True-Up Adjustment, as the case may be.

"Trust Indenture Act" means the Trust Indenture Act of 1939 as in force on the Series Closing Date, unless otherwise specifically provided.

"UCC" means the Uniform Commercial Code as in effect in the relevant jurisdiction.

"Underwriters" means the underwriters who purchase Storm Recovery Bonds of any Series from the Issuer and sell such Storm Recovery Bonds in a public offering.

"Underwriting Agreement" means the Underwriting Agreement, dated [ ], 2020, by and among Duke Energy [Carolinas/Progress], the representatives of the several Underwriters named therein and the Issuer.

"U.S. Government Obligations" means direct obligations (or certificates representing an ownership interest in such obligations) of the United States of America (including any agency or instrumentality thereof) for the payment of which the full faith and credit of the United States of America is pledged and that are not callable at the option of the issuer thereof.

"Weighted Average Days Outstanding" means the weighted average number of days Duke Energy [Carolinas/Progress] monthly bills to Customers remain outstanding during the calendar year preceding the calculation thereof pursuant to Section 4.01(b)(i) of the Servicing Agreement.

B. Rules of Construction. Unless the context otherwise requires, in each Basic Document to which this Appendix A is attached:

(a) All accounting terms not specifically defined herein shall be construed in accordance with United States generally accepted accounting principles. To the extent that the definitions of accounting terms in any Basic Document are inconsistent with the meanings of such terms under generally accepted accounting principles or regulatory accounting principles, the definitions contained in such Basic Document shall control.

(b) The term "including" means "including without limitation", and other forms of the verb "include" have correlative meanings.

(c) All references to any Person shall include such Person's permitted successors and assigns, and any reference to a Person in a particular capacity excludes such Person in other capacities.

(d) Unless otherwise stated in any of the Basic Documents, in the computation of a period of time from a specified date to a later specified date, the word "from" means "from and including" and each of the words "to" and "until" means "to but excluding".

(e) The words "hereof", "herein" and "hereunder" and words of similar import when used in any Basic Document shall refer to such Basic Document as a whole and not to any particular provision of such Basic Document. References to Articles, Sections, Appendices and Exhibits in any Basic Document are references to Articles, Sections, Appendices and Exhibits in or to such Basic Document unless otherwise specified in such Basic Document.

(f) The various captions (including the tables of contents) in each Basic Document are provided solely for convenience of reference and shall not affect the meaning or interpretation of any Basic Document.

(g) The definitions contained in this Appendix A apply equally to the singular and plural forms of such terms, and words of the masculine, feminine or neuter gender shall mean and include the correlative words of other genders.

(h) Unless otherwise specified, references to an agreement or other document include references to such agreement or document as from time to time amended, restated, reformed, supplemented or otherwise modified in accordance with the terms thereof (subject to any restrictions on such amendments, restatements, reformations, supplements or modifications set forth in such agreement or document) and include any attachments thereto.

(i) References to any law, rule, regulation or order of a Governmental Authority shall include such law, rule, regulation or order as from time to time in effect, including any amendment, modification, codification, replacement or reenactment thereof or any substitution therefor.

(j) The word “will” shall be construed to have the same meaning and effect as the word “shall”.

(k) The word “or” is not exclusive.

(l) All terms defined in the relevant Basic Document to which this Appendix A is attached shall have the defined meanings when used in any certificate or other document made or delivered pursuant thereto unless otherwise defined therein.

(m) A term has the meaning assigned to it.

AMENDED AND RESTATED

LIMITED LIABILITY COMPANY AGREEMENT

OF

[DUKE ENERGY [CAROLINAS/PROGRESS] STORM RECOVERY FUNDING], LLC

Dated and Effective as of

[ ], 2021

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AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT OF [DUKE ENERGY [CAROLIANS/PROGRESS] STORM RECOVERY FUNDING], LLC

This AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT (this "Agreement") of [Duke Energy [Carolinas/Progress] Storm Recovery Funding], LLC, a Delaware limited liability company (the "Company"), is made and entered into as of [ ], 2021 by Duke Energy [Carolinas/Progress], LLC, a [North Carolina limited liability company] (including any additional or successor members of the Company other than Special Members, the "Member").

WHEREAS, the Member has caused to be filed a Certificate of Formation with the Secretary of State of the State of Delaware to form the Company under and pursuant to the LLC Act and has entered into a Limited Liability Company Agreement of the Company, dated as of [ ], 2021 (the "Original LLC Agreement"); and

WHEREAS, in accordance with the LLC Act, the Member desires to enter into this Agreement to amend and restate in its entirety the Original LLC Agreement and to set forth the rights, powers and interests of the Member with respect to the Company and its Membership Interest therein and to provide for the management of the business and operations of the Company.

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained and other good and valuable consideration, the receipt, adequacy and sufficiency of which are hereby acknowledged, the Member, intending to be legally bound, hereby agrees to amend and restate in its entirety the Original LLC Agreement as follows:

ARTICLE I
GENERAL PROVISIONS

SECTION 1.01 Definitions.

(a) Unless otherwise defined herein, capitalized terms used herein shall have the meanings assigned to them in Appendix A attached hereto.

(b) All terms defined in this Agreement shall have the defined meanings when used in any certificate or other document made or delivered pursuant hereto unless otherwise defined therein.

(c) The words "hereof," "herein," "hereunder" and words of similar import, when used in this Agreement, shall refer to this Agreement as a whole and not to any particular provision of this Agreement; Article, Section, Schedule, Exhibit, Annex and Attachment references contained in this Agreement are references to Articles, Sections, Schedules, Exhibits, Annexes and Attachments in or to this Agreement unless otherwise specified; and the terms "includes" and "including" shall mean "includes without limitation" and "including without limitation", respectively.

(d) The definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms.

(e) Non-capitalized terms used herein which are defined in the LLC Act, shall, as the context requires, have the meanings assigned to such terms in the LLC Act as of the date hereof, but without giving effect to amendments to the LLC Act.

SECTION 1.02 Sole Member; Registered Office and Agent.

(a) The initial sole member of the Company shall be [DEC/DEP], a North Carolina limited liability company, or any successor as sole member pursuant to Sections 1.02(c), 6.06 and 6.07. The registered office and registered agent of the Company in the State of Delaware shall be The Corporation Trust Company, 1209 Orange Street, Wilmington, New Castle County, Delaware 19801. The Member may change said registered office and agent from one location to another in the State of Delaware. The Member shall provide notice of any such change to the Indenture Trustee.

(b) Upon the occurrence of any event that causes the Member to cease to be a member of the Company (other than upon continuation of the Company without dissolution upon the transfer or assignment by the Member of all of its limited liability company interest in the Company and the admission of the transferee or an additional member of the Company pursuant to Sections 6.06 and 6.07), each Person acting as an Independent Manager (as defined herein) pursuant to the terms of this Agreement shall, without any action of any Person and simultaneously with the Member ceasing to be a member of the Company, automatically be admitted to the Company as a Special Member and shall continue the Company without dissolution. No Special Member may resign from the Company or transfer its rights as Special Member unless (i) a successor Special Member has been admitted to the Company as Special Member by executing a counterpart to this Agreement, and (ii) such successor has also accepted its appointment as an Independent Manager pursuant to this Agreement; provided, however, the Special Members shall automatically cease to be members of the Company upon the admission to the Company of a substitute Member. Each Special Member shall be a member of the Company that has no interest in the profits, losses and capital of the Company and has no right to receive any distributions of Company assets (and no Special Member shall be treated as a member of the Company for federal income tax purposes). Pursuant to Section 18-301 of the LLC Act, a Special Member shall not be required to make any capital contributions to the Company and shall not receive a limited liability company interest in the Company. A Special Member, in its capacity as Special Member, may not bind the Company. Except as required by any mandatory provision of the LLC Act, each Special Member, in its capacity as Special Member, shall have no right to vote on, approve or otherwise consent to any action by, or matter relating to, the Company, including the merger, consolidation or conversion of the Company. In order to implement the admission to the Company of each Special Member, each Person acting as an Independent Manager pursuant to this Agreement shall execute a counterpart to this Agreement. Prior to its admission to the Company as Special Member, each Person acting as an Independent Manager pursuant to this Agreement shall not be a member of the Company. A "Special Member" means, upon such Person's admission to the Company as a member of the Company pursuant to this Section 1.02(b), a Person acting as an Independent Manager, in such Person's capacity as a member of the Company. A Special Member shall only have the rights and duties expressly set forth in this Agreement. For purposes of this Agreement, a Special Member is not included within the defined term "Member".

(c) The Company may admit additional Members (as distinguished from a transferee admitted pursuant to Sections 6.06 and 6.07) pursuant to with the affirmative vote of a majority of the Managers, which vote must include the affirmative vote of each Independent Manager. Notwithstanding the preceding sentence, it shall be a condition to the admission of any additional Member that the sole Member shall have received an opinion of outside tax counsel (as selected by the Member in form and substance reasonably satisfactory to the Member and the Indenture Trustee) that the admission of such additional Member shall not cause the Company to be treated, for federal income tax purposes, as having more than a "sole owner" and that the Company shall not be treated, for federal income tax purposes, as an entity separate from such "sole owner". Notwithstanding the foregoing, no additional Member shall be admitted at any time that any Storm Recovery Bond is outstanding.

SECTION 1.03 Other Offices. The Company may have an office at [ ], or at any other offices that may at any time be established by the Member at any place or places within or outside the State of Delaware. The Member shall provide notice to the Indenture Trustee of any change in the location of the Company's office.

SECTION 1.04 Name. The name of the Company shall be "[Duke Energy [Carolinas/Progress] Storm Recovery Funding], LLC". The name of the Company may be changed from time to time by the Member with [thirty (30) days' prior written notice to the Managers and the Indenture Trustee], and the filing of an appropriate amendment to the Certificate of Formation with the Secretary of State as required by the LLC Act.

SECTION 1.05 Purpose; Nature of Business Permitted; Powers. [The Company is intended to qualify as an "Assignee" as defined in N.C. Gen. Stat. § 62-172(a)(2). The purposes for which the Company is formed are limited to:

(a) acquire, own, hold, administer, service or enter into agreements regarding the receipt and servicing of one or more Storm Recovery Properties and the other Storm Recovery Bond Collateral, along with certain other related assets;

(b) manage, sell, assign, pledge, collect amounts due on or otherwise deal with the Storm Recovery Properties and the other Storm Recovery Bond Collateral and related assets to be so acquired in accordance with the terms of the Basic Documents;

(c) negotiate, authorize, execute, deliver, assume the obligations under, and perform its duties under, the Basic Documents and any other agreement or instrument or document relating to the activities set forth in clauses (a) and (b) above; provided, that each party to any such agreement under which material obligations are imposed upon the Company shall covenant that it shall not, prior to the date which is one year and one day after the date on which all Storm Recovery Bonds have been paid in full in accordance with their terms and all other amounts owning in connection therewith have been paid in full by the Company, acquiesce, petition or otherwise invoke or cause the Company to invoke the process of any court or Governmental Authority for the purpose of commencing or sustaining an involuntary case against the Company under any federal or state bankruptcy, insolvency or similar law or appointing a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official of the Company or any substantial part of the property of the Company; or ordering the winding up or liquidation of the affairs of the

Company; and provided, further, that the Company shall be permitted to incur additional indebtedness or other liabilities payable to service providers and trade creditors in the ordinary course of business in connection with the foregoing activities;

(d) file with the U.S. Securities and Exchange Commission one or more registration statements, including any pre-effective or post-effective amendments thereto and any registration statement filed pursuant to Rule 462(b) under the Securities Act of 1933, as amended (including any prospectus supplement, prospectus and exhibits contained therein) and file such applications, reports, surety bonds, irrevocable consents, appointments of attorney for service of process and other papers and documents necessary or desirable to register one or more series of Storm Recovery Bonds under the securities or "Blue Sky" laws of various jurisdictions;

(e) authorize, execute, deliver, issue and register one or more series of Storm Recovery Bonds;

(f) make payments on the Storm Recovery Bonds;

(g) pledge its interest in Storm Recovery Properties and other Storm Recovery Bond Collateral to the Indenture Trustee under the Indenture in order to secure the respective series of Storm Recovery Bonds; and

(h) engage in any lawful act or activity and exercise any powers permitted to limited liability companies formed under the laws of the State of Delaware that, in either case, are incidental to, or necessary, suitable or convenient for the accomplishment of the above-mentioned purposes.

The Company shall engage only in any activities related to the foregoing purposes or required or authorized by the terms of the Basic Documents or other agreements referenced above. The Company shall have all powers reasonably incidental, necessary, suitable or convenient to effect the foregoing purposes, including all powers granted under the LLC Act. The Company, the Member, any Manager (other than an Independent Manager), or any officer of the Company, acting singly or collectively, on behalf of the Company, may enter into and perform the Basic Documents and all registration statements, underwriting agreements, documents, agreements, certificates or financing statements contemplated thereby or related thereto, all without any further act, vote or approval of any Member, Manager or other Person, notwithstanding any other provision of this Agreement, the LLC Act, or other applicable law, rule or regulation. Notwithstanding any other provision of this Agreement, the LLC Act or other applicable law, any Basic Document executed prior to the date hereof by any Member, Manager or officer on behalf of the Company is hereby ratified and approved in all respects. The authorization set forth in the two preceding sentences shall not be deemed a restriction on the power and authority of the Member or any Manager, including any Independent Manager, to enter into other agreements or documents on behalf of the Company as authorized pursuant to this Agreement and the LLC Act. The Company shall possess and may exercise all the powers and privileges granted by the LLC Act or by any other law or by this Agreement, together with any powers incidental thereto, insofar as such powers and privileges are incidental, necessary, suitable or convenient to the conduct, promotion or attainment of the business purposes or activities of the Company.

SECTION 1.06 Initial Issuance of Storm Recovery Bonds. It is anticipated that the Company's first issuance of Storm Recovery Bonds will be a series issued pursuant to the [Financing Order filed by the Commission on _____ ___, 20[ ]].[1]

SECTION 1.07 Additional Issuances of Storm Recovery Bonds. The Company may issue one or more additional series of Storm Recovery Bonds pursuant to the Financing Order filed by the Commission on _____ ___, 20[ ]. The Company also may issue one or more additional series of Storm Recovery Bonds if authorized pursuant to a Financing Order adopted in the future by the Commission. Such additional series of Storm Recovery Bonds shall be referred to as "Additional Issuances."

(a) Each series of Storm Recovery Bonds will be secured by separate Storm Recovery Property and other Storm Recovery Bond Collateral. Storm Recovery Property which is pledged to secure one series of Storm Recovery Bonds shall not be pledged to secure any other series of Storm Recovery Bonds.

(b) The Company shall not issue any Additional Issuance unless the Rating Agency Condition set forth in the Basic Documents for any outstanding series of Storm Recovery Bonds has been satisfied.

(c) The following additional conditions must be satisfied in connection with any Additional Issuance:

(i) the Additional Issuance shall receive a rating or ratings as required by the applicable Financing Order;

(ii) each Additional Issuance shall have recourse only to the Storm Recovery Bond Collateral pledged in connection with such Additional Issuance, shall be nonrecourse to any of the Company's other assets and shall not constitute a claim against the Company if cash flow from the pledged Storm Recovery Bond Collateral is insufficient to pay such Additional Issuance in full;

(iii) the Company has delivered to the Indenture Trustee an Opinion of Counsel of a nationally recognized firm experienced in such matters to the effect that after such issuance, in the opinion of such counsel, if the Member were to become a debtor in a case under the United States Bankruptcy Code (Title 11, U.S.C.), a federal court exercising bankruptcy jurisdiction and exercising reasonable judgment after full consideration of all relevant factors would not order substantive consolidation of the assets and liabilities of the Company with those of the bankruptcy estate of the Member, subject to the customary exceptions, qualifications and assumptions contained therein;

(iv) the Company has delivered to the Indenture Trustee an [opinion] stating that the Storm Recovery Bonds issued pursuant to such Additional Issuance shall have the benefit of a true-up mechanism;

[1] NTD: Issuance of bonds under applicable regulatory law to be discussed.

(v) the transaction documentation for such Additional Issuance provides that holders of the Storm Recovery Bonds of such Additional Issuance will not file or join in the filing of any bankruptcy petition against the Company;

(vi) if the holders of the Storm Recovery Bonds of any Additional Issuance are deemed to have any interest in any of the Storm Recovery Bond Collateral pledged under the applicable Indenture (other than Storm Recovery Bond Collateral pledged with respect to such Additional Issuance), the holders of such Storm Recovery Bonds must agree that any such interest is subordinate to the claims and rights of the Holders of such other related series of Storm Recovery Bonds;

(vii) the Additional Issuance shall have its own bank accounts or trust accounts; and

(viii) the Additional Issuance shall bear its own trustees fees and servicer fees, except that the allocation of such fees with respect to any Additional Issuance shall be governed by the terms of the Indenture and the Servicing Agreement.

SECTION 1.08 Limited Liability Company Agreement; Certificate of Formation. This Agreement shall constitute a ‘‘limited liability company agreement” within the meaning of the LLC Act. _____, as an authorized person within the meaning of the LLC Act, has caused a certificate of formation of the Company to be executed and filed in the office of the Secretary of State on _____ ___, 20[ ] (such execution and filing being hereby ratified and approved in all respects). The existence of the Company as a separate legal entity shall continue until the cancellation of the Certificate of Formation of the Company as provided in the LLC Act.

SECTION 1.09 Separate Existence. Except for financial reporting purposes (to the extent required by generally accepted accounting principles) and for federal income tax purposes and, to the extent consistent with applicable state tax law, state income and franchise tax purposes, the Member and the Managers shall take all steps necessary to continue the identity of the Company as a separate legal entity and to make it apparent to third Persons that the Company is an entity with assets and liabilities distinct from those of the Member, Affiliates of the Member or any other Person and correcting any known misunderstandings, and that, the Company is not a division of any of the Affiliates of the Company or any other Person. In that regard, and without limiting the foregoing in any manner, the Company shall:

(a) allocate fairly and reasonably shares expenses, including shared office space;

(b) maintain the assets of the Company in such a manner that it is not costly or difficult to segregate, identify or ascertain its individual assets from those of any other Person, including any Affiliate;

(c) maintain a separate telephone number;

(d) conduct all transactions with Affiliates on an arm’s-length basis;

(e) not guarantee, become obligated for or pay the debts of any Affiliate or hold the credit of the Company out as being available to satisfy the obligations of any Affiliate or other Person (nor, except as contemplated in the Basic Documents, indemnify any Person for losses resulting therefrom), nor, except as contemplated in the Basic Documents, have any of its obligations guaranteed by any Affiliate or hold the Company out as responsible for the debts of any Affiliate or other Person or for the decisions or actions with respect to the business and affairs of any Affiliate, nor seek or obtain credit or incur any obligation to any third party based upon the creditworthiness or assets of any Affiliate or any other Person (i.e. other than based on the assets of the Company) nor allow any Affiliate to do such things based on the credit of the Company;

(f) except as expressly otherwise permitted hereunder or under any of the Basic Documents, not permit the commingling or pooling of the Company's funds or other assets with the funds or other assets of any Affiliate;

(g) maintain separate deposit and other bank accounts and funds (separately identifiable from those of the Member or any other Person) to which no Affiliate has any access, which accounts shall be maintained in the name and, to the extent not inconsistent with applicable federal tax law, with the tax identification number of the Company;

(h) maintain full books of accounts and records (financial or other) and financial statements separate from those of its Affiliates or any other Person, prepared and maintained in accordance with generally accepted accounting principles (including, all resolutions, records, agreements or instruments underlying or regarding the transactions contemplated by the Basic Documents or otherwise) and audited annually by an independent accounting firm which shall provide such audit to the Indenture Trustee;

(i) pay its own liabilities out of its own funds, including fees and expenses of the Administrator pursuant to the Administration Agreement and the Servicer pursuant to any Servicing Agreement;

(j) not hire or maintain any employees, but shall compensate (either directly or through reimbursement of the Company's allocable share of any shared expenses) all consultants, agents and Affiliates, to the extent applicable, for services provided to the Company by such consultants, agents or Affiliates, in each case, from the Company's own funds;

(k) allocate fairly and reasonably the salaries of and the expenses related to providing the benefits of officers or managers shared with the Member, any Special Member or any Manager;

(l) allocate fairly and reasonably any overhead shared with the Member, any Special Member or any Manager;

(m) pay from its own bank accounts for accounting and payroll services, rent, lease and other expenses (or the Company's allocable share of any such amounts provided by one or more other Affiliates) and not have such operating expenses (or the Company's allocable share thereof) paid by any Affiliates; provided, that the Member shall be permitted to pay the initial organization expenses of the Company and certain of the expenses related to the transactions contemplated by the Basic Documents as provided therein;

(n) maintain adequate capitalization to conduct its business and affairs considering the Company's size and the nature of its business and intended purposes and, after giving effect to the transactions contemplated by the Basic Documents, refrain from engaging in a business for which its remaining property represents an unreasonably small capital;

(o) conduct all of the Company's business (whether in writing or orally) solely in the name of the Company through the Member and the Company's Managers, officers and agents and hold the Company out as an entity separate from any Affiliate;

(p) not make or declare any distributions of cash or property to the Member except in accordance with appropriate limited liability company formalities and only consistent with sound business judgment to the extent that it is permitted pursuant to the Basic Documents and not violative of any applicable law;

(q) otherwise practice and adhere to all limited liability company procedures and formalities to the extent required by this Agreement or all other appropriate constituent documents and the laws of its state of formation and all other appropriate jurisdictions;

(r) not appoint an Affiliate or any employee of an Affiliate as an agent of the Company, except as otherwise permitted in the Basic Documents (although such Persons can qualify as a Manager or as an officer of the Company);

(s) not acquire obligations or securities of or make loans or advances to or pledge its assets for the benefit of any Affiliate, the Member or any Affiliate of the Member (other than the Company);

(t) except as expressly provided in the Basic Documents, not permit the Member or any Affiliate to guarantee, pay or become liable for the debts of the Company nor permit any such Person to hold out its creditworthiness as being available to pay the liabilities and expenses of the Company nor, except for the indemnities in this Agreement and the Basic Documents, indemnify any Person for losses resulting therefrom;

(u) maintain separate minutes of the actions of the Member and the Managers, in their capacities as such, including actions with respect to the transactions contemplated by the Basic Documents;

(v) cause (i) all written and oral communications, including letters, invoices, purchase orders, and contracts, of the Company to be made solely in the name of the Company, (ii) the Company to have its own tax identification number (to the extent not inconsistent with applicable federal tax law), stationery, checks and business forms, separate from those of any Affiliate, (iii) all Affiliates not to use the stationery or business forms of the Company, and cause the Company not to use the stationery or business forms of any Affiliate, and (iv) all Affiliates not to conduct business in the name of the Company, and cause the Company not to conduct business in the name of any Affiliate;

(w) direct creditors of the Company to send invoices and other statements of account of the Company directly to the Company and not to any Affiliate and cause the Affiliates

to direct their creditors not to send invoices and other statements of accounts of such Affiliates to the Company;

(x) cause the Member to maintain as official records all resolutions, agreements, and other instruments underlying or regarding the transactions contemplated by the Basic Documents;

(y) disclose, and cause the Member to disclose, in its financial statements the effects of all transactions between the Member and the Company in accordance with generally accepted accounting principles, and in a manner which makes it clear that (i) the Company is a separate legal entity, (ii) the assets of the Company (including any Storm Recovery Property transferred to the Company pursuant to a Sale Agreement) are not assets of any Affiliate and are not available to pay creditors of any Affiliate and (iii) neither the Member nor any other Affiliate is liable or responsible for the debts of the Company;

(z) treat and cause the Member to treat the transfer of Storm Recovery Property from the Member to the Company as a sale under the [Storm Recovery Law];

(aa) except as described herein with respect to tax purposes and financial reporting, describe and cause each Affiliate to describe the Company, and hold the Company out as a separate legal entity and not as a division or department of any Affiliate, and promptly correct any known misunderstanding regarding the Company's identity separate from any Affiliate or any other Person;

(bb) so long as any Storm Recovery Bonds of any series are outstanding, treat the Storm Recovery Bonds as debt for all purposes and specifically as debt of the Company, other than for financial reporting, state or federal regulatory or tax purposes;

(cc) solely for purposes of federal taxes and, to the extent consistent with applicable state, local and other tax law, solely for purposes of state, local and other taxes, so long as any Storm Recovery Bonds of a series are outstanding, treat the Storm Recovery Bonds of that series as indebtedness of the Member secured by the applicable Storm Recovery Bond Collateral unless otherwise required by appropriate taxing authorities;

(dd) file its own tax returns, if any, as may be required under applicable law, to the extent (i) not part of a consolidated group filing a consolidated return or returns or (ii) not treated as a division or disregarded entity for tax purposes of another taxpayer, and pay any taxes so required to be paid under applicable law;

(ee) maintain its valid existence in good standing under the laws of the State of Delaware and maintain its qualification to do business under the laws of such other jurisdictions as its operations require;

(ff) not form, or cause to be formed, any subsidiaries;

(gg) comply with all laws applicable to the transactions contemplated by this Agreement and the Basic Documents;

(hh) cause the Member to observe in all material respects all limited liability company procedures and formalities, if any, required by this Agreement, the laws of the State of Delaware and all other appropriate jurisdictions;

(ii) except as provided in Section 7.06, at all times have at least one Independent Manager;

(jj) not, directly or indirectly, engage in any business or activity other than the transactions contemplated by this Agreement;

(kk) not incur any indebtedness, liability, obligation, or expense, or own any assets, other than in each case those that are contemplated by this Agreement;

(ll) not make or permit to remain outstanding any loan or advance to, or own or acquire any stock or securities of, any Person, other than as contemplated by this Agreement and the Basic Documents; and

(mm) cause the members, managers, officers, agents, and other representatives of the Company to act at all times with respect to the Company consistently and in furtherance of the foregoing and in the best interests of the Company.

SECTION 1.10 Limitation on Certain Activities. Notwithstanding any other provisions of this Agreement, the Company, and the Member or Managers on behalf of the Company, shall not:

(a) engage in any business or activity other than as set forth in Section 1.05 hereof;

(b) without the affirmative vote of the Member and the affirmative vote of all of the Managers, including any Independent Manager, file a voluntary petition for relief under the Bankruptcy Code or similar law, consent to the institution of insolvency or bankruptcy proceedings against the Company or otherwise institute insolvency or bankruptcy proceedings with respect to the Company or take any company action in furtherance of any such filing or institution of a proceeding;

(c) without the affirmative vote of all Managers, including any Independent Manager, and then only to the extent permitted by the Basic Documents, convert, merge or consolidate with any other Person or sell all or substantially all of its assets or acquire all or substantially all of the assets or capital stock or other ownership interest of any other Person;

(d) take any action, file any tax return, or make any election inconsistent with the treatment of the Company, for purposes of federal income taxes and, to the extent consistent with applicable state tax law, state income and franchise tax purposes, as a disregarded entity that is not separate from the Member;

(e) incur any indebtedness or assume or guarantee any indebtedness of any Person (other than the indebtedness incurred under the Basic Documents);

(f) issue any bonds other than Storm Recovery Bonds contemplated by the Basic Documents; or

(g) to the fullest extent permitted by law, without the affirmative vote of its Member and the affirmative vote of all Managers, including each Independent Manager, execute any dissolution, liquidation, or winding up of the Company.

So long as any of the Storm Recovery Bonds are outstanding, the Company and the Member shall give written notice to each applicable Rating Agency of any action described in clause (b), (c) or (g) of this Section 1.10 which is taken by or on behalf of the Company with the required affirmative vote of the Member and all Managers as therein described.

SECTION 1.11 No State Law Partnership. No provisions of this Agreement shall be deemed or construed to constitute a partnership (including a limited partnership) or joint venture, or the Member a partner or joint venturer of or with any Manager or the Company, for any purposes.

ARTICLE II
CAPITAL

SECTION 2.01 Initial Capital. The initial capital of the Company shall be the sum of cash contributed to the Company by the Member (the "Capital Contribution") in the amount set out opposite the name of the Member on Schedule A hereto, as amended from time to time and incorporated herein by this reference.

SECTION 2.02 Additional Capital Contributions. The assets of the Company are expected to generate a return sufficient to satisfy all obligations of the Company under this Agreement and the other Basic Documents and any other obligations of the Company. It is expected that no capital contributions to the Company will be necessary except in connection with the purchase from time-to-time of Storm Recovery Properties. On or prior to the date of issuance of a series of Storm Recovery Bonds, the Member shall make an additional contribution to the Company in an amount equal to at least [0.50]% of the initial principal amount of such series of Storm Recovery Bonds or such greater amount as agreed to by the Member in connection with the issuance by the Company of the series of Storm Recovery Bonds, which amount the Company shall deposit into the Capital Subaccount established by the Indenture Trustee as provided in the applicable Indenture. No capital contribution by the Member to the Company will be made for the purpose of mitigating losses on any Storm Recovery Property that has previously been transferred to the Company, and all capital contributions shall be made in accordance with all applicable limited liability company procedures and requirements, including proper record keeping by the Member and the Company. Each capital contribution will be acknowledged by a written receipt signed by any one of the Managers. The Managers acknowledge and agree that, notwithstanding anything in this Agreement to the contrary, such additional contribution will be managed by an investment manager selected by the Indenture Trustee who shall invest such amounts only in investments eligible pursuant to the Basic Documents, and all income earned thereon shall be allocated or paid by the Indenture Trustee in accordance with the provisions of the Indenture.

SECTION 2.03 Capital Account. A Capital Account shall be established and maintained for the Member on the Company's books (the "Capital Account"). An additional, separate Capital Account may be established and maintained pursuant to each Series Supplement, as necessary.

SECTION 2.04 Interest on Capital Account. Except for the Return on Invested Capital, no interest shall be paid or credited to the Member on its Capital Account or upon any undistributed profits left on deposit with the Company. Except as provided herein or by law, the Member shall have no right to demand or receive the return of its Capital Contribution.

ARTICLE III
ALLOCATIONS; BOOKS

SECTION 3.01 Allocations of Income and Loss.

(a) Book Allocations. The net income and net loss of the Company shall be allocated entirely to the Member.

(b) Tax Allocations. Because the Company is not making (and will not make) an election to be treated as an association taxable as a corporation under Section 301.7701-3(a) of the Treasury Regulations, and because the Company is a business entity that has a single owner and is not a corporation, it is expected to be disregarded as an entity separate from its owner for federal income tax purposes under Section 301.7701-3(b)(1) of the Treasury Regulations. Accordingly, all items of income, gain, loss, deduction and credit of the Company for all taxable periods will be treated for federal income tax purposes, and for state and local income and other tax purposes to the extent permitted by applicable law, as realized or incurred directly by the Member. To the extent not so permitted, all items of income, gain, loss, deduction and credit of the Company shall be allocated entirely to the Member as permitted by applicable tax law, and the Member shall pay (or indemnify the Company, the Indenture Trustee and each of their officers, managers, employees or agents for, and defend and hold harmless each such person from and against its payment of) any taxes levied or assessed upon all or any part of the Company's property or assets based on existing law as of the date hereof, including any sales, gross receipts, general corporation, personal property, privilege, franchise or license taxes (but excluding any taxes imposed as a result of a failure of such Person to properly withhold or remit taxes imposed with respect to payments on any Storm Recovery Bond). The Indenture Trustee (on behalf of the Secured Parties) shall be a third party beneficiary of the Member's obligations set forth in this Section 3.01, it being understood that Holders shall be entitled to enforce their rights against the Member under this Section 3.01 solely through a cause of action brought for their benefit by the Indenture Trustee.

SECTION 3.02 Company to be Disregarded for Tax Purposes. The Company shall comply with the applicable provisions of the Code and the applicable Treasury Regulations thereunder in the manner necessary to effect the intention of the parties that the Company be treated, for federal income tax purposes, as a disregarded entity that is not separate from the Member pursuant to Treasury Regulations Section 301.7701-1 et seq. and that the Company be accorded such treatment until its dissolution pursuant to Article IX hereof and shall take all actions, and shall refrain from taking any action, required by the Code or Treasury Regulations thereunder

in order to maintain such status of the Company. In addition, for federal income tax purposes, the Company may not claim any credit on, or make any deduction from the principal or premium, if any, or interest payable in respect of, the Storm Recovery Bonds (other than amounts properly withheld from such payments under the Code or other tax laws) or assert any claim against any present or former Holder by reason of the payment of the taxes levied or assessed upon any part of the Storm Recovery Bond Collateral.

SECTION 3.03 Books of Account. At all times during the continuance of the Company, the Company shall maintain or cause to be maintained full, true, complete and correct books of account in accordance with generally accepted accounting principles, using the fiscal year and taxable year of the Member. In addition, the Company shall keep all records required to be kept pursuant to the LLC Act.

SECTION 3.04 Access to Accounting Records. All books and records of the Company shall be maintained at any office of the Company or at the Company's principal place of business, and the Member, and its duly authorized representative, shall have access to them at such office of the Company and the right to inspect and copy them at reasonable times.

SECTION 3.05 Annual Tax Information. The Managers shall cause the Company to deliver to the Member all information necessary for the preparation of the Member's federal income tax return.

SECTION 3.06 Internal Revenue Service Communications. The Member shall communicate and negotiate with the Internal Revenue Service on any federal tax matter on behalf of the Member and the Company.

ARTICLE IV
MEMBER

SECTION 4.01 Powers. Subject to the provisions of this Agreement and the LLC Act, all powers shall be exercised by or under the authority of, and the business and affairs of the Company shall be controlled by, the Member pursuant to Section 4.04. The Member may delegate any or all such powers to the Managers. Without prejudice to such general powers, but subject to the same limitations, it is hereby expressly declared that the Member shall have the following powers:

(a) To select and remove the Managers and all officers and agents of the Company, prescribe such powers and duties for them as may be consistent with the LLC Act and other applicable law and this Agreement, fix their compensation, and require from them security for faithful service; provided, that, except as provided in Section 7.06, at all times the Company shall have at least one Independent Manager. Prior to issuance of any Storm Recovery Bonds, the Member shall appoint at least one Independent Manager. An "Independent Manager" means an individual who (1) has prior experience as an independent director, independent manager or independent member, (2) is employed by, and has at least three years of employment experience with, a nationally-recognized company that provides professional independent managers and other corporate services in the ordinary course of its business, (3) whose services to the Company are provided by a nationally recognized company that provides independent managers and other

corporate services, (4) is duly appointed as an Independent Manager and (5) is not and has not been for at least five years from the date of his or her or its appointment, and will not while serving as Independent Manager, be any of the following:

(i) a member, partner, equity holder, manager, director, officer, agent, consultant, attorney, accountant, advisor or employee of the Company or any of its equityholders or Affiliates (other than as an independent director, independent manager or special member of the Company or an Affiliate of the Company that is not in the direct chain of ownership of the Company and that is required by a creditor to be a single purpose bankruptcy remote entity); provided, that the indirect or beneficial ownership of stock of the Member or its Affiliates through a mutual fund or similar diversified investment vehicle with respect to which the owner does not have discretion or control over the investments held by such diversified investment vehicle shall not preclude such owner from being an Independent Manager;

(ii) a creditor, supplier or service provider (including provider of professional services) to the Company, the Member or any of their respective equityholders or Affiliates (other than a nationally-recognized company that routinely provides professional Independent Managers and other corporate services to the Company, the Member or any of its Affiliates in the ordinary course of its business);

(iii) a family member of any of the foregoing; or

(iv) a Person that controls (whether directly, indirectly or otherwise) any of (i), (ii) or (iii) above.

A natural person who otherwise satisfies the foregoing definition and satisfies subparagraph (i) by reason of being the independent manager or independent director of a "special purpose entity" affiliated with the Company shall be qualified to serve as an Independent Manager of the Company, provided that the fees that such individual earns from serving as an independent manager or independent director of affiliates of the Company in any given year constitute in the aggregate less than five percent (5%) of such individual's annual income for that year. For purposes of this paragraph, a "special purpose entity" is an entity, whose organizational documents contain restrictions on its activities and impose requirements intended to preserve such entity's separateness that are substantially similar to the Special Purpose Provisions (as hereinafter defined) of this Agreement.

The Company shall pay each Independent Manager annual fees totaling not more than $[ ] per year (the "Independent Manager Fee"). Such fees shall be determined without regard to the income of the Company, shall not be deemed to constitute distributions to the recipient of any profit, loss or capital of the Company and shall be considered a fixed Operating Expense of the Company. Each Manager, including each Independent Manager, is hereby deemed to be a "manager" within the meaning of Section 18-101(10) of the LLC Act.

Promptly following any resignation or replacement of any Independent Manager, the Member shall give written notice to each applicable Rating Agency and to the Indenture Trustee and Staff Director of any such resignation or replacement.

(b) Subject to Sections 1.09 and 1.10 and Article VII hereof, to conduct, manage and control the affairs and business of the Company, and to make such rules and regulations therefor consistent with the LLC Act and other applicable law and this Agreement.

(c) To change the registered agent and office of the Company in Delaware from one location to another; to fix and locate from time to time one or more other offices of the Company; and to designate any place within or without the State of Delaware for the conduct of the business of the Company.

SECTION 4.02 Compensation of Member. To the extent permitted by applicable law and the Basic Documents, the Company shall have authority to reimburse the Member for out-of-pocket expenses incurred by the Member in connection with its service to the Company. It is understood that the compensation paid to the Member under the provisions of this Section 4.02 shall be determined without regard to the income of the Company, shall not be deemed to constitute distributions to the recipient of any profit, loss or capital of the Company and shall be considered an On-going Financing Cost of the Company subject to the limitations on such expenses set forth in the Financing Order.

SECTION 4.03 Other Ventures. Notwithstanding any duties (including fiduciary duties) otherwise existing at law or in equity, it is expressly agreed that the Member, the Managers and any Affiliates, officers, directors, managers, stockholders, partners or employees of the Member, may engage in other business ventures of any nature and description, whether or not in competition with the Company, independently or with others, and the Company shall not have any rights in and to any independent venture or activity or the income or profits derived therefrom.

SECTION 4.04 Actions by the Member. All actions of the Member may be taken by written resolution of the Member which shall be signed on behalf of the Member by an authorized officer of the Member and filed with the records of the Company.

ARTICLE V
OFFICERS

SECTION 5.01 Designation; Term; Qualifications.

(a) Officers. Subject to the last sentence of this Section 5.01(a), the Managers may, from time to time, designate one or more Persons to be officers of the Company. Any officer so designated shall have such title and authority and perform such duties as the Managers may, from time to time, delegate to them. Each officer shall hold office for the term for which such officer is designated and until its successor shall be duly designated and shall qualify or until its death, resignation or removal as provided in this Agreement. Any Person may hold any number of offices. No officer need be a Manager, the Member, a Delaware resident, or a United States citizen. The Member hereby appoints the Persons identified on Schedule C to be the officers of the Company.

(b) President. The President shall be the chief executive officer of the Company, shall preside at all meetings of the Managers, shall be responsible for the general and active management of the business of the Company and shall see that all orders and resolutions of the Managers are carried into effect. The President or any other officer authorized by the President

or the Managers may execute all contracts, except: (i) where required or permitted by law or this Agreement to be otherwise signed and executed, including Section 1.10; and (ii) where signing and execution thereof shall be expressly delegated by the Managers to some other officer or agent of the Company.

(c) Vice President. In the absence of the President or in the event of the President's inability to act, the Vice President, if any (or in the event there be more than one Vice President, the Vice Presidents in the order designated by the Managers, or in the absence of any designation, then in the order of their election), shall perform the duties of the President, and when so acting, shall have all the powers of and be subject to all the restrictions upon the President. The Vice Presidents, if any, shall perform such other duties and have such other powers as the Managers may from time to time prescribe.

(d) Secretary and Assistant Secretary. The Secretary shall be responsible for filing legal documents and maintaining records for the Company. The Secretary shall attend all meetings of the Managers and record all the proceedings of the meetings of the Company and of the Managers in a book to be kept for that purpose and shall perform like duties for the standing committees when required. The Secretary shall give, or shall cause to be given, notice of all meetings of the Member, if any, and special meetings of the Managers, and shall perform such other duties as may be prescribed by the Managers or the President, under whose supervision the Secretary shall serve. The Assistant Secretary, or if there be more than one, the Assistant Secretaries in the order determined by the Managers (or if there be no such determination, then in order of their designation), shall, in the absence of the Secretary or in the event of the Secretary's inability to act, perform the duties and exercise the powers of the Secretary and shall perform such other duties and have such other powers as the Managers may from time to time prescribe.

(e) Treasurer and Assistant Treasurer. The Treasurer shall have the custody of the Company funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Company and shall deposit all moneys and other valuable effects in the name and to the credit of the Company in such depositories as may be designated by the Manager. The Treasurer shall disburse the funds of the Company as may be ordered by the Manager, taking proper vouchers for such disbursements, and shall render to the President and to the Managers, at its regular meetings or when the Managers so require, an account of all of the Treasurer's transactions and of the financial condition of the Company. The Assistant Treasurer, or if there shall be more than one, the Assistant Treasurers in the order determined by the Managers (or if there be no such determination, then in the order of their designation), shall, in the absence of the Treasurer or in the event of the Treasurer's inability to act, perform the duties and exercise the powers of the Treasurer and shall perform such other duties and have such other powers as the Managers may from time to time prescribe.

(f) Officers as Agents. The officers of the Company, to the extent their powers as set forth in this Agreement or otherwise vested in them by action of the Managers are not inconsistent with this Agreement, are agents of the Company for the purpose of the Company's business and, subject to Section 1.10, the actions of the officers taken in accordance with such powers shall bind the Company.

(g) Duties of Managers and Officers. Except to the extent otherwise provided herein, each Manager (other than an Independent Manager) and officer of the Company shall have a fiduciary duty of loyalty and care similar to that of directors and officers of business corporations organized under the General Corporation Law of the State of Delaware.

SECTION 5.02 Removal and Resignation. Any officer of the Company may be removed as such, with or without cause, by the Managers at any time. Any officer of the Company may resign as such at any time upon written notice to the Company. Such resignation shall be made in writing and shall take effect at the time specified therein or, if no time is specified therein, at the time of its receipt by the Managers.

SECTION 5.03 Vacancies. Any vacancy occurring in any office of the Company may be filled by the Managers.

SECTION 5.04 Compensation. The compensation, if any, of the officers of the Company shall be fixed from time to time by the Managers. Such compensation shall be determined without regard to the income of the Company, shall not be deemed to constitute distributions to the recipient of any profit, loss or capital of the Company, shall be payable only to the extent permitted by the Basic Documents and shall be considered a fixed Operating Expense of the Company subject to the limitations on such expenses set forth in the Financing Order.

ARTICLE VI
MEMBERSHIP INTEREST

SECTION 6.01 General. "Membership Interest" means the limited liability company interest of the Member in the Company. The Membership Interest constitutes personal property and, subject to Section 6.06, shall be freely transferable and assignable in whole but not in part upon registration of such transfer and assignment on the books of the Company in accordance with the procedures established for such purpose by the Managers of the Company.

SECTION 6.02 Distributions. The Member shall be entitled to receive, out of the assets of the Company legally available therefor, distributions payable in cash in such amounts, if any, as the Managers shall declare. Notwithstanding any provision to the contrary contained in this Agreement, the Company shall not make a distribution to the Member on account of its interest in the Company if such distribution would violate the LLC Act or any other applicable law or any Basic Document.

SECTION 6.03 Rights on Liquidation. Dissolution or Winding Up.

(a) In the event of any liquidation, dissolution or winding up of the Company, the Member shall be entitled to all remaining assets of the Company available for distribution to the Member after satisfaction (whether by payment or reasonable provision for payment) of all liabilities, debts and obligations of the Company.

(b) Neither the sale of all or substantially all of the property or business of the Company, nor the merger or consolidation of the Company into or with another Person or other entity, shall be deemed to be a dissolution, liquidation or winding up, voluntary or involuntary, for the purpose of this Section 6.03.

SECTION 6.04 Redemption. The Membership Interest shall not be redeemable.

SECTION 6.05 Voting Rights. Subject to the terms of this Agreement, the Member shall have the sole right to vote on all matters as to which members of a limited liability company shall be entitled to vote pursuant to the LLC Act and other applicable law.

SECTION 6.06 Transfer of Membership Interests.

(a) The Member may transfer its Membership Interest, in whole but not in part, but the transferee shall not be admitted as a Member except in accordance with Section 6.07. Until the transferee is admitted as a Member, the Member shall continue to be the sole member of the Company (subject to Section 1.02) and to be entitled to exercise any rights or powers of a Member of the Company with respect to the Membership Interest transferred.

(b) To the fullest extent permitted by law, any purported transfer of any Membership Interest in violation of the provisions of this Agreement shall be wholly void and shall not effectuate the transfer contemplated thereby. Notwithstanding anything contained herein to the contrary and to the fullest extent permitted by law, the Member may not transfer any Membership Interest in violation of any provision of this Agreement or any Basic Document or in violation of any applicable federal or state securities laws.

SECTION 6.07 Admission of Transferee as Member.

(a) A transferee of a Membership Interest desiring to be admitted as a Member must execute a counterpart of, or an agreement adopting, this Agreement and, except as permitted by paragraph (b) below, shall not be admitted without unanimous affirmative vote of the Managers, which vote must include the affirmative vote of any Independent Manager. Upon admission of the transferee as a Member, the transferee shall have the rights, powers and duties and shall be subject to the restrictions and liabilities of the Member under this Agreement and the LLC Act. The transferee shall also be liable, to the extent of the Membership Interest transferred, for the unfulfilled obligations, if any, of the transferor Member to make capital contributions to the Company, but shall not be obligated for liabilities unknown to the transferee at the time such transferee was admitted as a Member and that could not be ascertained from this Agreement. Except as set forth in paragraph (b) below, whether or not the transferee of a Membership Interest becomes a Member, the Member transferring the Membership Interest is not released from any liability to the Company under this Agreement or the LLC Act.

(b) The approval of the Managers, including any Independent Manager, shall not be required for the transfer of the Membership Interest from the Member to any successor pursuant to Section 5.02 of a Sale Agreement or the admission of such Person as a Member. Once the transferee of a Membership Interest pursuant to this paragraph (b) becomes a Member, the prior Member shall cease to be a member of the Company and shall be released from any liability to the Company under this Agreement and the LLC Act.

ARTICLE VII
MANAGERS

SECTION 7.01 Managers.

(a) Subject to Sections 1.09 and 1.10, the business and affairs of the Company shall be managed by or under the direction of two or more Managers designated by the Member. Subject to the terms of this Agreement, the Member may determine at any time in its sole and absolute discretion the number of Managers. Subject in all cases to the terms of this Agreement, the authorized number of Managers may be increased or decreased by the Member at any time in its sole and absolute discretion, upon notice to all Managers; provided, that, except as provided in Section 7.06, at all times the Company shall have at least one Independent Manager. The initial number of Managers shall be three, one of which shall be an Independent Manager. Each Manager designated by the Member shall hold office until a successor is elected and qualified or until such Manager's earlier death, resignation, expulsion or removal. Each Manager shall execute and deliver the Management Agreement in the form attached hereto as Exhibit A. Managers need not be a Member. The initial Managers designated by the Member are listed on Schedule B hereto.

(b) Each Manager shall be designated by the Member and shall hold office for the term for which designated and until a successor has been designated.

(c) The Managers shall be obliged to devote only as much of their time to the Company's business as shall be reasonably required in light of the Company's business and objectives. Subject to Section 7.02, a Manager shall perform his or her duties as a Manager in good faith, in a manner he or she reasonably believes to be in the best interests of the Company, and with such care as an ordinarily prudent Person in a like position would use under similar circumstances.

(d) Except as otherwise provided in this Agreement, the Managers shall act by the affirmative vote of a majority of the Managers. Each Manager shall have the authority to sign duly authorized agreements and other instruments on behalf of the Company without the joinder of any other Manager.

(e) Subject to the terms of this Agreement, any action may be taken by the Managers without a meeting and without prior notice if authorized by the written consent of a majority of the Managers (or such greater number as is required by this Agreement), which written consent shall be filed with the records of the Company.

(f) Every Manager is an agent of the Company for the purpose of its business, and the act of every Manager, including the execution in the Company name of any instrument for carrying on the business of the Company, binds the Company, unless such act is in contravention of this Agreement or unless the Manager so acting otherwise lacks the authority to act for the Company and the Person with whom he or she is dealing has knowledge of the fact that he or she has no such authority.

(g) To the extent permitted by law, the Managers shall not be personally liable for the Company's debts, obligations or liabilities.

SECTION 7.02 Powers of the Managers. Subject to the terms of this Agreement, the Managers shall have the right and authority to take all actions which the Managers deem incidental, necessary, suitable or convenient for the day-to-day management and conduct of the Company's business.

An Independent Manager may not delegate his, hers or its duties, authorities or responsibilities hereunder. If any Independent Manager resigns, dies or becomes incapacitated, or such position is otherwise vacant, no action requiring the unanimous affirmative vote of the Managers shall be taken until a successor Independent Manager is appointed by the Member and qualifies and approves such action.

To the fullest extent permitted by law, including Section 18-1101(c) of the LLC Act, and notwithstanding any duty otherwise existing at law or in equity, the Independent Managers shall consider only the interests of the Company, including its creditors, in acting or otherwise voting on the matters referred to in Section 1.10. Except for duties to the Company as set forth in the immediately preceding sentence (including duties to the Member and the Company's creditors solely to the extent of their respective economic interests in the Company but excluding (i) all other interests of the Member, (ii) the interests of other Affiliates of the Company, and (iii) the interests of any group of Affiliates of which the Company is a part), the Independent Managers shall not have any fiduciary duties to the Member, any Manager or any other Person bound by this Agreement; provided, however, the foregoing shall not eliminate the implied contractual covenant of good faith and fair dealing. To the fullest extent permitted by law, including Section 18-1101(e) of the LLC Act, an Independent Manager shall not be liable to the Company, the Member or any other Person bound by this Agreement for breach of contract or breach of duties (including fiduciary duties), unless the Independent Manager acted in bad faith or engaged in willful misconduct.

No Independent Manager shall at any time serve as trustee in bankruptcy for any Affiliate of the Company.

Subject to the terms of this Agreement, the Managers may exercise all powers of the Company and do all such lawful acts and things as are not prohibited by the LLC Act, other applicable law or this Agreement directed or required to be exercised or done by the Member. All duly authorized instruments, contracts, agreements and documents providing for the acquisition or disposition of property of the Company shall be valid and binding on the Company if executed by one or more of the Managers.

Notwithstanding the terms of Section 7.01, 7.07 or 7.09 or any provision of this Agreement to the contrary, (x) no meeting or vote with respect to any action described in clause (b), (c) or (g) of Section 1.10 or any amendment to any of the Special Purpose Provisions (as hereinafter defined) shall be conducted unless any Independent Manager is present and (y) neither the Company nor the Member, any Manager or any officer on behalf of the Company shall (i) take any action described in clause (b), (c) or (g) of Section 1.10 unless the Independent Manager(s) has consented thereto or (ii) adopt any amendment to any of the Special Purpose Provisions unless the Independent Manager(s) has consented thereto. The vote or consent of an Independent Manager with respect to any such action or amendment shall not be dictated by the Member or any other Manager or officer of the Company.

SECTION 7.03 Compensation. To the extent permitted by applicable law and the Basic Documents, the Company may reimburse any Manager, directly or indirectly, for out-of-pocket expenses incurred by such Manager in connection with its services rendered to the Company. Such compensation shall be determined by the Managers without regard to the income of the Company, shall not be deemed to constitute distributions to the recipient of any profit, loss or capital of the Company and shall be considered a fixed Operating Expense of the Company subject to the limitations on such expenses set forth in the Financing Order.

SECTION 7.04 Removal of Managers.

(a) Subject to Section 4.01, the Member may remove any Manager with or without cause at any time.

(b) Subject to Sections 4.01 and 7.05, any removal of a Manager shall become effective on such date as may be specified by the Member and in a notice delivered to any remaining Managers or the Manager designated to replace the removed Manager (except that it shall not be effective on a date earlier than the date such notice is delivered to the remaining Managers or the Manager designated to replace the removed Manager). Should a Manager be removed who is also the Member, the Member shall continue to participate in the Company as the Member and receive its share of the Company's income, gains, losses, deductions and credits pursuant to this Agreement.

SECTION 7.05 Resignation of Manager. A Manager other than an Independent Manager may resign as a Manager at any time by thirty (30) days' prior notice to the Member. An Independent Manager may not withdraw or resign as a Manager of the Company without the consent of the Member. No resignation or removal of an Independent Manager, and no appointment of a successor Independent Manager, shall be effective until such successor (i) shall have accepted his or her appointment as an Independent Manager by a written instrument, which may be a counterpart signature page to the Management Agreement in the form attached hereto as Exhibit A, and (ii) shall have executed a counterpart to this Agreement.

SECTION 7.06 Vacancies.

(a) Subject to Section 4.01, any vacancies among the Managers may be filled by the Member. In the event of a vacancy in the position of Independent Manager, the Member shall, as soon as practicable, appoint a successor Independent Manager.

(b) Notwithstanding anything to the contrary contained in this Agreement, no Independent Manager shall be removed or replaced unless the Company provides the Indenture Trustee with no less than two (2) Business Days' prior written notice of (a) any proposed removal of such Independent Manager, and (b) the identity of the proposed replacement Independent Manager, together with a certification that such replacement satisfies the requirements for an Independent Manager set forth in this Agreement.

(c) Notwithstanding anything to the contrary contained in this Agreement, no Independent Manager shall be removed or replaced unless the Company provides the Staff Director with the written notice required by subsection (b) above. The Staff Director shall have

the right to object to the replacement Independent Manager and cause the Member to appoint a further replacement Independent Manager as follows:

(i) The Staff Director shall have five (5) Business Days from its receipt of the notice described above to object to the replacement Independent Director by delivering to the Member within such five (5) Business Days its written objection describing in reasonable detail the reasons for such objection. Any such objection must be reasonable.

(ii) If the Staff Director fails to deliver a conforming objection to the Member within such time period, the Staff Director shall have no right to object to the replacement Independent Manager.

(iii) If the Staff Director delivers a conforming objection to the Member within such time period, the Member shall promptly propose to the Staff Director in writing three (3) alternative candidates for Independent Manager who satisfy the Staff Director's objections and otherwise meet the requirements for Independent Manager. The Staff Director may eliminate up to two (2) of such candidates by providing the Member with written notice of the eliminations within five (5) Business of the Staff Director's receipt of the Member's proposal. The Member shall promptly remove the Independent Manager objected to by the Staff Director and replace him or her with a new replacement Independent Manager from any such candidate not eliminated.

(iv) At any time after the Staff Director has timely delivered a conforming objection until the Member has replaced the Independent Manager objected to by the Staff Director in accordance with subsection (iii) above, the Staff Director may withdraw its objection to a replacement Independent Director or otherwise agree with the Member as to the selection of a replacement Independent Manager.

(v) A replacement Independent Manger objected to by the Staff Director in accordance with this Agreement, shall continue in office until removed in accordance with this Agreement.

SECTION 7.07 Meetings of the Managers. The Managers may hold meetings, both regular and special, within or outside the State of Delaware. Regular meetings of the Managers may be held without notice at such time and at such place as shall from time to time be determined by the Managers. Special meetings of the Managers may be called by the President on not less than one day's notice to each Manager by telephone, facsimile, mail, telegram or any other means of communication, and special meetings shall be called by the President or Secretary in like manner and with like notice upon the written request of any one or more of the Managers.

SECTION 7.08 Electronic Communications. Managers, or any committee designated by the Managers, may participate in meetings of the Managers, or any committee, by means of telephone conference or similar communications equipment that allows all Persons participating in the meeting to hear each other, and such participation in a meeting shall constitute presence in Person at the meeting. If all the participants are participating by telephone conference or similar communications equipment, the meeting shall be deemed to be held at the principal place of business of the Company.

SECTION 7.09 Committees of Managers.

(a) The Managers may, by resolution passed by a majority of the Managers, designate one or more committees, each committee to consist of one or more of the Managers. The Managers may designate one or more Managers as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee.

(b) In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not such members constitute a quorum, may unanimously appoint another Manager to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the Managers, shall have and may exercise all the powers and authority of the Managers in the management of the business and affairs of the Company. Such committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the Managers. Each committee shall keep regular minutes of its meetings and report the same to the Managers when required.

SECTION 7.10 Limitations on Independent Managers. All right, power and authority of each Independent Manager shall be limited to the extent necessary to exercise those rights and perform those duties specifically set forth in this Agreement.

ARTICLE VIII
EXPENSES

SECTION 8.01 Expenses. Except as otherwise provided in this Agreement or the other Basic Documents, the Company shall be responsible for all expenses and the allocation thereof including without limitation:

(a) all expenses incurred by the Member or its Affiliates in organizing the Company;

(b) all expenses related to the business of the Company and all routine administrative expenses of the Company, including the maintenance of books and records of the Company, and the preparation and dispatch to the Member of checks, financial reports, tax returns and notices required pursuant to this Agreement;

(c) all expenses incurred in connection with any litigation or arbitration involving the Company (including the cost of any investigation and preparation) and the amount of any judgment or settlement paid in connection therewith;

(d) all expenses for indemnity or contribution payable by the Company to any Person;

(e) all expenses incurred in connection with the collection of amounts due to the Company from any Person;

(f) all expenses incurred in connection with the preparation of amendments to this Agreement;

(g) all expenses incurred in connection with the liquidation, dissolution and winding up of the Company; and

(h) all expenses otherwise allocated in good faith to the Company by the Managers.

ARTICLE IX
PERPETUAL EXISTENCE; DISSOLUTION, LIQUIDATION AND WINDING-UP

SECTION 9.01 Existence.

(a) The Company shall have a perpetual existence. So long as any of the Storm Recovery Bonds are outstanding, the Member shall not be entitled to consent to the dissolution of the Company.

(b) Notwithstanding any provision of this Agreement, the Bankruptcy of the Member or Special Member will not cause such Member or Special Member, respectively, to cease to be a member of the Company, and upon the occurrence of such an event, the business of the Company shall continue without dissolution. For purposes of this Section 9.01(b), "Bankruptcy" means, with respect to any Person (A) if such Person (i) makes an assignment for the benefit of creditors, (ii) files a voluntary petition in bankruptcy, (iii) is adjudged a bankrupt or insolvent, or has entered against it an order for relief, in any bankruptcy or insolvency proceedings, (iv) files a petition or answer seeking for itself any reorganization, arrangement, composition, readjustment, liquidation or similar relief under any statute, law or regulation, (v) files an answer or other pleading admitting or failing to contest the material allegations of a petition filed against it in any proceeding of this nature, or (vi) seeks, consents to or acquiesces in the appointment of a trustee, receiver or liquidator of the Person or of all or any substantial part of its properties, or (B) if 120 days after the commencement of any proceeding against the Person seeking reorganization, arrangement, composition, readjustment, liquidation or similar relief under any statute, law or regulation, if the proceeding has not been dismissed or if within 90 days after the appointment without such Person's consent or acquiescence of a trustee, receiver or liquidator of such Person or of all or any substantial part of its properties, the appointment is not vacated or stayed, or within 90 days after the expiration of any such stay, the appointment is not vacated. The foregoing definition of "Bankruptcy" is intended to replace and shall supersede and replace the definition of "Bankruptcy" set forth in Sections 18-101(1) and 18-304 of the LLC Act. Upon the occurrence of any event that causes the last remaining member of the Company to cease to be a member of the Company or that causes the Member to cease to be a member of the Company (other than upon continuation of the Company without dissolution upon an assignment by the Member of all of its limited liability company interest in the Company and the admission of the transferee pursuant to Sections 6.06 and 6.07), to the fullest extent permitted by law, the personal representative of such member is hereby authorized to, and shall, within ninety (90) days after the occurrence of the event that terminated the continued membership of such member in the Company, agree in writing (i) to continue the Company and (ii) to the admission of the personal representative or its nominee or designee, as the case may be, as a substitute member of the Company, effective as of the occurrence of the event that terminated the continued membership of the last remaining member of the Company or the Member in the Company.

SECTION 9.02 Dissolution. The Company shall be dissolved and its affairs shall be wound up upon the occurrence of the earliest of the following events:

(a) subject to Section 1.10, the election to dissolve the Company made in writing by the Member and each Manager, including each Independent Manager, as permitted under the Basic Documents and after the discharge in full of all Storm Recovery Bonds;

(b) the termination of the legal existence of the last remaining member of the Company or the occurrence of any event that causes the last remaining member of the Company to cease to be a member of the Company unless the business of the Company is continued without dissolution in a manner permitted by the LLC Act or this Agreement; or

(c) the entry of a decree of judicial dissolution of the Company pursuant to Section 18-802 of the LLC Act.

SECTION 9.03 Accounting. In the event of the dissolution, liquidation and winding-up of the Company, a proper accounting shall be made of the Capital Account of the Member and of the net income or net loss of the Company from the date of the last previous accounting to the date of dissolution.

SECTION 9.04 Certificate of Cancellation. As soon as possible following the occurrence of any of the events specified in Section 9.02 and the completion of the winding up of the Company, the Person winding up the business and affairs of the Company, as an authorized person, shall cause to be executed a Certificate of Cancellation of the Certificate of Formation and file the Certificate of Cancellation of the Certificate of Formation as required by the LLC Act.

SECTION 9.05 Winding Up. Upon the occurrence of any event specified in Section 9.02, the Company shall continue solely for the purpose of winding up its affairs in an orderly manner, liquidating its assets, and satisfying the claims of its creditors. The Member, or if there is no Member, the Managers, shall be responsible for overseeing the winding up and liquidation of the Company, shall take full account of the liabilities of the Company and its assets, shall either cause its assets to be sold or distributed, and if sold as promptly as is consistent with obtaining the fair market value thereof, shall cause the proceeds therefrom, to the extent sufficient therefor, to be applied and distributed as provided in Section 9.06.

SECTION 9.06 Order of Payment of Liabilities Upon Dissolution. After determining that all debts and liabilities of the Company, including all contingent, conditional or unmatured liabilities of the Company, in the process of winding-up, including, without limitation, debts and liabilities to the Member in the event it is a creditor of the Company to the extent otherwise permitted by law, have been paid or adequately provided for, the remaining assets shall be distributed in cash or in kind to the Member.

SECTION 9.07 Limitations on Payments Made in Dissolution. Except as otherwise specifically provided in this Agreement, the Member shall only be entitled to look solely to the assets of Company for the return of its positive Capital Account balance and shall have no recourse for its Capital Contribution and/or share of net income (upon dissolution or otherwise) against any Manager.

SECTION 9.08 Limitation on Liability. Except as otherwise provided by the LLC Act and except as otherwise characterized for tax and financial reporting purposes, the debts, obligations and liabilities of the Company, whether arising in contract, tort or otherwise, shall be solely the debts, obligations and liabilities of the Company, and no Member or Manager shall be obligated personally for any such debt, obligation or liability of the Company solely by reason of being a Member or a Manager.

ARTICLE X
INDEMNIFICATION

SECTION 10.01 Indemnity. Subject to the provisions of Section 10.04 hereof and the provisions of the Basic Documents, to the fullest extent permitted by law, the Company shall indemnify any Person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, except an action by or in the right of the Company, by reason of the fact that such Person is or was a Manager, Member, officer, controlling Person, legal representative or agent of the Company, or is or was serving at the request of the Company as a member, manager, director, officer, partner, shareholder, controlling Person, legal representative or agent of another limited liability company, partnership, corporation, joint venture, trust or other enterprise, against expenses, including attorneys' fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by such Person in connection with the action, suit or proceeding if such Person acted in good faith and in a manner which such Person reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to a criminal action or proceeding, had no reasonable cause to believe such Person's conduct was unlawful; provided that such Person shall not be entitled to indemnification if such judgment, penalty, fine or other expense was directly caused by such Person's fraud, gross negligence or willful misconduct or, in the case of an Independent Manager, bad faith or willful misconduct.

SECTION 10.02 Indemnity for Actions By or In the Right of the Company. Subject to the provisions of Section 10.04 hereof and the provisions of the Basic Documents, to the fullest extent permitted by law, the Company shall indemnify any Person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the rights of the Company to procure a judgment in its favor by reason of the fact that such Person is or was a Member, Manager, officer, controlling Person, legal representative or agent of the Company, or is or was serving at the request of the Company as a member, manager, director, officer, partner, shareholder, controlling Person, legal representative or agent of another limited liability company, corporation, partnership joint venture, trust or other enterprise, against expenses, including amounts paid in settlement and attorneys' fees actually and reasonably incurred by such Person in connection with the defense or settlement of the actions or suit if such Person acted in good faith and in a manner which such Person reasonably believed to be in or not opposed to the best interests of the Company; provided that such Person shall not be entitled to indemnification if such judgment, penalty, fine or other expense was directly caused by such Person's fraud, gross negligence or willful misconduct or, in the case of an Independent Manager, bad faith or willful misconduct. Indemnification may not be made for any claim, issue or matter as to which such Person has been adjudged by a court of competent jurisdiction, after exhaustion of all appeals therefrom, to be liable to the Company or for amounts paid in settlement to the Company, unless and only to the extent that the court in which the action or suit was brought or

other court of competent jurisdiction determines upon application that in view of all the circumstances of the case, the Person is fairly and reasonably entitled to indemnity for such expenses as the court deems proper.

SECTION 10.03 Indemnity If Successful. To the fullest extent permitted by law, and subject to the provisions of the Basic Documents, the Company shall indemnify any Person who is or was a Manager, Member, officer, controlling Person, legal representative or agent of the Company, or is or was serving at the request of the Company as a member, manager, director, officer, partner, shareholder, controlling Person, legal representative or agent of another limited liability company, corporation, partnership joint venture, trust or other enterprise against expenses, including reasonable attorneys' fees, actually and reasonably incurred by him or her in connection with the defense of any action, suit or proceeding referred to in Sections 10.01 and 10.02 or in defense of any claim, issue or matter therein, to the extent that such Person has been successful on the merits.

SECTION 10.04 Expenses. Any indemnification under Sections 10.01 and 10.02, as well as the advance payment of expenses permitted under Section 10.05 unless ordered by a court or advanced pursuant to Section 10.05 below, must be made by the Company only as authorized in the specific case upon a determination that indemnification of the Manager, Member, officer, controlling Person, legal representative or agent is proper in the circumstances. The determination must be made:

(a) by the Member if the Member was not a party to the act, suit or proceeding; or

(b) if the Member was a party to the act, suit or proceeding by independent legal counsel in a written opinion.

SECTION 10.05 Advance Payment of Expenses. To the extent permitted by the Basic Documents, the expenses of each Person who is or was a Manager, Member, officer, controlling Person, legal representative or agent, or is or was serving at the request of the Company as a member, manager, director, officer, partner, shareholder, controlling Person, legal representative or agent of another limited liability company, corporation, partnership joint venture, trust or other enterprise, incurred in defending a civil or criminal action, suit or proceeding may be paid by the Company as they are incurred and in advance of the final disposition of the action, suit or proceeding, upon receipt of an undertaking by or on behalf of such Person to repay the amount if it is ultimately determined by a court of competent jurisdiction that such Person is not entitled to be indemnified by the Company. The provisions of this Section 10.05 shall not affect any rights to advancement of expenses to which personnel other than the Member or the Managers (other than each Independent Manager) may be entitled under any contract or otherwise by law.

SECTION 10.06 Other Arrangements Not Excluded. The indemnification and advancement of expenses authorized in or ordered by a court pursuant to this Article X:

(a) does not exclude any other rights to which a Person seeking indemnification or advancement of expenses may be entitled under any agreement, decision of the Member, consent or action of the Managers, or otherwise, for either an action of any Person who is or was

a Manager, Member, officer, controlling Person, legal representative or agent, or is or was serving at the request of the Company as a member, manager, director, officer, partner, shareholder, controlling Person, legal representative or agent of another limited liability company, corporation, partnership, joint venture, trust or other enterprise, in the official capacity of such Person or an action in another capacity while holding such position, except that indemnification and advancement, unless ordered by a court pursuant to Section 10.05 above, may not be made to or on behalf of such Person if a final adjudication established that its acts or omissions involved intentional misconduct, fraud or a knowing violation of the law and were material to the cause of action; and

(b) continues for a Person who has ceased to be a Member, Manager, officer, legal representative or agent and inures to the benefit of the successors, heirs, executors and administrators of such a Person.

ARTICLE XI
MISCELLANEOUS PROVISIONS

SECTION 11.01 No Bankruptcy Petition; Dissolution.

(a) To the fullest extent permitted by law, the Member, each Special Member and each Manager hereby covenant and agree (or shall be deemed to have hereby covenanted and agreed) that, prior to the date which is one year and one day after the termination in accordance with their terms of all Indentures and the payment in full of all series of Storm Recovery Bonds and any other amounts owed under any Indenture, it will not acquiesce, petition or otherwise invoke or cause the Company to invoke the process of any court or Governmental Authority for the purpose of commencing or sustaining an involuntary case against the Company under any federal or state bankruptcy, insolvency or similar law or appointing a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official of the Company or any substantial part of the property of the Company, or ordering the winding up or liquidation of the affairs of the Company; provided, however, that nothing in this Section 11.01 shall constitute a waiver of any right to indemnification, reimbursement or other payment from the Company pursuant to this Agreement. This Section 11.01 is not intended to apply to the filing of a voluntary bankruptcy petition on behalf of the Company which is governed by Section 1.10 of this Agreement.

(b) To the fullest extent permitted by law, the Member, each Special Member and each Manager hereby covenant and agree (or shall be deemed to have hereby covenanted and agreed) that, until the termination in accordance with their terms of all Indentures and the payment in full of all series of Storm Recovery Bonds and any other amounts owed under any Indenture, the Member, such Special Member and such Manager will not consent to, or make application for, or institute or maintain any action for, the dissolution of the Company under Section 18-801 or 18-802 of the LLC Act or otherwise.

(c) In the event that the Member, any Special Member or any Manager takes action in violation of this Section 11.01, the Company agrees that it shall file an answer with the court or otherwise properly contest the taking of such action and raise the defense that the Member, the Special Member or Manager, as the case may be, has agreed in writing not to take such action

and should be estopped and precluded therefrom and such other defenses, if any, as its counsel advises that it may assert.

(d) The provisions of this Section 11.01 shall survive the termination of this Agreement and the resignation, withdrawal or removal of the Member, any Special Member or any Manager. Nothing herein contained shall preclude participation by the Member, any Special Member or a Manager in assertion or defense of its claims in any such proceeding involving the Company.

SECTION 11.02 Amendments.

(a) The power to alter, amend or repeal this Agreement shall be only with the consent of the Member, provided, that the Company shall not alter, amend or repeal any provision of Sections 1.02(b) and (c), 1.05, 1.09, 1.10, 3.01(b), 3.02, 6.06, 6.07, 7.02, 7.05, 7.06, 9.01, 9.02, 11.02 and 11.07 of this Agreement or the definition of "Independent Manager" contained herein or the requirement that at all times the Company have at least one Independent Manager (collectively, the "Special Purpose Provisions") without, in each case, the affirmative vote of a majority of the Managers, which vote must include the affirmative vote of any Independent Manager.

So long as any Storm Recovery Bonds of any series are outstanding, the Company and the Member shall give written notice to each applicable Rating Agency and to the Indenture Trustee of any amendment to this Agreement. The effectiveness of any amendment of the Special Purpose Provisions shall be subject to the Rating Agency Condition set forth in the Basic Documents (other than an amendment which is necessary: (i) to cure any ambiguity or (ii) to correct or supplement any such provision in a manner consistent with the intent of this Agreement).

(b) The Company's power to alter or amend the Certificate of Formation shall be vested in the Member. Upon obtaining the approval of any amendment, supplement or restatement as to the Certificate of Formation, the Member on behalf of the Company shall cause a Certificate of Amendment or Amended and Restated Certificate of Formation to be prepared, executed and filed in accordance with the LLC Act.

(c) Notwithstanding anything in this Agreement to the contrary, including Sections 11.02(a) and (b), unless and until any Storm Recovery Bonds are issued and outstanding, the Member may, without the need for any consent or action of, or notice to, any other Person, including any Manager, any officer, the Indenture Trustee or any Rating Agency, alter, amend or repeal this Agreement in any manner.

SECTION 11.03 [Commission Condition. Notwithstanding anything to the contrary in Section 11.02, no amendment or modification of this Agreement shall be effective unless the process set forth in this Section 11.03 has been followed.

(a) At least fifteen (15) days prior to the effectiveness of any such amendment or modification and after obtaining the other necessary approvals set forth in Section 11.02 above (except that the consent of the Indenture Trustee may be subject to the consent of Holders if such consent is required or sought by the Indenture Trustee in connection with such amendment), the

Member shall have delivered to the [Commission's Staff Director of Accounting & Finance] written notification of any proposed amendment or modification, which notification shall contain:

(i) [a reference to Docket No. [ ]];

(ii) an Officer's Certificate stating that the proposed amendment or modification has been approved by all parties to this Agreement; and

(iii) a statement identifying the person to whom the Commission or its authorized representative is to address any response to the proposed amendment or modification or to request additional time.

(b) If the Commission or its staff, within 15 days (subject to extension as provided in clause (c)) of receiving a notification complying with subparagraph (a), shall have delivered to the office of the person specified in clause (a)(iii) a written statement that the Commission might object to the proposed amendment or modification, then, subject to clause (d) below, such proposed amendment or modification shall not be effective unless and until the Commission subsequently delivers a written statement that it does not object to such proposed amendment or modification.

(c) If the Commission or an authorized representative of the Commission, within 15 days of receiving a notification complying with subparagraph (a), shall have delivered to the office of the person specified in clause (a)(iii) a written statement requesting an additional amount of time not to exceed thirty days in which to consider such proposed amendment or modification, then such proposed amendment or modification shall not be effective if, within such extended period, the Commission shall have delivered to the office of the person specified in clause (a)(iii) a written statement as described in subparagraph (b), unless and until the Commission subsequently delivers a written statement that it does not object to such proposed amendment or modification.

(d) If (i) the Commission or an authorized representative of the Commission shall not have delivered written notice that the Commission might object to such proposed amendment or modification within the time periods described in subparagraph (b) or (c), whichever is applicable, or (ii) the Commission or an authorized representative of the Commission, has delivered such written notice but does not within 60 days of the delivery of the notification in (a) above, provide subsequent written notice confirming that it does in fact object and the reasons therefor or advise that it has initiated a proceeding to determine what action it might take with respect to the matter, then the Commission shall be conclusively deemed not to have any objection to the proposed amendment or modification and such amendment or modification may subsequently become effective upon satisfaction of the other conditions specified in Section 11.02.

(e) Following the delivery of a statement from the Commission or an authorized representative of the Commission to the Member under subparagraph (b), the Member and the Company shall have the right at any time to withdraw from the Commission further consideration of any proposed amendment. Such withdrawal shall be evidenced by the prompt written notice thereof by the Member to the Commission, the Indenture Trustee, each Independent Manager and the Servicer.

(f) For the purpose of this Section 11.03, an "authorized representative" of the Commission means any person authorized to act on behalf of the Commission as evidenced by an Opinion of Counsel (which may be the general counsel) to the Commission.]

SECTION 11.04 Governing Law. THIS AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF DELAWARE, WITHOUT REFERENCE TO ITS CONFLICT OF LAW PROVISIONS, AND THE OBLIGATIONS, RIGHTS AND REMEDIES OF THE PARTIES HEREUNDER SHALL BE DETERMINED IN ACCORDANCE WITH SUCH LAWS.

SECTION 11.05 Headings. The headings of the various Articles and Sections herein are for convenience of reference only and shall not define or limit any of the terms or provisions hereof.

SECTION 11.06 Severability. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remainder of such provision (if any) or the remaining provisions hereof (unless such construction shall be unreasonable), and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

SECTION 11.07 Assigns. Each and all of the covenants, terms, provisions and agreements contained in this Agreement shall be binding upon and inure to the benefit of the Member, and its permitted successors and assigns.

SECTION 11.08 Enforcement by Each Independent Manager. Notwithstanding any other provision of this Agreement, the Member agrees that this Agreement constitutes a legal, valid and binding agreement of the Member, and is enforceable against the Member by each Independent Manager in accordance with its terms.

SECTION 11.09 Waiver of Partition; Nature of Interest. Except as otherwise expressly provided in this Agreement, to the fullest extent permitted by law, each of the Member and the Special Members hereby irrevocably waives any right or power that such Person might have to cause the Company or any of its assets to be partitioned, to cause the appointment of a receiver for all or any portion of the assets of the Company, to compel any sale of all or any portion of the assets of the Company pursuant to any applicable law or to file a complaint or to institute any proceeding at law or in equity to cause the dissolution, liquidation, winding up or termination of the Company. The Member shall not have any interest in any specific assets of the Company, and the Member shall not have the status of a creditor with respect to any distribution pursuant to this Agreement.

SECTION 11.10 Benefits of Agreement; No Third-Party Rights. Except for the Indenture Trustee and Persons entitled to indemnification hereunder, none of the provisions of this Agreement shall be for the benefit of or enforceable by any creditor of the Company or by any creditor of the Member or Special Member. Nothing in this Agreement shall be deemed to create any right in any Person (other than the Indenture Trustee and Persons entitled to indemnification

hereunder) not a party hereto, and this Agreement shall not be construed in any respect to be a contract in whole or in part for the benefit of any third Person.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, this Agreement is hereby executed by the undersigned as the sole Member of the Company and is effective as of the date first written above.

[DUKE ENERGY [CAROLINAS/PROGRESS]
STORM RECOVERY FUNDING], LLC

By: _____
Name:
Title:

ACKNOWLEDGED AND AGREED:

[ ],
as Independent Manager

_____

SCHEDULE A

SCHEDULE OF INITIAL CAPITAL CONTRIBUTION OF MEMBER

MEMBER'S NAME	CAPITAL CONTRIBUTION	MEMBERSHIP INTEREST PERCENTAGE	CAPITAL ACCOUNT
Duke Energy [Carolinas/Progress], LLC	$100	100%	$100

SCHEDULE B

INITIAL MANAGERS

[ ]

SCHEDULE C

INITIAL OFFICERS

Name	Office
	President, Chief Financial Officer and Treasurer
	Vice President and Controller
	Assistant Treasurer
	Secretary
	Assistant Treasurer
	Assistant Secretary
	Assistant Secretary

EXHIBIT A

MANAGEMENT AGREEMENT

_____ ___, 20[ ]

[ ]

Re: Management Agreement — [Duke Energy [Carolinas/Progress] Storm Recovery Funding], LLC

Ladies and Gentlemen:

For good and valuable consideration, each of the undersigned Persons, who have been designated as managers of [Duke Energy [Carolinas/Progress] Storm Recovery Funding], LLC, a Delaware limited liability company (the "Company"), in accordance with the Amended and Restated Limited Liability Company Agreement of the Company, dated as of [_____] (as it may be amended, restated, supplemented or otherwise modified from time to time, the "LLC Agreement"), hereby agree as follows:

1. Each of the undersigned accepts such Person's rights and authority as a Manager under the LLC Agreement and agrees to perform and discharge such Person's duties and obligations as a Manager under the LLC Agreement, and further agrees that such rights, authorities, duties and obligations under the LLC Agreement shall continue until such Person's successor as a Manager is designated or until such Person's resignation or removal as a Manager in accordance with the LLC Agreement. Each of the undersigned agrees and acknowledges that it has been designated as a "manager" of the Company within the meaning of the Delaware Limited Liability Company Act.

2. Until a year and one day has passed since the date that the last obligation under the Basic Documents was paid, to the fullest extent permitted by law, each of the undersigned agrees, solely in its capacity as a creditor of the Company on account of any indemnification or other payment owing to the undersigned by the Company, not to acquiesce, petition or otherwise invoke or cause the Company to invoke the process of any court or governmental authority for the purpose of commencing or sustaining a case against the Company under any federal or state bankruptcy, insolvency or similar law or appointing a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official of the Company or any substantial part of the property of the Company, or ordering the winding up or liquidation of the affairs of the Company.

3. THIS MANAGEMENT AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF DELAWARE, AND ALL RIGHTS AND REMEDIES SHALL BE GOVERNED BY SUCH LAWS WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAWS.

Capitalized terms used and not otherwise defined herein have the meanings set forth in the LLC Agreement.

This Management Agreement may be executed in any number of counterparts, each of which shall be deemed an original of this Management Agreement and all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the undersigned have executed this Management Agreement as of the day and year first above written.

_____

_____

_____

EXHIBIT A

APPENDIX A

DEFINITIONS

As used in this Agreement, the following terms have the following meanings:

"Additional Issuance" is defined in Section 1.07 of this Agreement.

"Administration Agreement" means an administration agreement to be entered into between the Company and the Administrator pursuant to which the Administrator will provide certain management services to the Company.

"Administrator" means [DEC/DEP], as Administrator under the Administration Agreement, or any successor Administrator to the extent permitted under the Administration Agreement.

"Affiliate" means, with respect to any specified Person, any other Person controlling or controlled by or under common control with such specified Person. For the purposes of this definition, "control" when used with respect to any specified Person means the power to direct the management and policies of such specified Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Agreement" has the meaning set forth in the preamble to this Agreement.

"Bankruptcy" is defined in Section 9.01(b) of this Agreement.

"Bankruptcy Code" means Title 11 of the United States Code (11 U.S.C. §§ 101 et seq.), as amended from time to time.

"Basic Documents" means the Indentures, the Administration Agreement, the Sale Agreements, the Bills of Sale, the Certificate of Formation, Declaration of Trust, the Original LLC Agreement, this Agreement, the Servicing Agreements, the Series Supplements, the Intercreditor Agreements, the Letters of Representations, the Underwriting Agreements and all other documents and certificates delivered in connection therewith.

"Bill of Sale" means a bill of sale in connection with the sale of Storm Recovery Property pursuant to a Sale Agreement.

"Capital Account" is defined in Section 2.03 of this Agreement.

"Capital Contribution" is defined in Section 2.01 of this Agreement.

"Certificate of Formation" means the Certificate of Formation filed with the Secretary of State on [ ] pursuant to which the Company was formed.

"Clearing Agency" means an organization registered as a "clearing agency" pursuant to Section 17A of the Securities Exchange Act of 1934, as amended.

"Code" means the Internal Revenue Code of 1986, as amended.

"Collection Account" with respect to each series of Storm Recovery Bonds means the account established and maintained by the Indenture Trustee in connection with the applicable Indenture and Series Supplement, and any subaccounts contained therein.

"Commission" means [North Carolina Utilities Commission].

"Company" has the meaning set forth in the preamble to this Agreement.

"[DEC/DEP]" means Duke Energy [Carolinas/Progress], a North Carolina limited liability company, and any of its successors or permitted assigns.

"Financing Order" means the financing order filed by the Commission on [ ], [Docket No. [ ]], authorizing the creation of Storm Recovery Property and the issuance of Storm Recovery Bonds in one or more series for the benefit of [DEC/DEP].

"Financing Order" also means any financing order in the future filed by the Commission pursuant to the Storm Recovery Law for the benefit of [DEC/DEP].

"Fitch" means Fitch Ratings or any successor thereto. References to Fitch are effective as long as Fitch is a Rating Agency.

"Governmental Authority" means any nation or government, any federal, state, local or other political subdivision thereof and any court, administrative agency or other instrumentality or entity exercising executive, legislative, judicial, regulatory or administrative functions of government.

"Holder" means the Person in whose name a Storm Recovery Bond is registered.

"Indenture" means each Indenture to be entered into between the Company and the Indenture Trustee authorizing the issuance of Storm Recovery Bonds in one or more series pursuant to a Financing Order, as such Indenture shall be originally executed and, as from time to time supplemented or amended by any supplements or indentures supplemental thereto entered into pursuant to the applicable provisions of the Indenture, as so supplemented or amended, or both, and shall include the forms and terms of Storm Recovery Bonds established thereunder.

"Indenture Trustee" means [ ], as indenture trustee for the benefit of the Secured Parties, or any successor indenture trustee for the benefit of the Secured Parties, under the applicable Indenture and the applicable Series Supplement.

"Independent Manager" is defined in Section 4.01(a) of this Agreement.

"Independent Manager Fee" is defined in Section 4.01(a) of this Agreement.

["Intercreditor Agreement" means the Intercreditor Agreement, by and among the Company, the Indenture Trustee, [DEC/DEP] and the parties to the accounts receivable sale program of [ ], and any subsequent such agreement.]

"Letter of Representations" means any applicable agreement between the Company and the applicable Clearing Agency, with respect to such Clearing Agency's rights and obligations (in its capacity as a Clearing Agency) with respect to any Book-Entry Storm Recovery Bonds (as defined in the Indenture).

"LLC Act" means the Delaware Limited Liability Company Act, as amended.

"Manager" means each manager of the Company under this Agreement.

"Member" has the meaning set forth in the preamble to this Agreement.

"Membership Interest" is defined in Section 6.01 of this Agreement.

"Moody's" means Moody's Investors Service, Inc. References to Moody's are effective so long as Moody's is a Rating Agency.

"Storm Recovery Charge" means any storm recovery charge as defined in N.C. Gen. Stat. § 62-172(a)(13) that is authorized by a Financing Order.

"On-going Financing Cost" means with respect to a series of Storm Recovery Bonds, the Financing Costs described as such in the applicable Financing Order, including Operating Expenses and any other costs identified in the Basic Documents; provided, however, that On-going Financing Costs do not include the Company's costs of issuance of such series of Storm Recovery Bonds.

"Operating Expenses" means all unreimbursed fees, costs and out-of-pocket expenses of the Company, including all amounts owed by the Company to the Indenture Trustee (including indemnitees, legal fees and expense), or any Manager, fees of the Servicer pursuant to the Servicing Agreement, fees of the Administrator pursuant to the Administration Agreement, legal and accounting fees, Rating Agency and related fees (i.e. website provider fees), and any franchise or other taxes owed by the Company, including on investment income in the Collection Account.

"Original LLC Agreement" has the meaning set forth in the preamble to this Agreement.

"Payment Date" means, with respect to any Series or tranche of Storm Recovery Bonds, the dates specified in the Series Supplement; provided, that if any such date is not a Business Day, the Payment Date shall be the Business Day succeeding such date.

"Person" means any individual, corporation, limited liability company, estate, partnership joint venture, association, joint stock company, trust (including any beneficiary thereof), unincorporated organization or Government Authority.

"Rating Agency" means, with respect to any tranche of Storm Recovery Bonds, any of Moody's, S&P or Fitch that provides a rating with respect to the Storm Recovery Bonds. If no such organization (or successor) is any longer in existence, "Rating Agency" shall be a

nationally recognized statistical rating organization or other comparable Person designated by the Company, notice of which designation shall be given to the Indenture Trustee and the Servicer.

"Rating Agency Condition" means, with respect to any action, at least ten Business Days' prior written notification to each Rating Agency of such action, and written confirmation from each of S&P and Moody's to the Servicer, the Indenture Trustee and the Issuer that such action will not result in a suspension, reduction or withdrawal of the then current rating by such Rating Agency of any tranche of Storm Recovery Bonds; provided, that, if, within such ten Business Day period, any Rating Agency (other than S&P) has neither replied to such notification nor responded in a manner that indicates that such Rating Agency is reviewing and considering the notification, then (a) the Company shall be required to confirm that such Rating Agency has received the Rating Agency Condition request and, if it has, promptly request the related Rating Agency Condition confirmation and (b) if the Rating Agency neither replies to such notification nor responds in a manner that indicates it is reviewing and considering the notification within five Business Days following such second request, the applicable Rating Agency Condition requirement shall not be deemed to apply to such Rating Agency. For the purposes of this definition, any confirmation, request, acknowledgment or approval that is required to be in writing may be in the form of electronic mail or a press release (which may contain a general waiver of a Rating Agency's right to review or consent).

"Return on Invested Capital" means, for any Payment Date with respect to any Remittance Period, the sum of (i) rate of return, payable to [DEC/DEP], on its Capital Contribution equal to the rate of interest payable on the longest maturing tranche of Storm Recovery Bonds plus (ii) any Return on Invested Capital not paid on any prior Payment Date.

"S&P" means Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business. References to S&P are effective as long as S&P is a Rating Agency.

"Sale Agreement" means a sale agreement to be entered into pursuant to which the Seller will sell its rights and interests in Storm Recovery Property with respect to a particular series of Storm Recovery Bonds to the Company.

"Secretary of State" means the Secretary of State of the State of Delaware.

"Secured Parties" means the Indenture Trustee, the Holders of a particular series of Storm Recovery Bonds and any credit enhancer described in the Series Supplement.

"Seller" means [DEC/DEP].

"Series Supplement" means the indenture supplemental to an Indenture in the form attached as an exhibit to the Indenture that authorizes the issuance of a particular series of Storm Recovery Bonds.

"Servicer" means [DEC/DEP], as Servicer under the Servicing Agreement, or any successor Servicer to the extent permitted under the Servicing Agreement.

"Servicing Agreement" means a servicing agreement to be entered into pursuant to which the Servicer will service Storm Recovery Property on behalf of the Company.

"Special Member" is defined in Section 1.02(b) of this Agreement.

"Special Purpose Provisions" is defined in Section 11.02(a) of this Agreement.

["Staff Director" means the Commission's Staff Director of Accounting & Finance or a designee of the Staff Director of Accounting & Finance provided that such designee is also a member of the Commission's Staff.]

"Storm Recovery Bonds" means Storm Recovery Bonds authorized by a Financing Order and issued under an Indenture.

"Storm Recovery Bond Collateral" means, with respect to a series of Storm Recovery Bonds, the Storm Recovery Property created under and pursuant to a Financing Order and the Storm Recovery Law with respect to that series, and transferred by the Seller to the Company pursuant to a Sale Agreement (including, to the fullest extent permitted by law, the right to impose, bill, charge, collect and receive Storm Recovery Charges, the right to obtain periodic adjustments to the Storm Recovery Charges, and all revenue, collections, claims, rights to payments, payments, money and or proceeds of or arising from the Storm Recovery Charges out of the rights and interests created under the Financing Order with respect to that series), (b) all Storm Recovery Charges related to the Storm Recovery Property with respect to that series, (c) the Sale Agreement and the Bill of Sale executed in connection with that series of Storm Recovery Bonds and all property and interests in property transferred under the Sale Agreement and the Bill of Sale with respect to that Storm Recovery Property and that series of Storm Recovery Bonds, (d) the Servicing Agreement, the Administration Agreement, the Intercreditor Agreement and any subservicing, agency, administration or collection agreements executed in connection therewith, to the extent related to the foregoing Storm Recovery Property and that series of Storm Recovery Bonds, (e) the Collection Account, all subaccounts thereof and all amounts of cash, instruments, investment property or other assets on deposit therein or credited thereto from time to time and all financial assets and securities entitlements carried therein or credited thereto, (f) all rights to compel the Servicer with respect to a series of Storm Recovery Bonds to file for and obtain adjustments to the Storm Recovery Charges in accordance with N.C. Gen. Stat. § 62-172(b)(3)b.6. and N.C. Gen. Stat. § 62-172(b)(3)d. and the Financing Order, (g) all present and future claims, demands, causes and choses in action in respect of any or all of the foregoing, whether such claims, demands, causes and choses in action constitute Storm Recovery Property, accounts, general intangibles, instruments, contract rights, chattel paper or proceeds of such items or any other form of property, (h) all accounts, chattel paper, deposit accounts, documents, general intangibles, goods, instruments, investment property, letters of credit, letters-of-credit rights, money, commercial tort claims and supporting obligations related to the foregoing and (i) all payments on or under, and all proceeds in respect of, any or all of the foregoing.

"Storm Recovery Law" means the laws of the State of North Carolina adopted in 2019 enacted as N.C. Gen. Stat. § 62-172.

"Storm Recovery Property" means all Storm Recovery Property as defined in N.C. Gen. Stat. § 62-172(a)(15)a. created pursuant to the Financing Order or a Subsequent Financing Order and under the Storm Recovery Law, including the right to impose, bill, charge, collect and receive the Storm Recovery Charges authorized under the Financing Order and to

obtain periodic adjustments of the Storm Recovery Charges and all revenue, collections, claims, rights to payments, payments, money, or proceeds arising from the rights and interests specified in N.C. Gen. Stat. § 62-172(a)(15)b., 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.

"Treasury Regulations" means the regulations, including proposed or temporary regulations, promulgated under the Code.

"Underwriting Agreement" with respect to any series of Storm Recovery Bonds means the Underwriting Agreement by and among [DEC/DEP], the representatives of the several underwriters named therein and the Company.

AMENDED AND RESTATED DECLARATION OF TRUST

Of

SPECIAL PURPOSE TRUST

Among

Duke Energy Progress, LLC and

Duke Energy Carolinas, LLC

acting jointly as Settlors

and

_____,

as Delaware Trustee

and

Duke Energy Corporation,

as Administrative Trustee

Dated as of _____, 2021

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THIS AMENDED AND RESTATED DECLARATION OF TRUST dated and effective as of _____, 2021 (as further amended or restated from time to time, the "Declaration"), by the Bond Issuers (as defined below), acting jointly hereunder as settlors, _____, acting hereunder not in its individual or corporate capacity but solely as trustee under the laws of the State of Delaware (the "Delaware Trustee"), and Duke Energy Corporation as administrative trustee of the Trust (the "Administrative Trustee" and collectively with the Delaware Trustee, the "Trustees").

RECITALS:

WHEREAS, pursuant to the NC Code 8 Section 62-172 (the "Statute") an electric distribution utility in the State of North Carolina may obtain from The North Carolina Utilities Commission (the "NCUC") a financing order (as defined in the Statute) permitting such utility to recover storm recovery costs (as contemplated by the Statute) through the issuance of storm recovery bonds (as defined in the Statute).

WHEREAS, Duke Energy Progress, LLC ("DEP Bond Issuer"), a Delaware special purpose limited liability company, and Duke Energy Carolinas, LLC ("DEC Bond Issuer"), a Delaware special purpose limited liability company (collectively the "Bond Issuers") have applied for and received a financing order (as defined in the Statute) from the NCUC, have formed the Bond Issuers to issue storm recovery bonds and have requested the Bond Issuers to form a special purpose trust to hold the bonds issued by the Bond Issuers and to issue pass-through notes.

WHEREAS, the trust was created on _____ as a Delaware statutory trust pursuant to a Declaration of Trust and a Certificate of Trust filed with the Delaware Secretary of State. The trust continued hereby (the "Trust") shall constitute a special purpose trust empowered to issue one or more series with one or more Tranches (as defined in the Note Indenture (as defined below)) of notes constituting _____ secured notes (the "Notes"). All such Notes shall be issued pursuant to a note indenture, as may be supplemented from time to time (the "Note Indenture"), by and among the Trust and a trustee (the "Note Trustee"), initially secured by the following bonds: (i) DEP bonds (the "DEP Bonds") issued by the DEP Bond Issuer, and (ii) the DEC bonds ("DEC Bonds") issued by the DEC Bond Issuer. The DEP Bonds and the DEC Bonds are collectively referred to as the "Bonds." The Note Indenture and this Declaration shall together constitute the governing instrument of the Trust. The Trust shall purchase the Bonds from each Bond Issuer pursuant to a bond purchase agreement (each, a "Bond Purchase Agreement") relating to the respective Bonds. The Bonds of each Bond Issuer will be issued pursuant to an indenture (each, a "Bond Indenture"), by and between such Bond Issuer and a trustee (the "Bond Trustee") initially designated for each Bond Indenture as _____ and secured by a pledge of and lien upon the storm cost recovery property (as defined in the Statute) in the case of (i) the Bond Indenture for the DEP Bond Issuer, purchased by the DEP Bond Issuer from _____ together with substantially all other assets of the DEP Bond Issuer, and (ii) the Bond Indenture for the DEC Bond Issuer, purchased by the DEC Bond Issuer from _____ together with substantially all other assets of the DEC Bond Issuer. DEP will service the storm recovery property purchased by the DEP Bond Issuer for the benefit of the DEP Bond Issuer pursuant to a storm recover property servicing agreement (the "DEP Servicing Agreement"), between DEP as servicer (in such

capacity, together with any successor servicer, the "DEP Servicer") and the DEP Bond Issuer. DEC will service storm recovery property purchased by the DEC Bond Issuer for the benefit of the DEC Bond Issuer pursuant to a DEC property servicing agreement (the "DEC Servicing Agreement"), between DEC as servicer (in such capacity, together with any successor servicer, the "DEC Servicer") and the DEC Bond Issuer. The DEP Servicing Agreement and DEC Servicing Agreement are collectively referred to as the "Servicing Agreements" and the DEP Servicer and DEC Servicer are collectively referred to as the "Servicers."

WHEREAS, this Declaration, the Note Indenture, the Bond Purchase Agreements, the Bond Indentures, the Servicing Agreements, the Fee and Indemnity Agreement (defined below), the Storm Recovery Property Purchase and Sale Agreements between (i) DEP, as seller, and the DEP Bond Issuer, and (ii) DEC, as seller, and the DEC Bond Issuer, the Administration Agreements between (x) DEP, as administrator, and the DEP Bond Issuer, (y) DEC, as administrator, and the DEC Bond Issuer, (each of DEP and DEC, in their respective capacity as administrator, collectively, the "Administrators"), the Underwriting Agreement among the Bond Issuers, _____, the Trust and the underwriters named therein, relating to the underwriting of the Notes, and the DTC Agreement (as defined in the Note Indenture), are herein collectively referred to as the "Initial Basic Documents."

WHEREAS, the Trust may issue additional series of Notes pursuant to the Note Indenture secured by additional series of storm recovery bonds (as defined in the Statute) purchased from the Bond Issuers ("Additional Bonds") and each series of Additional Bonds shall require the execution of additional documents similar to the Initial Basic Documents (the "Additional Basic Documents", and together with the Initial Basic Documents, the "Basic Documents").

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the parties hereto agree as follows:

ARTICLE I
DEFINITIONS AND INCORPORATION BY REFERENCE

Section 1.1. Definitions. All references herein to the "Declaration" or this "Declaration" are to this Amended and Restated Declaration of Trust, all references herein to the "Trust" are to the trust continued hereunder, and all references herein to Articles, Sections, subsections, Schedules and Exhibits are to Articles, Sections, subsections, Schedules and Exhibits of this Declaration, unless otherwise specified. All capitalized terms used herein and not otherwise defined shall have the meanings set forth in the Recitals hereto.

ARTICLE II
ORGANIZATION

Section 2.1. Creation of Trust. The Trust continued hereby shall be known as "_____," in which name the Delaware Trustee (only to the extent the Delaware Trustee is expressly required herein) and the Administrative Trustee may conduct the business of the Trust, make and execute contracts and other instruments on behalf of the Trust and sue and be sued on behalf of the Trust. In addition, the Administrative Trustee may conduct

the business of the Trust in its own name, as trustee hereunder, to the extent deemed necessary or appropriate by such Administrative Trustee, in its sole discretion; provided, that such Administrative Trustee may rely conclusively upon an opinion of counsel as to whether any proposed action is necessary or appropriate. It is the intention that the Trust shall constitute a statutory trust under the Delaware Statutory Trust Act (being Chapter 38 of Title 12 of the Delaware Code, 12 Del. C., § 3801 et seq., as the same may be amended from time to time and any successor statute) (the "Statutory Trust Act"), that the Note Indenture shall be deemed a part of this Declaration and that this Declaration (together with the Note Indenture) shall constitute the governing instrument of the Trust. To the extent that the provisions of this Declaration and the Note Indenture conflict with respect to the issuance of a series of Notes and the rights of the holders thereof, the Note Indenture shall control. The Delaware Trustee filed the Certificate of Trust, substantially in the form attached hereto as Exhibit A, pursuant to § 3810 et seq. of the Statutory Trust Act in connection with the creation of the Trust as a statutory trust under the Statutory Trust Act. The fiscal year of the Trust shall be the calendar year.

Section 2.2. Situs of the Trust. The Trust shall be located in Delaware and administered in Delaware, _____ or such other location as is acceptable to the Bond Issuers. The office of the Trust shall be in care of the Delaware Trustee at the corporate trust office (the "Office") at _____ (although any notice, direction, consent or waiver given to the Delaware Trustee hereunder shall also be given in care of the address set forth in Section 7.3(a) hereof), which Office shall be located in Delaware, or at such other address in Delaware as the Delaware Trustee may designate by written notice to the Note Trustee, the Bond Issuers, the Bond Trustees, the Servicers, and the holders of the Certificates. The Trust shall not have any employees in any state other than Delaware; provided, however, that nothing herein shall restrict or prohibit the Delaware Trustee or the Note Trustee (each in its individual capacity but not as Delaware Trustee or Note Trustee, as applicable) from having employees within or outside of the State of Delaware.

Section 2.3. Purposes and Powers.

(a) The Trust is constituted solely for the purpose of acquiring and holding the Bonds or other storm recovery bonds as defined in the Statute ("Additional Bonds") and issuing Notes, applying the proceeds of such Notes to purchase the Bonds or Additional Bonds from each Bond Issuer and entering into and performing its obligations under each of the Basic Documents or any similar documents related to a series of Notes secured Additional Bonds to which it may be a party (which functions the Administrative Trustee or the Delaware Trustee (only to the extent the Delaware Trustee is expressly required herein) shall perform or cause to be performed on behalf of the Trust), and, except as set forth herein, the Trust (and any Person acting on behalf of the Trust) is not authorized or empowered to acquire any other investments or engage in any other activities on behalf of the Trust and, in particular, neither Trustee is authorized or empowered to do anything that would cause the Trust to fail to qualify as a "grantor trust" for federal income tax purposes.

(b) The Trustees shall have all rights and powers set forth herein and, to the extent not inconsistent herewith, in the Statutory Trust Act with respect to accomplishing the purposes of the Trust.

Section 2.4. Trust Property.

(a) The Administrator assigned, transferred, conveyed and set over to the Delaware Trustee on behalf of the Trust the sum of $1.00. The Delaware Trustee previously acknowledged receipt of such amount in trust from the Bond Issuers, which amount constituted the initial trust property.

(b) Upon issuance of Notes and purchase of the Bonds from each Bond Issuer, the holders of Notes shall become the sole and exclusive beneficial owners of the Trust estate established hereby. In accordance with Section 3805(e) of the Statutory Trust Act and subject to the terms and conditions of the Note Indenture, at the time that a holder of Notes becomes entitled to receive a distribution from the Trust, it has the status of, and is entitled to all remedies available to, a creditor of a statutory trust with respect to the distribution. The Delaware Trustee hereby declares that it shall hold the Bonds of each Bond Issuer, the security interest in the storm recovery property (as defined in the Statute) securing the Bonds of each Bond Issuer, and all other property constituting Trust Property (as defined in the Notes Indenture) in trust as herein provided for the benefit of the holders of Notes, subject to the rights of such holders under the Note Indenture, from and after such date until termination of the Trust as herein provided, or under any of Basic Documents.

(c) Legal title to the Trust Property shall be vested at all times in the Trust as a separate legal entity except where applicable law in any jurisdiction requires title to any part of the Trust Property to be vested in a trustee or trustees, in which case title shall be deemed to be vested in the Delaware Trustee, a co-trustee and/or a separate trustee, as the case may be.

Section 2.5. Issuance of Notes. The Trust shall execute and deliver the Notes in accordance with, and only upon satisfaction of the terms of, the Note Indenture. Each series of Notes shall be issued in accordance with the terms of the Note Indenture.

Section 2.6. Organizational Expenses. The Delaware Trustee shall be reimbursed, but solely from amounts payable by the Bond Issuers under a fee and indemnity agreement dated as of _____ among the Bond Issuers, the Note Trustee, the Delaware Trustee, and the Trust (the "Fee and Indemnity Agreement"), for organizational expenses of the Trust as they may arise. No Trustee shall have recourse against the Bonds or the payments thereon and proceeds thereof, for the reimbursement of such expenses.

Section 2.7. Independent Status. The Trust and each of the Bond Issuers each covenant and agree to hold itself out to the public under its own name as a separate and distinct entity and will each conduct its business so as not to mislead others as to its identity. The Trust (and the Administrative Trustee on behalf of the Trust) shall cause those financial statements and other records required by law, or otherwise required, to be prepared and maintained separate and apart from those of the Bond Issuers.

Section 2.8. Tax Treatment; Construction.

(a) It is the intention that the Trust shall be treated as a "grantor trust" for federal income tax purposes and all transactions contemplated by this Declaration will be reported consistently with such treatment.

(b) The provisions of this Declaration shall be construed, and the affairs of the Trust shall be conducted, so as to achieve treatment of the Trust as a "grantor trust" for federal income tax purposes. Accordingly, notwithstanding any other provision hereof to the contrary, this Declaration, along with the Note Indenture, shall be construed to establish one or more series of Notes. The assets of the Trust shall consist of the Bonds of each Bond Issuer, any Additional Bonds and other property described in this Declaration (including by reference to the Note Indenture), and the Trustees shall have no power hereunder to vary the investment of the holders of any such Tranche of Certificates.

ARTICLE III
DELIVERY OF CERTAIN DOCUMENTS

Section 3.1. Documents Relating to Issuance of Notes. The Delaware Trustee is hereby directed to execute and deliver on behalf of the Trust from time to time and as instructed in writing by the Bond Issuers, all Basic Documents to which the Trust may be a party, including the Note Indenture, the Notes (including any Notes issued upon transfer or exchange or as replacement Notes in accordance with the Notes Indenture), the Bond Purchase Agreements, the Fee and Indemnity Agreement and the Underwriting Agreement, and any amendment or supplement to any of the foregoing, and each Administrative Trustee is hereby directed to execute and deliver on behalf of the Trust from time to time and as instructed in writing by the Bond Issuers all other documents and instruments as may be necessary or desirable to issue the Notes pursuant to the provisions of the Note Indenture and to purchase the Bonds pursuant to the Bond Purchase Agreements, and any amendment or supplement to any of the foregoing; provided that in the case of the execution and delivery of any amendment or supplement to a document or instrument by the Delaware Trustee and the Administrative Trustee, such Trustee shall be obligated only to execute and deliver any such amendment or supplement in such form as the Bond Issuers shall approve, as evidenced conclusively by the presentation of such amendment or supplement by the Bond Issuers to the applicable Trustee or Trustees for execution and delivery thereof on behalf of the Trust.

Section 3.2. Residual Matters. To the extent the Trust is required to take any actions that are incidental to, contemplated by or in furtherance of its purpose set forth in Section 2.3 hereof, which actions are not otherwise contemplated or addressed by this Declaration, or the Bond Issuers otherwise deem such actions to be necessary or advisable and in the best interests of the Note holders, each Administrative Trustee is hereby authorized to cause the Trust to take such actions.

ARTICLE IV
THE TRUSTEES

Section 4.1. Appointment. For valuable consideration received, it is mutually covenanted and agreed that (a) the Delaware Trustee has been, and by this document is, appointed to serve as the trustee of the Trust in the State of Delaware pursuant to Section 3807 of the Statutory Trust Act and (b) the Administrative Trustee is hereby appointed to serve as a trustee of the Trust.

Section 4.2. Duties and Responsibilities. It is understood and agreed that, the duties and responsibilities of: (a) the Delaware Trustee shall be limited to (i) executing and delivering on behalf of the Trust the Basic Documents to which the Trust or the Delaware Trustee may be a party, and any amendments or supplements to the foregoing, (ii) accepting legal process served on the Trust in the State of Delaware, (iii) the execution and delivery of all certifications required to be filed with the Secretary of State of the State of Delaware in order to form, maintain and terminate the existence of the Trust under the Statutory Trust Act as instructed by the Bond Issuers, and (iv) the taking of only such other actions as are specifically assigned to it by this Declaration; and (b) the Administrative Trustee shall be limited to (i) executing and delivering on behalf of the Trust all other documents and instruments not specifically required to be executed and delivered by the Delaware Trustee as may be necessary or desirable to issue the Notes pursuant to the provisions of the Note Indenture and to purchase the Bonds pursuant to the Bond Purchase Agreements, and any amendments or supplements to the foregoing and (ii) the taking of only such other actions as are specifically assigned to it by this Declaration, including the matters contemplated by Section 3.2 hereof. No implied covenants or obligations shall be read into this Declaration against any Trustee. No Trustee nor any of its respective officers, directors, employees, agents or affiliates shall have any implied duties (including law fiduciary duties) or liabilities otherwise existing at law or in equity with respect to the Trust, which implied duties and liabilities are hereby eliminated. The permissive right of the Trustees to take any action hereunder or under any other Basic Document shall not be construed as a duty.

Section 4.3. Prohibited Actions. Except as otherwise expressed herein and as permitted under the Basic Documents, the Trustees shall not (i) take any action with respect to any election by the Trust to file an amendment to this Declaration, (ii) amend, change, modify or terminate any Basic Document, or (iii) sell the Bonds of any Bond Issuer, any other Trust Property or any interest therein.

Section 4.4. Acceptance of the Trusts. By the execution hereof, the Trustees accept the trusts created hereinabove.

Section 4.5. Limitation of Liability. Except as otherwise expressly required by this Declaration and except for its own willful misconduct or negligence in the performance of its specified duties under this Declaration, no Trustee shall have any duty or liability with respect to the administration of the Trust, the investment of the Trust's property or the payment of dividends or other distributions of income or principal to the holders of the Notes. No Trustee shall be liable for the acts or omissions of the Note Trustee nor shall any Trustee be liable for supervising or monitoring the performance of the duties and obligations of the Trust, the Note

Trustee, any other Trustee, the Servicers, any document custodian or any other Person hereunder or under any Basic Document or otherwise. No Trustee shall be personally liable under any circumstances, except for its own willful misconduct or negligence. In particular, but not by way of limitation:

(a) the Delaware Trustee shall not be personally liable for any error of judgment made in good faith by any officer within the corporate trust department of the Delaware Trustee who has been assigned to perform or provide trustee functions or services on behalf of the Trust nor shall the Administrative Trustee be personally liable for any error of judgment made in good faith by any of its officers, employees or agents who have been assigned to perform or provide trustee functions or services on behalf of the Trust;

(b) no provision of this Declaration shall require any Trustee to expend or risk its personal funds or otherwise incur any financial liability in the performance of its rights or powers hereunder, if such Trustee shall have reasonable grounds for believing that repayment of such funds or indemnity satisfactory to it against such risk or liability is not reasonably assured or provided to it;

(c) it is expressly understood and agreed by the parties hereto that (i) each of the representations, undertakings and agreements herein made on the part of the Trust is made and intended not as personal representations, undertakings and agreements by the Trustees but is made and intended for the purpose of binding only the Trust, (ii) nothing herein contained shall be construed as creating any liability of the Trustees, individually or personally, to perform any covenant of the Trust either expressed or implied contained herein, all such liability, if any, deemed waived by the parties who are signatories to this Declaration and by any person or entity (each, a "Person") claiming by, through or under such parties and (iii) under no circumstances shall the Trustees be personally liable for the payment of any indebtedness or expenses of the Trust (other than expenses subject to reimbursement as contemplated by Section 2.6 above), or be liable for the breach or failure of any obligation, representation, warranty or covenant made or undertaken by or on behalf of the Trust under this Declaration;

(d) the Trustees shall not be personally responsible for the validity or sufficiency of this Declaration or the Notes or for the due execution hereof by the Bond Issuers or for the form, character, genuineness, sufficiency, value or validity of any of the Trust Property;

(e) in the exercise or administration of the trusts hereunder, each Trustee (i) may act directly or through agents (including affiliates), attorneys, custodians or nominees pursuant to agreements entered into with any of them, and such Trustee shall not be liable for the default or misconduct or supervision of such agents, attorneys, custodians or nominees if such agents, attorneys, custodians or nominees shall have been selected by such Trustee in good faith and (ii) may, at the expense of the Bond Issuers, consult with attorneys, accountants and other skilled Persons to be selected in good faith and employed by it, and it shall not be liable for anything done, suffered or omitted in good faith by it in accordance with the advice or opinion of any such attorneys, accountants or other skilled Persons;

(f) except as expressly provided in this Section 4.5, in accepting and performing the trusts hereby created, each Trustee acts solely as trustee for the Trust and not in its individual capacity, and all Persons having any claim against any Trustee by reason of the transactions contemplated by this Declaration shall look only to the Trust's property for payment or satisfaction thereof;

(g) the Delaware Trustee's sole duty with respect to the custody, safekeeping and physical preservation of the Trust Property shall be to deal with such property in a manner similar to the manner in which the Delaware Trustee deals with similar property for its own account, subject to the protections and limitations on liability afforded to the Delaware Trustee under this Declaration;

(h) the Delaware Trustee has not prepared or verified, and shall not be responsible or liable for, any information, disclosure or other statement in any disclosure or offering document or in any other document issued or delivered in connection with the sale or transfer of the Notes or the Bonds;

(i) the Trustees shall have no duty or liability for or with respect to the value, genuineness, existence or sufficiency of the Trust Property or the payment of any taxes or assessments levied thereon or in connection therewith;

(j) the Delaware Trustee shall not be liable for any interest on any moneys received by it on behalf of the Trust, except as the Delaware Trustee may otherwise agree with the Bond Issuers in writing;

(k) moneys held by the Delaware Trustee on behalf of the Trust need not be segregated from other moneys except as the Delaware Trustee may otherwise agree with the Bond Issuers or as otherwise required by law;

(l) no Trustee shall be under any obligation to exercise any of the rights or powers vested in it by this Declaration, or to institute, conduct or defend any litigation under this Declaration or otherwise in relation to the Trust, this Declaration or any Basic Document, at the request or direction of any of the Bond Issuers, the Note holders, the Settlors, any other Trustee or any other Person, unless such Persons have offered to such Trustee and, in the case of the Delaware Trustee, [**name of trustee**], security or indemnity satisfactory to it against the costs, expenses (including reasonable legal fees and expenses) and liabilities that might be incurred by such Trustee or [**name of trustee**], as the case may be, in compliance with such request or direction. The right of any Trustee to perform any discretionary act enumerated in this Declaration or in any Basic Document shall not be construed as a duty, and such Trustee shall not be answerable or personally liable to any Person for any such act other than liability to the Trust and the beneficial owners for its own negligence or willful misconduct in the performance in any such act;

(m) no Trustee shall be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, entitlement order, approval or other paper or document;

(n) (i) the Delaware Trustee shall not be deemed to have knowledge of any fact or event unless an officer in the corporate trust office of the Delaware Trustee having direct responsibility for administration of the Declaration (a "Responsible Officer") has actual knowledge thereof or unless written notice of such fact or event is received by a Responsible Officer and such notice references the fact or event and (ii) no Administrative Trustee shall be deemed to have knowledge of any fact or event unless an officer having direct responsibility for administration of the Declaration has actual knowledge thereof or unless written notice of such fact or event is received by such an officer and such notice references the fact or event;

(o) each of the parties hereto hereby agrees and, as evidenced by its acceptance of any benefits hereunder, any Note holder agrees that neither Trustee, in any capacity (x) has provided or will provide in the future, any advice, counsel or opinion regarding the tax, financial, investment, securities law or insurance implications and consequences of the formation, funding and ongoing administration of the Trust, and (y) has made any investigation as to the accuracy of any representations, warranties or other obligations of the Trust under the Basic Documents; and

(p) each Trustee shall have the right at any time to seek instructions concerning the administration of the Trust, or from any court of competent jurisdiction. Each Trustee shall take such action or refrain from taking such action under this Declaration as it may be directed in writing by the Bond Issuers or, in the case of the Delaware Trustee, any Administrative Trustee (in each case, an "Instructing Party") from time to time; provided, however, that such Trustee shall not be required to take or refrain from taking any such action if it shall have determined, or shall have been advised by counsel, that such performance is likely to involve such Trustee in personal liability or is contrary to the terms of this Declaration or of any document contemplated hereby to which the Trust is a party or is otherwise contrary to law. If at any time such Trustee determines that it requires or desires guidance regarding the application of any provision of this Declaration or any other document, then such Trustee may deliver a notice to an Instructing Party requesting written instructions as to the course of action desired by such Instructing Party and such instructions shall constitute full and complete authorization and protection for actions taken by such Trustee in reliance thereon. If such Trustee does not receive such instructions within five (5) Business Days after it has delivered to such Instructing Party such notice requesting instructions, or such shorter period of time as may be set forth in such notice, it shall refrain from taking any action with respect to the matters described in such notice. Each instruction delivered by an Instructing Party to such Trustee shall certify to such Trustee that any actions to be taken pursuant to such instruction comply with the terms of this Declaration and such Trustee may rely on such certification and instruction without inquiry except to the extent it has actual knowledge to the contrary.

Section 4.6. Compensation and Reimbursement; Indemnification.

(a) Pursuant to the Fee and Indemnity Agreement, each Bond Issuer has agreed to pay, or cause to be paid, to the Delaware Trustee from time to time compensation for its services and to reimburse it for its reasonable expenses hereunder. The Delaware Trustee shall have no recourse against the Bonds of any Bond Issuer, the payments received thereon or the proceeds therefrom, for the payment of such compensation or for the reimbursement of such expenses.

(b) Pursuant to the Fee and Indemnity Agreement, each Bond Issuer has agreed to indemnify, defend and hold harmless the Delaware Trustee and any of the affiliates, officers, directors, employees and agents of the Delaware Trustee (the "Delaware Trustee Indemnified Persons") from and against any and all losses, claims, actions, suits, taxes, damages, costs, expenses (including the reasonable fees and expenses of its counsel) and liabilities (including liabilities under state or federal securities laws) of any kind and nature whatsoever (collectively, "Delaware Trustee Expenses"), to the extent that such Delaware Trustee Expenses arise out of or are imposed upon or asserted against such Delaware Trustee Indemnified Persons with respect to the creation, operation or termination of the Trust, the execution, delivery or performance of this Declaration or the transactions contemplated hereby; provided, however, that no Bond Issuer is, nor shall it be, required to indemnify any Delaware Trustee Indemnified Person for any Delaware Trustee Expenses that result from the willful misconduct or negligence of such Delaware Trustee Indemnified Person. Pursuant to the Fee and Indemnity Agreement, the obligations of the Bond Issuers to indemnify the Delaware Trustee Indemnified Persons shall survive the termination of this Declaration and the resignation or removal of the Delaware Trustee. The Delaware Trustee is hereby authorized to execute the Fee and Indemnity Agreement on behalf of the Trust and to enforce the terms thereof on its own behalf and on behalf of the Trust.

(c) Notwithstanding anything to the contrary in this Declaration, the Delaware Trustee shall have no recourse against the Bonds of any Bond Issuer or the payments thereon and proceeds thereof, for payment of any amounts required to be paid to the Delaware Trustee under the Fee and Indemnity Agreement. Each Bond Issuer's obligations to make payments of such amounts to any Trustee shall be subject to the priorities and Cap (as defined in the Bond Indenture) set forth in Section _____of its Bond Indenture.

Section 4.7. Resignation. Any Trustee may resign upon 30 days' prior written notice to the Certificate Trustee, the Bond Issuers, the other Trustees and the Trust; provided, however, that a successor Delaware Trustee or Administrative Trustee, as the case may be, satisfactory to the Bond Issuers shall have been appointed and agreed to serve. If a successor Delaware Trustee or Administrative Trustee, as the case may be, shall not have been appointed by the Bond Issuers within such 30-day period, the Delaware Trustee or the Administrative Trustee may apply to the Court of Chancery of the State of Delaware for the appointment of a successor Delaware Trustee or Administrative Trustee, as the case may be. Any successor Delaware Trustee must satisfy the requirement of Section 3807(a) of the Statutory Trust Act.

Section 4.8. Merger or Consolidation of Delaware Trustee. Any Person into which the Delaware Trustee may be merged or with which it may be consolidated, or any Person resulting from any merger or consolidation to which the Delaware Trustee shall be a party, or any Person which succeeds to all or substantially all of the corporate trust business of the Delaware Trustee, shall be the successor Delaware Trustee under this Agreement without the execution, delivery or filing of any paper or instrument or further act to be done on the part of the parties hereto (except for the filing at the expense of the Trust of an amendment to the Trust's certificate of trust if required by law), notwithstanding anything to the contrary herein; provided, however, that such successor Delaware Trustee shall satisfy the requirement of Section 3807(a) of the Statutory Trust Act.

Section 4.9. Appointment of Co-Trustee or Separate Trustee.

(a) Whenever (i) it shall be deemed necessary or prudent in order either to conform to any law of any jurisdiction in which all or any part of the Trust Property shall be situated or to make any claim or bring any suit with respect to the Trust Estate or (ii) the Delaware Trustee shall be advised by counsel that it is necessary or prudent, the Delaware Trustee shall execute and deliver an agreement supplemental hereto and any other required supplemental instruments and agreements, and shall take all other actions necessary or proper to appoint one or more Persons either as co-trustee or co-trustees jointly with the Delaware Trustee of all or any part of the Trust Property, or as separate trustee or separate trustees of all or any part of the Trust Estate, and to vest in such Person or Persons, in such capacity, such title to the Trust Estate or any part thereof and such rights or duties as may be necessary or desirable, all for such period and under such terms and conditions as are satisfactory to the Delaware Trustee. No co-trustee or separate trustee shall be required to meet the terms of eligibility as a successor Delaware Trustee pursuant to Section 4.7. If any co-trustee or separate trustee shall die, become incapable of acting, resign or be removed, all of its estates, properties, rights, remedies and trusts shall vest in and be exercised by the Delaware Trustee, to the extent permitted by law, without the appointment of a new or successor trustee. All rights, powers, duties and obligations conferred or imposed upon the Delaware Trustee shall be conferred or imposed upon and exercised or performed by the Delaware Trustee and such separate trustee or co-trustee jointly (it being understood that such separate trustee or co-trustee is not authorized to act separately without the Delaware Trustee joining in such act), except to the extent that under any law of any jurisdiction in which any particular act or acts are to be performed the Delaware Trustee shall be incompetent or unqualified to perform such act or acts, in which event such rights, powers, duties and obligations (including the holding of title to the Trust Property or any portion thereof in any such jurisdiction) shall be exercised and performed singly by such separate trustee or co-trustee, but solely at the direction of the Delaware Trustee;

Section 4.10. Representations and Warranties of the Trustees. (a) The Delaware Trustee hereby represents and warrants to each other party hereto as follows:

(a) It is a _____ duly organized, validly existing and in good standing under the laws of the United States;

(b) It has full power, authority and legal right to execute, deliver and perform this Declaration, and has taken all necessary action to authorize the execution, delivery and performance by it of this Declaration;

(c) The execution, delivery and performance of this Declaration by the Delaware Trustee (A) do not violate any requirement of federal law or the law of the State of Delaware governing its banking and trust powers or any order, writ, judgment or decree of any court, arbitrator or governmental authority applicable to it or any of its assets, (B) do not violate any provision of its charter or bylaws, and (C) do not violate any provision of, or constitute, with or without notice or lapse of time, a default under, or result in the creation or imposition of any Lien on any properties included in the Trust pursuant to the provisions of any mortgage, indenture, contract, agreement or other undertaking to which it is a party, which violation, default or lien could reasonably be expected to have a materially adverse effect on its

performance or its ability to perform its duties as Delaware Trustee under this Declaration or on the transactions contemplated by this Declaration;

(d) The execution, delivery and performance of this Declaration by the Delaware Trustee shall not require the authorization, consent or approval of, the giving of notice to, the filing or registration with, or the taking of any other action in respect of, any governmental authority or agency regulating the banking and corporate trust activities of banks or trust companies in the jurisdiction in which the Trust was formed (except for the filing of the Certificate of Trust with the Secretary of State of the State of Delaware); and

(e) This Declaration has been duly executed and delivered by the Delaware Trustee and, assuming due authorization, execution and delivery hereof by the other parties hereto, constitutes the legal, valid and binding agreement of it, enforceable against it in accordance with the terms of this Declaration, except as enforceability may be limited by bankruptcy, insolvency, reorganization, and other similar laws affecting the enforcement of creditors' rights in general and by general principles of equity, regardless of whether such enforceability is considered in a proceeding in equity or at law.

(f) The Administrative Trustee hereby represents and warrants to each other party hereto as follows:

(i) It is a corporation duly organized, validly existing and in good standing under the laws of the State of _____;

(ii) It has full power, authority and legal right to execute, deliver and perform this Declaration, and has taken all necessary action to authorize the execution, delivery and performance by it of this Declaration;

(iii) The execution, delivery and performance of this Declaration by such Administrative Trustee (A) do not violate any requirement of federal law or the law of the State of _____ governing it or any order, writ, judgment or decree of any court, arbitrator or governmental authority applicable to it or any of its assets, (B) do not violate any provision of its charter or bylaws, and (C) do not violate any provision of, or constitute, with or without notice or lapse of time, a default under, or result in the creation or imposition of any Lien on any properties pursuant to the provisions of any mortgage, indenture, contract, agreement or other undertaking to which it is a party, which violation, default or lien could reasonably be expected to have a materially adverse effect on its performance or its ability to perform its duties as Administrative Trustee under this Declaration or on the transactions contemplated by this Declaration;

(iv) The execution, delivery and performance of this Declaration by such Administrative Trustee shall not require the authorization, consent or approval of, the giving of notice to, the filing or registration with, or the taking of any other action in respect of, any governmental authority or agency having jurisdiction over it or its properties, except such as have been given or obtained; and

(v) This Declaration has been duly executed and delivered by such Administrative Trustee and, assuming due authorization, execution and delivery hereof by

the other parties hereto, constitutes the legal, valid and binding agreement of it, enforceable against it in accordance with the terms of this Declaration, except as enforceability may be limited by bankruptcy, insolvency, reorganization, and other similar laws affecting the enforcement of creditors' rights in general and by general principles of equity, regardless of whether such enforceability is considered in a proceeding in equity or at law.

Section 4.11. Reliance; Advice of Counsel.

(a) No Trustee shall incur liability to anyone in acting upon any signature, instrument, notice, resolution, request, consent, order, certificate, report, opinion, bond or other document or paper reasonably believed by it to be genuine and reasonably believed by it to be signed by the proper party or parties or need investigate any fact or matter pertaining to or in any such document. Each Trustee may accept a certified copy of a resolution of the board of directors or other governing body of any corporate or limited liability company party as conclusive evidence that such resolution has been duly adopted by such body and that the same is in full force and effect unless and until such Trustee receives a certified copy of a resolution of such board of directors or other governing body revoking the same. As to any fact or matter the method of the determination of which is not specifically prescribed herein, each Trustee may for all purposes hereof rely on a certificate, signed by the president or any vice president or by the treasurer or other authorized persons of the relevant party, as to such fact or matter, and such certificate shall constitute full protection to it for any action taken or omitted to be taken by it in good faith in reliance thereon.

(b) In the exercise or administration of the Trust and in the performance of its duties and obligations under this Declaration and the Basic Documents, each Trustee: (i) may, at the expense of the Bond Issuers (to the extent provided in the Fee and Indemnity Agreement or the Servicing Agreements, as applicable) or any other party, act directly or through its agents, attorneys, custodians or nominees (including, if necessary, the granting of a power of attorney to any of its officers not otherwise authorized to execute and deliver any Basic Document, Note or other document related thereto and to take any action in connection therewith on behalf such Trustee) pursuant to agreements entered into with any of them, and such Trustee shall not be liable for the conduct or misconduct of such agents, attorneys, custodians or nominees if such agents, attorneys, custodians or nominees shall have been selected by such Trustee with reasonable care; and (ii) may, at the expense of the Bond Issuers (to the extent provided in the Fee and Indemnity Agreement or the Servicing Agreements, as applicable) or any other party, consult with counsel, accountants and other professionals to be selected with reasonable care by it. No Trustee shall be liable for anything done, suffered or omitted in good faith by it in accordance with the opinion or advice of any such counsel, accountant or other such Persons reasonably relied on and which, according to such opinion or advice, is not contrary to this Declaration or any other Basic Document.

ARTICLE V
REPRESENTATION AND WARRANTIES OF THE BOND ISSUERS

Section 5.1. Representations and Warranties of Bond Issuers. Each Bond Issuer as a settlor of the Trust severally represents and warrants, as of the date hereof and as of the issuance date of any Notes, as follows:

(a) Such Bond Issuer has full power, authority and legal right, and has taken all action necessary, to execute and deliver and perform this Declaration;

(b) The execution, delivery and performance by such Bond Issuer of this Declaration do not and will not violate any law or regulation applicable to it or violate any provision of, or constitute, with or without notice or lapse of time, a default under, or result in the creation or imposition of any lien on any properties included in the Trust Property pursuant to, any mortgage, indenture, contract, agreement or other undertaking to which such Bond Issuer is a party;

(c) This Declaration has been duly executed and delivered by such Bond Issuer and constitutes its legal, valid and binding obligation, enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, and other similar laws affecting the enforcement of creditors' rights in general and by general principles of equity, regardless of whether such enforceability is considered in a proceeding in equity or at law;

(d) The Trust is not required to be registered as an investment company under the Investment Company Act of 1940, as amended; and

(e) The execution, delivery or performance of this Declaration shall not require consent, approval or authorization of any governmental authority or any agency other than those already obtained.

ARTICLE VI
TERMINATION OF DECLARATION

Section 6.1. Termination of the Trust. The respective obligations and responsibilities of the Bond Issuers, the Trustees and the Trust shall terminate, and the Trust shall be dissolved and its affairs wound up, only upon the expiration of, one year and one day following the distribution to all holders of any Notes of all amounts required to be distributed to them pursuant to the Note Indenture and the disposition of all other property, if any, held as part of the Trust Property with respect to such Notes. Upon dissolution of the Trust, the Bond Issuers shall make reasonable provision for payment of all claims and obligations of the Trust in accordance with Section 3808 of the Statutory Trust Act and, in connection therewith, shall pay or provide for the payment of all remaining liabilities of the Trust, and the Trustees (with respect to the Trust), but, in the case of the Delaware Trustee, solely from amounts payable by the Bond Issuers under the Fee and Indemnity Agreement, and upon completion of the winding up of the Trust, at the written instruction of the Bond Issuers, the Delaware Trustee shall file a certificate of cancellation under the Statutory Trust Act and the Trust, shall terminate. Any fees or expenses associated with such filing payable to the Delaware Trustee shall be paid from amounts payable by the Bond Issuers under the Fee and Indemnity Agreement.

ARTICLE VII
MISCELLANEOUS

Section 7.1. No Legal Title to Trust Property. As provided in Section 2.4(c) hereof, the Bond Issuers shall not have legal title to any part of the Trust Property.

Section 7.2. Limitations on Rights of Others. Except as otherwise provided herein, the provisions of this Declaration are solely for the benefit of the Bond Issuers, the Delaware Trustee, the Administrative Trustee, the Note Trustee and the holders of the Notes, and nothing in this Declaration, whether express or implied, shall be construed to give to any other Person any legal or equitable right, remedy or claim in the Trust Property or under or in respect of this Declaration or any covenants, conditions or provisions contained herein.

Section 7.3. Notices.

(a) Unless otherwise specifically provided herein, all notices, directions, consents and waivers required under the terms and provisions of this Declaration shall be in English and in writing, and any such notice, direction, consent or waiver may be given by United States mail, courier service, facsimile transmission or electronic mail (confirmed by telephone, United States mail or courier service in the case of notice by facsimile transmission or electronic mail) or any other customary means of communication, and any such notice, direction, consent or waiver shall be effective when delivered, or if mailed, three days after deposit in the United States mail with proper postage for ordinary mail prepaid,

if to the Trust, to:

with copies to the Bond Issuers at the addresses listed below.

if to the DEP Bond Issuer, to:

if to the DEC Bond Issuer, to:

if to the Administrative Trustee, to:

if to the Delaware Trustee, to:

(b) The Trust, the Bond Issuers, the Administrative Trustee or the Delaware Trustee, by notice to the others, may designate additional or different addresses for subsequent notices or communications.

(c) If a notice or communication is mailed in the manner provided above within the time prescribed, it is conclusively presumed to have been duly given, whether or not the addressee receives it.

Section 7.4. Severability. If any one or more of the covenants, agreements, provisions or terms of this Declaration shall be for any reason whatsoever held invalid, then such covenants, agreements, provisions or terms shall be deemed severable from the remaining covenants, agreements, provisions or terms of this Declaration and shall in no way affect the validity or enforceability of the other provisions of this Declaration.

Section 7.5. Amendments Without Consent of Holders. Notwithstanding any provision of this Declaration other than Section 7.7(e) hereof, including Section 7.6 hereof, this Declaration may be amended by the Delaware Trustee, the Administrative Trustee and the Bond Issuers without the consent of any of the holders of the Notes or any other Person (and with prior

notice to the rating agencies named in the Note Indenture) to (i) cure any ambiguity; (ii) correct or supplement any provision in this Declaration that may be defective or inconsistent with any other provision in this Declaration; (iii) add to the covenants, restrictions or obligations of the Delaware Trustee or the Administrative Trustee for the benefit of the holders of the Notes; (iv) evidence and provide for the acceptance of the appointment of a successor trustee with respect to the Trust Property and add to or change any provisions as shall be necessary to facilitate the administration of the trusts hereunder by more than one trustee; or (v) add, change or eliminate any other provision of this Declaration in any manner that shall not, as evidenced by an opinion of counsel addressed to the Bond Issuers, the Delaware Trustee, the Administrative Trustee and the Note Trustee, adversely affect in any material respect the powers, preferences or special rights of the holders of the Notes; provided, however, that this Declaration shall not be amended in any manner which (i) would cause the Trust to be characterized as other than a "grantor trust" for federal income tax purposes or (ii) would affect the rights of the Bond Issuers hereunder or under the Basic Documents without the prior written consent of the Bond Issuers or receipt of an opinion of counsel addressed to the Bond Issuers, the Delaware Trustee, the Administrative Trustee and the Note Trustee to the effect that such amendment does not adversely affect, in any manner, the interests of the Bond Issuers under this Declaration or the Basic Documents. After the execution of any such amendment, the Delaware Trustee shall furnish a copy thereof to the rating agencies named in the Note Indenture.

Section 7.6. Amendments With Consent of Holders. Subject to Section 7.7(e) hereof, this Declaration may be amended from time to time by the Delaware Trustee, the Administrative Trustee and the Bond Issuers with the consent of the Note Trustee acting at the instruction of the holders of Notes whose Notes evidence not less than a majority of the outstanding principal amount of each affected series of Notes as of the close of business on the preceding Note payment date) (which consent, whether given pursuant to this Section 7.6 or pursuant to any other provision of this Declaration or the Note Indenture, shall be conclusive and binding on each Note holder and on all future holders of such Note and of any Notes issued upon the transfer therefor or in exchange thereof or in lieu thereof whether or not notation of such consent is made upon the Notes) (and with prior notice to the rating agencies named in the Note Indenture) for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Declaration, or of modifying in any manner the rights of the holders of the Notes; provided, however, that no such amendment shall (a) increase or reduce in any manner the amount of, or accelerate or delay the timing of, payments that shall be required to be made on any Note without the consent of the holder thereof; (b) adversely affect the rating of any Note without the consent of each holder of an affected Note; or (c) reduce the foregoing majority requirement for consent to any such amendment, without the consent of each holder of Notes then outstanding. Prior to the execution of any such amendment, supplement or consent, the Administrative Trustee shall furnish written notification of the substance of such amendment, supplement or consent to the rating agencies named in the Note Indenture. After the execution of any such amendment, supplement or consent, the Delaware Trustee shall furnish a copy thereof to the rating agencies named in the Note Indenture.

Section 7.7. Form of Amendments.

(a) Promptly after the execution of any amendment, supplement or consent pursuant to Sections 7.5 and 7.6, the Delaware Trustee shall furnish written notification of the substance of such amendment or consent to the Note Trustee and the Bond Issuers.

(b) The manner of obtaining such consents (and any other consents of holders of the Notes provided for in this Declaration or in any other Basic Document) and of evidencing the authorization of the execution thereof by holders of the Notes shall be subject to such reasonable requirements as the Administrative Trustee may prescribe to the extent not inconsistent with the provisions of the Basic Documents.

(c) Promptly after the execution of any amendment to the Certificate of Trust, the Delaware Trustee shall cause the filing of such amendment with the Secretary of State of the State of Delaware.

(d) Prior to the execution of any amendment to this Declaration, the Delaware Trustee, the Administrative Trustee and the Certificate Trustee shall receive an opinion of counsel to the effect that (i) the execution of such amendment is authorized or permitted by this Declaration, (ii) all conditions precedent to the execution of such amendments have been met and (iii) such execution will not adversely affect the treatment of the Trust as a "grantor trust" for federal income tax purposes.

(e) The Delaware Trustee may, but shall not be obligated to, enter into any such amendment that affects and only affects the Delaware Trustee's own rights, duties or immunities under this Declaration or otherwise. No amendment of this Declaration that affects the rights, duties or immunities of the Note Trustee or the Administrative Trustee under this Declaration or otherwise shall be effective without the prior written consent of such Note Trustee or Administrative Trustee, as applicable.

Section 7.8. Counterparts. This Declaration may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute one and the same instrument.

Section 7.9. Successors. All covenants and agreements contained herein shall be binding upon, and inure to the benefit of the Bond Issuers, the Trust, the Delaware Trustee and the Administrative Trustee and their respective successors and permitted assigns, all as herein provided.

Section 7.10. No Petition Covenant. Notwithstanding any other provision of this Declaration or any Basic Document and notwithstanding any prior termination of this Declaration, the Trust (or the Delaware Trustee on behalf of the Trust) and the Bond Issuers shall not, prior to the date which is one year and one day after the termination of this Declaration, acquiesce, petition or otherwise invoke or cause the Trust to invoke the process of any governmental authority for the purpose of commencing or sustaining a case against the Trust under any federal or state bankruptcy, insolvency or similar law or appointing a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official of the Trust or any

substantial part of its property, or ordering the winding up or liquidation of the affairs of the Trust.

Section 7.11. Headings. The headings of the various Articles and Sections herein are for convenience of reference only and shall not define or limit any of the terms or provisions hereof.

Section 7.12. Governing Law. THIS DECLARATION SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF DELAWARE, WITHOUT REFERENCE TO ITS CONFLICT OF LAW PROVISIONS, AND THE OBLIGATIONS, RIGHTS AND REMEDIES OF THE PARTIES HEREUNDER SHALL BE DETERMINED IN ACCORDANCE WITH SUCH LAWS.

[Signature page follows.]

IN WITNESS WHEREOF, the Delaware Trustee, the Administrative Trustee and the Bond Issuers have caused this Declaration to be duly executed by duly authorized officers, all as of the day and year first above written.

Duke Energy Carolinas, LLC, as a Settlor

By: _____
Name:
Title:

Duke Energy Progress, LLC, as a Settlor

By: _____
Name:
Title:

Duke Energy Corporation
as Administrative Trustee

By: _____
Name:
Title:

_____,as Delaware Trustee

By: _____
Name:
Title:

EXHIBIT A

FORM OF CERTIFICATE OF TRUST

OF

SPECIAL PURPOSE TRUST 2021

THIS Certificate of Trust of _____(the "Trust") is being duly executed and filed by the undersigned, not in its individual capacity but solely as trustee, to form a statutory trust under the Delaware Statutory Trust Act (12 Del. C. § 3801 et seq.) (the "Act").

1. Name. The name of the statutory trust is _____.

2. Delaware Trustee. The name and address of a trustee of the Trust having its principal place of business in the State of Delaware are _____

3. Effective Date. This Certificate of Trust shall be effective upon its filing with the Secretary of State of the State of Delaware.

[Signature Page Follows]

IN WITNESS WHEREOF, the undersigned, being the sole trustee of the Trust, has duly executed this Certificate of Trust in accordance with Section 3811 of the Act.

_____,
not in its individual capacity, but solely
as Delaware Trustee of the Trust

By:
Name:
Title:

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 1

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: October 23, 2020
Date of Response: October 30, 2020

[ ] **CONFIDENTIAL**

[X] **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 1-1, was provided to me by the following individual(s): MoNiqueka L. Smith, Legal Regulatory Analyst, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 1
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 1-1
Page 1 of 3

Request:

In this proceeding, the Public Staff will be serving Data Requests on Duke Energy Carolinas, LLC and Duke Energy Progress, LLC (DEC, DEP, each a Company, and together, the Companies), to investigate their securitization petitions. For all Data Requests, the following instructions and definitions apply:

A. Instructions

(1) In responding to any of the questions in the Data Requests, please answer each question on a separate sheet of paper, restating the question in full. Please provide the name and title of the individual who has the responsibility for the subject matter addressed therein. Include with each response or group of contemporaneous responses the identity of the person making the response by name, occupation, and job title.

(2) The Data Requests should be regarded by you as continuing and requiring further and supplemental responses as any additional information within their scope is generated or becomes available to you.

(3) With respect to any document related to any matter addressed in the Data Requests, if the document is not in your possession, but you know or believe that it exists, you are requested to identify and indicate to the best of your ability the present or last known location of the document and its custodian.

(4) To your knowledge, if no documents containing the exact information exist, but documents exist that contain portions thereof or that contain substantially similar information, then the definition of "documents" to be identified shall include the documents that do exist.

(5) For any information that you claim is unavailable, state the reason why it is unavailable, and provide any information that is available which is similar to the requested information.

(6) If any document or other information called for is withheld on a claim of privilege, identify the document or other information withheld, including its date and a description of the subject matter, and the full name, job title, and capacity of each and every person listed as an addressor, addressee, or indicated on blind copies; identify all persons to whom the document or other information was distributed, shown, or explained; and identify the nature and legal basis of the privilege asserted. Set forth the factual and legal predicates to any claim of privilege or other immunity from discovery in sufficient detail for the Public Staff to ascertain the Companies' right to such treatment, and provide redacted copies of requested materials or information. Any redactions should be clearly identified on each page redacted. If any document or other information called for is to be produced with a claim of confidentiality, please identify such document or information and provide it pursuant to the terms of the Comprehensive Confidentiality Agreement executed between the Companies and Public Staff.

(7) If you intend to withhold documents or other information on the basis that such documents or other information are "voluminous," or object on the basis that the request is "overly broad," "unduly burdensome," or on a similar basis, provide information sufficient to enable the Commission, the Public Staff, and other parties to assess the true nature of the objection. Without limiting the foregoing, this information should include a description of the documents, the approximate number of pages, number and thickness of volumes, and

other such identifying information. If you do provide certain information subject to and notwithstanding such objections, you should describe any information you have withheld sufficiently to enable the Commission, the Public Staff, and other parties to assess the true nature of the objection.

(8) If you assert that any document related to any matter addressed in any question in the Data Requests has been destroyed or transferred beyond your control, please state the following: (a) identify by full name, official title and address(es), any person who destroyed the document and any person involved in ordering the destruction of the document; (b) state the time, place and method of, and reasons for, the document's destruction, including any and all documents relating to the order or act of such destruction; (c) if destroyed or disposed of by operation of a document destruction program or retention policy, identify and produce a copy of the guideline, policy, or manual describing the document destruction program or retention policy; (d) if transferred, identify the person authorizing transfer, and state the time, place, and method of, and reason for, its transfer, and identify and produce any and all documents relating to the transfer; (e) identify each and every person listed as an addressor or addressee or indicated on blind copies, or to whom it was distributed, shown or explained; and (f) state or identify the date, subject matter, number of pages, attachments and appendices of the document.

(9) In responding to each question in the Data Requests, please provide all information available to you or in your possession, including information possessed by any agent, consultant, or employee.

(10) If a response to any of the Data Requests requires any calculations, analyses, assumptions or studies, please identify and provide copies of such calculations, analyses, assumptions or studies, and include all workpapers relating thereto.

(11) Whenever specific information, such as a date or figure, is requested and you are unable to provide the exact information, provide your best estimate thereof and indicate that it is an estimate.

(12) To the extent the Companies assert that any requested information is not relevant or not material to any issue in the above-captioned matter (such as an assertion that the Companies are only providing information pertinent to North Carolina), the Companies, in their written response(s), should indicate a specific basis for said assertion in the context of any issues arising in this proceeding, and provide information sufficient to enable the Commission, the Public Staff, and other parties to assess the true nature of the objection. Without limiting the foregoing, this information should include a description of the documents deemed not relevant or not material.

(13) Please provide notification via electronic mail to the following when each response to a Data Request has been uploaded by the Companies to the Companies' FTP site (such as DataSite):

Dianna Downey
dianna.downey@psncuc.nc.gov

William Grantmyre
william.grantmyre@psncuc.nc.gov

North Carolina Public Staff
Data Request No. 1-1
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No.
Page 3 of 3

Zeke Creech
zeke.creech@psncuc.nc.gov

B. Definitions
(1) "You" and "your" refers to the Companies or any of its affiliates, employees, agents, consultants, or experts.
(2) "Companies" refer to Duke Energy Carolinas, LLC and Duke Energy Progress, LLC.
(3) When capitalized, "Commission" refers to the North Carolina Utilities Commission.
(4) "Document" includes any written, recorded or graphic matter, however produced or reproduced, including, but not limited to, correspondence, telegrams, contracts, agreements, notes in any form, memoranda, charts, diaries, reports, books, ledgers, diaries, voice recording tapes, microfilms, microfiche, pictures, data processing cards or discs, computer tapes and other computer-generated and stored information or data base, workpapers, calendars, minutes of meetings or any other writings or graphic matter, including copies containing marginal notes or variations of any of the foregoing, now or previously in your possession.
(5) "Identify," "identity," or "identification," when used in reference to an individual person, means to state that person's full name, business position, and business address, including zip code and phone number, if known, and, the last known business position, duties and business address, if known.
(6) "Identify," "identity," or "identification," when used in reference to a business organization, means to state the corporate name or other names under which said organization does business, and the location of its principal place of business.
(7) "Identify," "identity," or "identification," when used in reference to a document, means to state the type of document (e.g., computer-stored information, microfilm, letter, memorandum, policy circular, minute book, telegram, chart, etc.), or some other means of identifying it, and its present location and custodian. If any document was, but is no longer, in your possession or subject to your control, state what disposition was made of it, and, if destroyed or disposed of by operation of a retention policy, state the retention policy. For any Data Requests that request identification of documents, you may, in lieu of identification, provide copies of the requested documents. Each document so produced shall be identified by the number of the data request to which it is purportedly responsive.
(8) The terms "describe," "describe in detail," "explain," and "explain in detail" mean describe and explain in detail each and every basis for the position taken or statement made and identify each and every statement, study, and document relied on by you and provide a copy of all such identified studies and documents.

Response:
The Companies acknowledge the Public Staff's instructions and commits to taking all reasonable actions to comply, provided the instructions do not purport to add requirements or obligations inconsistent with the North Carolina Utilities Commission (the "Commission") rules and regulations, or the instructions in the Commission's Scheduling Order once issued.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 1

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: October 23, 2020
Date of Response: October 30, 2020

☐ **CONFIDENTIAL**

☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 1-2, was provided to me by the following individual(s): Camal O. Robinson, Associate General Counsel, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 1
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 1-2
Page 1 of 1

Request:

The Public Staff adopts as its own all of the Data Requests (individually or collectively) of all other parties, whether written or oral, formal or informal, propounded to the Companies in this proceeding. All such requests should be treated by the Companies as being independently asked by the Public Staff as of the date such requests are received by the Companies, and the Companies' initial and revised responses to such formal or informal Data Requests should be provided accordingly. This request applies to any Data Requests that have been propounded to the Companies since the commencement of this proceeding as well as going forward.

Response:

The Companies acknowledge the Public Staff's request and will proceed accordingly.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 1

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: October 23, 2020
Date of Response: October 30, 2020

☐ **CONFIDENTIAL**

☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 1-3, was provided to me by the following individual(s): Camal O. Robinson, Associate General Counsel, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 1
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 1-3
Page 1 of 1

Request:

Please provide copies of all Data Requests from other parties in this proceeding when they are received by the Companies.

Response:

The Companies will provide copies to the Public Staff of all data requests received from other intervenors in this proceeding.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 1

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: October 23, 2020
Date of Response: October 30, 2020

[ ] **CONFIDENTIAL**

[X] **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 1-4, was provided to me by the following individual(s): Camal O. Robinson, Associate General Counsel, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 1
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 1-4
Page 1 of 1

Request:

Please provide copies of all the Companies' responses to Data Requests from other parties in this proceeding as soon as they are transmitted by the Company to the party making the request.

Response:

The Companies will provide copies to the Public Staff of all responses to data requests received from other intervenors in this proceeding.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 1

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: October 23, 2020
Date of Response: October 30, 2020

☐ **CONFIDENTIAL**

☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 1-5, was provided to me by the following individual(s): Camal O. Robinson, Associate General Counsel, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 1
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 1-5
Page 1 of 1

Request:

Please provide all Data Requests issued by the Companies to other parties in this proceeding as soon as they are submitted to the party.

Response:

The Companies will provide copies of all Data Requests issued by the Companies to other parties.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 1

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: October 23, 2020
Date of Response: October 30, 2020

☐ **CONFIDENTIAL**

☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 1-6, was provided to me by the following individual(s): Camal O. Robinson, Associate General Counsel, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 1
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 1-6
Page 1 of 1

Request:

Please provide all responses received by the Companies to Data Requests issued by it to other parties as soon as the responses are received.

Response:

The Companies will provide a copy of all responses received to Data Requests issued by it to other parties as soon as the responses are received.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
Confidential NC Public Staff Data Request No. 1-7
Filed Under Seal

Duke Energy Carolinas
and
Duke Energy Progress
Response to
Confidential NC Public Staff Data Request No. 1-8
Filed Under Seal

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 2

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 9, 2020
Date of Corrected Response: December 17, 2020

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The attached corrected response to NC Public Staff Data Request No. 2-1, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies LLC, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 2
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 2-1
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Request:

1. STRUCTURE - WITNESS ATKINS
a. Please provide a list of the 24 securitized utility bond transactions on which Witness Atkins has participated, totaling $22.6 billion, as stated on Atkins Exhibit 1, page 2. Please include the amount of the offering, the party that employed Witness Atkins, and the party Witness Atkins represented.
b. Please provide copies of all previous testimony (including, but not limited to, Direct, Rebuttal, Depositions, Answers provided in Discovery/Interrogatories, transcripts of open hearings) provided by Witness Atkins in state regulatory proceedings in connection with those securitized utility bond transactions. Please include the regulatory proceeding Docket Number and a weblink to the case where all other documents filed in the Docket are available.
c. Did any of the transactions in which Witness Atkins participated have a financial advisor to the state regulatory commission? If so, please identify the state and the advisor.
d. What specific role did Witness Atkins play in each transaction? With respect to each transaction:
i. Did Witness Atkins manage or supervise other securities professionals in substantive matters relating to the transaction structure?
ii. Did Witness Atkins manage or supervise other securities professionals in substantive matters relating to marketing of the securitized utility bonds?
iii. Did Witness Atkins manage or supervise other securities professionals in substantive matters relating to pricing of the securitized utility bonds?
iv. Did Witness Atkins participate in a support role in the structuring of the securities? If so, please describe.
v. Did, Witness Atkins participate in a support role in the marketing of the securities? If so, please describe.
vi. Did Witness Atkins participate in a support role in the pricing of the securities? If so please describe.
e. For each transaction, please provide the date of pricing of the transaction, the dollar amount of all tranches, the weighted average life of each such tranche and the credit spread against the benchmark security of each tranche used in pricing.

Response:
Corrected Response 12/17/20:

b. Please see the file titled "Corrected Atkins RBR Experience 2-1.xlsx" in response to this request as opposed to the original file provided in response to PS DR 2-1b.

Corrected Atkins RBR Experience 2-1 (2).xlsx

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The information requested refers to the section of Mr. Atkins' professional resume that refers only to his years at Morgan Stanley. Thus, the numbers listed exclude advisory assignments he completed as an independent consultant, and also during his time at Guggenheim Securities. The numbers listed, as stated in his resume, include the Deal of the Year award-winning $800M ring-fencing transaction for PPL Electric Utilities, as well as the Constellation/Baltimore Gas and Electric ring-fencing transaction that was an integral component of the $4.5B Constellation joint venture with Electricite de France. In an attachment that responds to items 1. a., c., d., and also items 4.b.,c. and d., the utility securitization transactions (excluding the ring-fencing transactions) are included where Mr. Atkins served in an advisory capacity and/or a lead or joint lead underwriter banker role during his years at Morgan Stanley, Mr. Atkins Capital Strategies and Guggenheim Securities. In each case where Mr. Atkins served in an advisory capacity and/or as an expert witness, Mr. Atkins was retained by the sponsoring utility. The attached table also includes annotations to specify Mr. Atkins' roles as requested in item 1.d. Where Mr. Atkins indicates a supporting role in the marketing of a transaction, he reviewed and assisted in the preparation of marketing materials, educated the sales force and sometimes answered investor questions. Where he indicates a supporting role in the pricing of the transaction, he coordinated with the Issuer and the Commission Advisor (if engaged), assisted the underwriting syndicate and advocated for tight market-clearing pricing. The attached table also indicates the transactions where the commission engaged an advisor, lists the advisor, the state, and whether Mr. Atkins recalls a commission staff member or commission member being involved, as requested.

b. The Companies object to Data Request 2-1(b) as administratively burdensome. Notwithstanding, please refer to Attachment "PS DR 2-1b Atkins RRB Experience" for information needed to identify the regulatory proceedings in which Mr. Atkins sponsored testimony, including the regulator, docket no., and date of testimony.

c. Yes, certain state regulatory commissions engaged a financial advisor. See the Companies' attachments included with the response to question 1. To Mr. Atkins' recollection, in these transactions, no other party separately engaged a financial advisor to be involved in the financing process after a financing order had been issued.

d. See the documents attached to this Data Request 2-1.

14258891_3_1b - Atkins RRB Experienc

Charles N. Atkins Deal Experience 11-15

1e_v2.pdf

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e. See the documents attached to this Data Request 2-1.

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Date of Request: November 9, 2020
Date of Response: November 17, 2020

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The attached response to NC Public Staff Data Request No. 2-2, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 2
DEC Docket No. E-7, Sub 1243
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Item No. 2-2
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Request:

2. STRUCTURING AND FINANCIAL MODELING OF PROPOSED STORM RECOVERY BONDS (SRB) SECURITIES AND QUALIFICATIONS

a. Which firm will perform financial modeling for the proposed SRB Securities transaction as structuring advisor to achieve a rating on the SRB Securities and determine the initial charge on customers?

b. Did DEP/DEC have a competitive process to select the structuring advisor?
c. Did DEP/DEC use a form of "request for proposal" or "request for qualifications"? If so, please provide a copy of such document and the responses of all recipients.

d. How did DEP/DEC decide which firms to invite to present proposals to serve as structuring advisor?

e. Was the firm that modeled the 2016 DEP/DEC affiliate (Duke Energy Florida, LLC (DEF)) transaction invited to present a proposal to serve as structuring advisor for the DEP/DEC SRB Securities transaction?

f. Please provide a copy of the final engagement letter terms and conditions including, but not limited to, any disclaimers by the structuring advisor firm and indemnifications provided to the structuring advisor firm by Duke Energy Corporation or any of its affiliates.

g. What fiduciary duty does the structuring advisory firm have? (Such as, duty to act in the best interests of DEP, DEC, DEP/DEC customers, or the issuer of the SRB Securities.) Please explain.

h. Can the financial advisor to the utility/issuer or structuring advisor to the issuer or utility sponsor of securitized utility bonds also be an underwriter of those bonds? If so, how does that impact their respective fiduciary duties?

i. Has the structuring advisory firm developed another financial model for a prior utility securitization, and did that prior utility securitization achieve a top rating from all rating agencies?

j. What fees, sums, or other amounts is the structuring advisory firm charging to provide the financial model for use in this SRB Securities transaction?

k. In Florida, if any financial advisor provided DEF a financial model in the securitization process, did the financial advisor put restrictions on the use of the model that required them to be a bookrunning manager in the underwriting and sale of the bonds? Are there any restrictions on use of the model in this SRB Securities transaction?

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l. Which firm provided the financial model used in the 2016 DEF utility securitization transaction? In the DEF transaction, what fees, sums, or other amounts were paid for this financial model, excluding any costs paid to the financial advisor?

m. Has Witness Atkins or anyone in Atkins Capital Strategies created and used a securitization bond pricing model for prior utility securitizations? If so, please list which transactions.

n. Has Witness Atkins ever created or audited a utility securitization model? If so, please indicate which transactions and describe Witness Atkins' efforts.

Response:

a. All financial modeling to date for the proposed transaction has been performed by Guggenheim Securities with input and supervision by Witness Atkins. Computation of the initial customer charges were performed by DEC and DEP's rate design team under Witness Byrd's supervision and review using outputs from the financial model. As stated in Witness Heath's testimony (beginning on page 25 line 3 through page 26 line 12) the role of the structuring advisor will cease at an appropriate time in the future and some portion of the modeling will then be performed by DEC and DEP's book-running lead underwriter. DEC and DEP expect Guggenheim and Witness Atkins to continue to perform services under their respective engagement letters at least through the ratings process of the SRB Securities transaction.

b. Yes. As stated in Witness Heath's testimony (page 25 lines 5-8), DEC and DEP did conduct a request for proposal process related to the selection of their structuring advisor for the proposed transaction.

c. Yes. See documents attached to this Data Request 2-2.

d. DEC and DEP solicited proposals from the institutions it understands to generally be viewed as leading financial institutions in the utility securitization bond sector and/or those that Duke Energy had previously favorable experience with on prior securitization transactions.

e. DEC and DEP did include the initial structuring advisor on the DEF transaction, Morgan Stanley, in their RFP process. Morgan Stanley performed initial structuring and modeling for the DEF transaction. However, Morgan Stanley did not participate in underwriting the DEF transaction. DEF ultimately hired another firm, Analytic Aid, to solely perform modeling for the DEF transaction after the end of Morgan Stanley's engagement. DEC and DEP did not solicit a proposal from Analytic Aid as the structuring advisory engagement consists of significantly more than modeling services. In addition, Guggenheim participated as a joint book-running manager in the DEF transaction, and is generally familiar with the model used in that transaction.

f. See documents attached to this Data Request 2-2.

g. The engagement letters between DEC and DEP and Guggenheim Securities and Atkins Capital do not create any fiduciary relationships between the parties. This is common practice for advisory services engagements.

h. As noted in the response above, the structuring advisor does not have a fiduciary responsibility to the issuer of the securitization bonds. DEC and DEP believe a structuring advisor to the issuer can, and due to their familiarity with the reasons for the transaction structure, and their experience participating in the regulatory testimony and interrogatory process, are often in the best position to, serve as a lead underwriter of securitization bonds. There are certain rules specific to the municipal bond market that preclude a structuring advisor from serving as an underwriter on a related issuance, however, those rules are not applicable outside of the municipal market. For the vast majority of utility securitizations not issued by municipal entities, with only a very few exceptions, it is the market practice for the structuring advisor to also serve as a lead underwriter. For larger transactions, there is typically more than one lead underwriter, so additional competition and views concerning structure and marketing are present. The transaction pricing is a transparent process with the investor order book fully open to the Companies, which adds further protections.

i. See response to Data Request 2-2.m.

j. Fees for financial modeling are part of the overall engagement fees to Guggenheim and Atkins and are not separately stated or estimated.

k. In its role as structuring advisor for the DEF transaction, Morgan Stanley prepared an initial financial model for the transaction. When Morgan Stanley's role as structuring advisor was terminated, and they were removed from consideration as an underwriter, they would not permit the continued use of their financial model. While the engagement letters with Guggenheim and Atkins Capital do not specifically address use of the financial model in the event they are not a party to the transaction, it is DEC and DEP's experience that financial institutions do not permit the continued use of their proprietary financial models after cessation of their engagement.

l. The financial model for the DEF transaction was ultimately prepared by Steven Heller at Analytic Aid. Fees paid to Analytic Aid totaled $90,000.

m. Dating back to the first stranded cost securitization, the 1997 $2.9 billion transaction for PG&E, Witness Atkins played a significant role supervising the creation of the Morgan Stanley utility securitization model. Through each of the 24 other transactions where Atkins indicates, in the attachment in response to PS Data Request 2-1, a financial advisor role, he was heavily involved in supervising the creation, updating and use of deal-specific securitization models for initial structuring analysis and testimony. In cases where Morgan

Stanley was structuring lead underwriter, he also supervised the updating and use of securitization models for rating agency stress scenario analysis, pricing and post-pricing closing cash flows.

n. See response to PS Data Request 2-2.m.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 2

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 9, 2020
Date of Response: November 17, 2020

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The attached response to NC Public Staff Data Request No. 2-3, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies LLC, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 2
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 2-3
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Request:

3. PROPOSED STRUCTURE
a. Without reference to any partial settlements with Public Staff, what was the economic justification for choosing only a 15-year scheduled final maturity and principal amortization schedule for the DEP bonds, the DEC bonds and the SRB Securities to provide maximum customer benefits?
b. Why is there a 2-year legal final maturity after the scheduled final maturity on class A-5? Is there any benefit to customers for this rather than a 1-year legal final maturity after the scheduled final maturity on class A-5??
c. Have other utility securitization bonds on your list with Aaa/AAA/AAA/ ratings with similar or longer scheduled final maturities had a legal final maturity of just one year past the last scheduled final maturity? If yes, please explain any disadvantage to customers from that.
d. Please provide all data that supports the implied contention on p. 25 of Witness Atkins' testimony that larger size securitized utility bond transactions achieve tighter credit spreads and lower costs to customers compared to smaller ones. Please provide specific examples in the utility securitization market of Aaa /AAA/AAA-rated tranches and the quantifiable penalty paid for the smaller versus larger issues.
e. Witness Atkins testifies that the DEC must be combined with the larger DEP issuance to avoid any credit spread or rate penalty in the market. Please explain the basis for Witness Atkins' testimony in light of the following:
i. In West Virginia in 2007, Monongahela Power Company and The Potomac Edison Company caused to be sold Aaa/AAA/AAA-rated utility securitization bonds of $344.5 million and $114.8 million, respectively. In that instance, did the smaller issuance pay a higher credit spread, compared to the larger issuance? '
ii. In West Virginia in 2009, however, Monongahela Power Company and The Potomac Edison Company sold Aaa/AAA/AAA-rated utility securitization bonds of $64.4 million and $21.5 million one month after Texas CenterPoint Energy sold $666.5 million of Aaa/AAA/AAA-rated utility securitization bonds. In that instance, did the smaller West Virginia issuance pay a higher credit spread, when adjusted for its longer maturity, compared to the larger Texas issuance?
f.
g. Please provide a list of all utility securitization transactions that have used the combined SRB Securities structure recommended by Witness Atkins and any data that shows how well such transactions and each tranche priced relative to all other utility securitizations in the same general time frame.
h. On page 29 of his testimony, Witness Atkins states: "Rating agency 'AAA' or equivalent stress tests would tend to penalize transactions that use a different structuring approach, particularly one that significantly back-loads debt service." Please explain the basis for Witness Atkins' testimony in light of the following: In 2009, Aaa/AAA/AAA-rated securitized bonds were issued for Monongahela Power Company and for The Potomac

Edison Company with all principal deferred until 2028, 2029 and 2030. Please be specific as to what the rating agencies did to penalize these West Virginia Aaa/AAA/AAA-rated securitized bonds?

i. On page 9, line 16 and page 10 line 18 of his testimony, Witness Atkins states that utility securitizations have "a debt service coverage targeted to be 1.0 times." And yet, on page 8 line 5 and page 22 lines 6 through 9, Witness Atkins testifies that the SPE issuers will have 0.5% equity. (See also §5.04(2) of Revenue Procedure 2005-62, which requires the SPE issuers to have at least 0.5% equity.) Please explain why this does not result in debt service coverage of at least 1.05%.

j. Are "spreads" to benchmark securities for a given weighted life tranche tighter (lower) for "asset-backed securities" or for comparable weighted life corporate debt instruments that are not "asset-backed securities"?

k. Were the 2016 nuclear asset-recovery bonds issued for DEF marketed to investors as "asset-backed securities"?

l. Subject to satisfying a Rating Agency Condition, Section 1.07 of the proposed form of LLC Agreement set forth as Exhibit 2e to the testimony of Witness Heath authorizes each of the SPE issuers to issue more than one series of storm recovery bonds, each secured by separate storm recovery property. Will this cause (a) the SPE issuers not to be "asset-backed issuers" under Item 1101 of SEC Regulation AB and the September 19, 2007 letter from the SEC Office of Chief Counsel, Division of Corporate Finance to MP Environmental Funding LLC and to PE Environmental Funding LLC (https://www.sec.gov/divisions/corpfin/cf-noaction/2007/mpef091907-1101.htm), and (b) the storm recovery bonds and the SRB Securities not be "asset-backed securities" under Item 1101 of SEC Regulation AB?

m. We understand that securitized utility bonds are marketed to both corporate bond investors and to asset-backed securities investors. Will SRB Securities issued pursuant to the Joint Petition be marketed to these investors as "asset-backed securities" or "corporate securities"?

n. Will the proposed storm recovery bonds be included as debt on the consolidated balance sheets of DEC and DEP, respectively, for generally accepted accounting principles (GAAP) purposes?

o. Apart from securitized utility bonds, are asset-backed securities that use a wholly-owned special purpose entity (SPE) issuer that buys property in a true sale from the parent company consolidated on the balance sheet of the parent company for GAAP purposes?

Response:

a. As stated in Witness Heath's testimony (page 8 lines 16-20), DEC and DEP considered a structure of storm recovery bonds with a scheduled final payment date of approximately 20 years in addition to the 15 years. After consideration, the Companies determined that the 15-year proposal strikes an appropriate balance between the length of the recovery period and the length and level of the recovery charges as well as achieves the Statutory Cost Objectives as that term is defined in the Financing Orders.

b. The expected 2-year maturity cushion between the DEC/DEP scheduled final payment date and legal maturity is driven by expected AAA rating agency stress scenarios which increase the stress assumptions as the final maturities become longer. Depending on company historical and recent data taking into account the recent COVID-19-related impacts on customers and the planned maturity structure, the rating agency stress scenarios may result in maturity cushions shorter or longer than 2 years. The legal maturity dates referenced are subject to change based on rating agency considerations and market conditions and are therefore not final. Regarding the issue of customer impact, please also see Companies' response to PS Data Request 2-3c. below.

c. A list of certain transactions with a 1-year final maturity cushion is attached to this response. As discussed, the maturity cushions are driven by the company data, the structure and the rating agency stress scenarios in effect at the time of the issue. There are some prior transactions with only a 1-year maturity cushion. In any event, whether the maturity cushion is 1 year or 2 years, the offering materials typically include a sensitivity analysis which demonstrates the significant degree of hypothetical consumption declines required for the bonds to extend beyond the scheduled payment date. Due to the principal amortization on a semiannual basis, investors typically consider the weighted average life of each tranche. When the investor market indicates interest at different credit spreads, they typically assume that the bonds pay in full by the scheduled final payment date, and the bonds are priced assuming full payment by the scheduled payment date, without regard to whether the maturity cushion is 1, 2, or 3 years. Consequently, it is not expected that any maturity cushion of 1, 2, or 3 years would disadvantage customers from a bond pricing perspective. Indeed, from a stress scenario/customer impact standpoint, a shorter maturity cushion would tend to result in higher customer charges in a stress scenario, due to the shorter extension period allowed to pay the bonds. A longer maturity cushion would tend to allow more time to pay the bonds, with comparatively lower increases in customer charges required. Longer maturity cushions may also tend to preserve more AAA rating capacity for future securitizations, which could be important in jurisdictions that may suffer from significant damage from frequent storms.

PS DR 2-3c Utility Securitization Bonds \

d. The Companies object to PS Data Request 2-3(d) on the following grounds: the request is overly broad, not limited to a reasonable timeframe, and potentially unduly burdensome (depending on what information the question may actually seek). Without waiving this objection, the Companies provide the following response: While it is quite possible that two AAA utility securitizations marketed and priced on the same day, one larger and one smaller, may have the same interest coupons (the Public Staff has provided such an

example in PS Data Request 2-3(e) below), it is also possible on any given pricing day that the smaller issue may have less demand from investors and may price with higher interest coupons, particularly since larger issues tend to attract more investors. Witness Atkins served as an advisor to Entergy on 2 sets of transactions, involving two Entergy subsidiaries, that were marketed and priced by Citi as lead underwriter on the same day inJuly of 2010, and again in July of 2014-- the LCDA/ELL and LCDA/EGSL transactions of those years. In both of those instances, the smaller EGSL transactions priced wider than the larger ELL transactions. Please see the attachment with pricing information for these four transactions included with this response. Provided the Commission grants the Companies the flexibility it requested in its Joint Petition to pursue various options, the possibility of one issuance pricing wider than the other, even if marketed at the same time under a common marketing plan, is a possibility than can be avoided if the Companies pursue the optional SRB Securities issuance strategy discussed in Witness Atkins' testimony. In sum, while the Companies have requested the flexibility needed to retain the option of marketing the DEC and DEP issues as separate bond issues pursuant to a common marketing plan, one advantage of a single issuance SRB Securities approach is that the risk of different pricing and interest costs for the two customer bases is eliminated. Regardless, the Companies have an obligation to structure and market the bonds for their two customer bases in a manner that is reasonably expected to achieve the lowest storm recovery charges consistent with market conditions. The SRB Securities option eliminates the risk of disparate pricing and may become one component of achieving this important statutory objective for the DEC and DEP customers.

e. See response to PS Data Request 2-3.d.

g. DEC and DEP are aware of two transactions that have used a similar trust structure with underlying bonds, the FirstEnergy Ohio PIRB Special Purpose Trust 2013 issue, and the Massachusetts RRB Special Purpose Trust 2005-1. These two transactions utilized trust certificates, representing fractional undivided beneficial interests in the underlying bonds. The SRB Securities structure recommended as an option for the Companies issues notes backed by the underlying bonds, rather than certificates. There were no other utility securitizations priced during the same day or the same week as those transactions, that would be suitable for spread comparisons.

h. While certain utility securitization bonds with back-loaded principal structures may receive AAA equivalent ratings, Witness Atkins' testimony reflects the general rating agency approach for rating these bonds that increases stress the longer the bonds are outstanding. For example, Fitch assumes that the energy consumption forecast variance stress assumption is 5 times the worst historical forecast variance, for the first year of the transaction. Then each year for the first 10 years that stress is increased 1%. For the next 5 years, that stress is increased 1.5% each year, and thereafter the stress is increased 2% each year. Such a rating approach may tend to disadvantage a bond with a back-loaded debt-service. The DEC and DEP securities are proposed to have an amortizing level annual debt service structure, with weighted average lives significantly shorter than the cited 2009 West

Virginia transactions. As a result, the impact of rating agency stress assumptions should be less than an alternative structure with back-loaded debt service resulting in a comparatively longer weighted average life. The Companies have not performed a detailed review of the 2009 Monongahela Power and Potomac Edison Series B transactions cited by the Public Staff, but note that these transactions were structured to begin principal amortization after the prior Series A bonds for those companies were retired. It is the Companies' understanding based on review of the Fitch Ratings reports for the two cited transactions that the prior Series A financings required withdrawals of funds from their respective .5% capital accounts in order to meet timely debt service. As a result, each Series B transaction required additional credit enhancement, in addition to the .5% capital contributions, in the form of interest reserves funded from bond proceeds. DEC and DEP's advisors recommend that DEC and DEP utilize a flexible optional true-up approach that may avoid reducing protection for the bonds through such withdrawals from the capital accounts. Accordingly, DEC and DEP's proposed transaction will differentiate from the specific 10+ year old examples cited above.

i. The statutorily mandated true-up methodology for these transactions adjusts customer charges to target the amount of collections to cover debt service and ongoing financing costs in a manner to avoid over-collection as well as under-collection. The customer charge adjustments are not made assuming that the 0.5% equity capital account is drawn upon. Therefore, the coverage of debt service and ongoing financing costs is targeted to be 1.0 times, not taking into account the equity capital account. Customers benefit greatly from this low debt service coverage requirement, which is not typically available for other investment grade structured securities.

j. Spreads for ABS bonds and traditional corporate bonds are different and not directly comparable, in addition to the fact that multiple variables affect pricing spreads for ABS and corporate debt instruments. Corporate bonds may typically have a bullet maturity structure, rather than an amortizing structure. Traditional corporate bonds represent a general obligation of the sponsoring corporate issuer, while ABS bonds are generally nonrecourse to the sponsoring company. ABS bonds are generally secured by contractual rights, dedicated property or other assets, rather than the general corporate obligation. For these and other reasons, a traditional bullet maturity corporate bond spread may be tighter than the spread for an amortizing ABS bond of a similar weighted average life, if issued at the same time. The spreads for traditional corporate bonds would not be comparable for nonrecourse structured amortizing debt securities such as the storm recovery bonds or SRB Securities, whether or not they are "asset-backed securities" within the meaning of SEC Regulation AB.

k. The offering materials for that transaction stated that the bonds were not "asset-backed securities" within the meaning of Item 1101 of SEC Regulation AB.

l. DEC and DEP have recommended provisions of the proposed Trust agreements that are designed to have the SEC determine that the storm recovery bonds and the SRB Securities are not "asset-backed securities" under Item 1101 of SEC Regulation AB. The SEC is an independent agency of the US government, and receiving such a determination for this transaction is not assured.

m. DEC and DEP expect that the storm recovery bonds and the SRB Securities will be considered and marketed as nonrecourse structured securities issued by affiliates of DEC, DEP and Duke. Unlike many asset-backed securities, the SRB Securities will not be secured by pools of assets. These AAA-rated securities will have uniquely attractive credit characteristics, which will be emphasized during the marketing process to asset-backed and corporate investors. If the SEC determines the securities to not be "asset-backed securities" within the scope of SEC Regulation AB, that fact will be disclosed in the offering materials, and Witness Atkins recommends that the Companies and their selected lead underwriter seek inclusion of the SRB Securities in the Bloomberg Barclays Corporate Utility Index. The 2016 DEF transaction was included in that Corporate Utility Index, and the Companies intend to structure the securities to be eligible for inclusion in the Corporate Utility Index.

n. Yes, the storm recovery bonds will be included on the consolidated balance sheets of DEC and DEP for GAAP purposes.

o. Yes.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 2

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 9, 2020
Date of Response: November 17, 2020

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The attached response to NC Public Staff Data Request No. 2-4, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 2
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 2-4
Page 1 of 2

Request:

4. PROPOSED "DESIGNATED MEMBER" PARTICIPATION IN PRE-BOND ISSUANCE REVIEW PROCESS
a. What was the role of the applicable utilities commission and/or the commission's financial advisor in previous securitized utility bond transactions listed in Witness Atkins' Exhibit 3?
b. Was there a designated member or representative of the commission proposed in some or all of those transactions? If so, please identify each such transaction.
c. Please identify all securitized utility bond transactions in which Witness Atkins participated with a designated member of the applicable regulatory commission or with the financial advisor to the commission.
d. If there was a designated member or representative of the commission, when the first securitized utility bond transaction was approved by a particular regulatory commission, was that designated member or representative of the commission supported by an independent financial advisor and/or counsel?
e. DEP/DEC proposes that the North Carolina Utilities Commission (acting either through a designated Commissioner or member of Commission Staff) to participate in the structuring and pricing process. In the 2016 nuclear asset-recovery bond transaction for DEF, however, Florida PSC's financing order established a Bond Team consisting of DEF and its designated advisors, the Florida PSC and its designated advisors, legal counsel, and representatives to oversee and approve post-financing order decisions concerning the structuring, marketing and pricing of those securitized bonds. The commission's ratepayer advocate (Office of Public Counsel) also was invited to participate in or comment on post-financing order decisions concerning the structuring, marketing and pricing of those securitized bonds. Please explain why DEC and DEP propose that a designated representative of the Commission rather than such a Bond Team oversee and approve post-financing order decisions concerning the proposed SRB Securities.

Response:

a. The table provided in response to PS Data Request 2-1 lists Witness Atkins' utility securitization advisory and lead underwriting banking experience and includes transactions where the commission retained a financial advisor, provides the name of the advisor, and specifies when the advisor's role was limited to participation in the pricing process. The table also reflects those transactions where Witness Atkins recalls a commission staff member or a commission member being involved in the financing process. Apart from the instances where the role of the advisor was limited to the pricing process, the advisor and the commission representative periodically were involved in working group discussions during the structuring, marketing and pricing process. If the advisor or commission representative participated in a rating agency meeting, that participation was limited to conveying the commitment of the commission to implement the true-up process as required, without political interference or delay, consistent with the State and commission non-impairment pledges.

b. See response to PS Data Request 2-4.a.

c. See response to PS Data Request 2-4.a.

d. In certain cases, the commission's designated member or representative were assisted by an independent financial advisor and/or counsel. Pursuant to Section 62-172(n), any designated member of the NCUC would be permitted to engage an outside consultant or counsel.

e. Although N.C. Gen. Stat. § 62-172 does not mandate that a public utility propose, or the Commission establish, a bond team or designated member, the Joint Petition proposes a process to provide a Commissioner or Commission Staff member (the "Designated Member") with timely information to allow for the Designated Member's participation in the actual structuring, pricing, and issuance of the storm recovery bonds so that the Commission, upon receipt of the issuance advice letter, may determine whether or not the transactions meet the statutory cost objectives identified in the financing orders and consistent with N.C. Gen. Stat. § 62-172. In addition, membership on the DEF Bond Team was limited to DEF and designees of the Florida Public Service Commission, including their financial advisor. Bond Team membership was not extended to any intervening party to the financing proceeding. While it is true that representatives of the customer advocate (Office of Public Counsel) were invited to and joined certain of the Bond Team calls as a courtesy, they were not part of the Bond Team and did not have a formal role in the post-financing order stage of the DEF transaction.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 2

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 9, 2020
Date of Response: November 17, 2020

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The attached response to NC Public Staff Data Request No. 2-5, was provided to me by the following individual(s): Charles Atkins, , CEO, Atkins Capital Strategies LLC, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 2
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 2-5
Page 1 of 1

Request:

5. PROPOSED MARKETING SRB SECURITIES
a. Witness Atkins' testimony includes details on the standard process for marketing and sale of the storm recovery bonds. The Florida PSC's financing order in the 2016 nuclear asset-recovery bond transaction for DEF included the following provisions to ensure that the "marketing" of those securitized bonds would result in the lowest securitized charges consistent with market conditions and the terms of the financing order: Findings of Fact 43, 44, 45, 48, 51, 55, 84, 95, 89, 91, 97, 99 and100; and Ordering Paragraphs 39, 40, 41, 51, 58, 69, 74, 78 and 79. Please explain why DEC and DEP depart from these aspects of the Florida PSC's financing order in the 2016 nuclear asset-recovery bond transaction for DEF by proposing that a designated representative of the Commission be involved only with post-financing order decisions concerning the "structuring and pricing" of the proposed SRB Securities, but not with post-financing order decisions concerning the "marketing" of those SRB Securities.
b. Apart from publications by rating agencies, what marketing materials have been published by investment banks or other capital market participants promoting securitized utility bonds as attractive investments in the last 10 years?

Response:

a. N.C. Gen. Stat. § 62-172 is specific to North Carolina. In accordance with North Carolina law, the Companies adhered to the terms and requirements of N.C. Gen. Stat. § 62-172 in creating and requesting approval of their proposed Financing Orders. Accordingly, the Companies did not "depart" from the Florida PSC's financing order in the 2016 nuclear asset-recovery bond transaction for DEF and instead created Company-specific Financing Orders pursuant to North Carolina law. See also the Companies' response to PS Data Request 2-4.e.

b. DEC and DEP do not have access to the marketing materials used in connection with other issuances of securitized utility bonds, but do have general knowledge of their affiliate's, DEF's, transaction. In the Florida transaction, DEF and the underwriters met with investors at the annual ABS conference in Las Vegas, conducted an electronic roadshow which included a slide presentation and a Primer and Transaction Summary (the "Primer"). The Primer was filed with the SEC as a free writing prospectus and is available at https://www.sec.gov/Archives/edgar/data/1669374/000110465916125033/a16-2779_8fwp.htm. Other presentations are attached to this response.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 2

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 9, 2020
Date of Response: November 17, 2020

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Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 2-6, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 2
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 2-6
Page 1 of 1

Request:

6. HISTORICAL INVESTOR PARTICIPATION
a. For each of the 24 transactions that Witness Atkins lists in his experience, how many distinct unaffiliated investors purchased bonds in each tranche?
b. How many distinct unaffiliated investors typically purchase DEP/DEC traditional utility bonds of similar maturity /weighted average life as the proposed issuance of SRB Securities? If there is a difference, please explain the difference.

Response:

a. The investor lists from these prior transactions are not available to Witness Atkins.

b. Since the beginning of 2019, DEC and DEP have issued a combined total of $3.6 billion in debt in the public debt market. Due to the low interest rate environment during this period DEC and DEP has issued $1.35 billion of that amount in 30-year fixed rate bonds. An additional $0.7 billion was issued as 1.5-year floating rate bond which attracts a different type of investor than fixed rate bonds. The remaining $1.55 billion was issued in 10-year fixed rate bonds. As result of the nature of these issuances, none have directly comparable maturities to the proposed securitization structure. Of the 10-year fixed rate bonds issued, $600 million of that amount was issued as a Green Bond which attracts unique investors with environmental, sustainability, and governance (ESG) goals. Considering the above, there are two issues, both for DEC, while not directly comparable, they are discussed for the purposes of this question. One of these issuances was allocated to 71 unique accounts and the other was allocated to 57 unique accounts. By comparison, DEC and DEP affiliate DEF's 2016 securitization issuance allocated $1.294 billion across five tranches to 56 unique accounts.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 2

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 9, 2020
Date of Response: November 17, 2020

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Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 2-7, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies LLC, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 2
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 2-7
Page 2 of 5

Request:

7. INCLUSION IN AGGREGATE INDEX AND AFFECT ON PRICING AS JUSTIFICATION TO STRUCTURE BONDS AS PROPOPOSED
a. Please indicate which previous utility securitizations were included in the Bloomberg Barclays Aggregate Bond Index referenced in Witness Atkins' testimony, and in which of those transactions Witness Atkins participated.
b. Are there other Bloomberg Barclays bond indices important to utility securitization bond investors that could affect pricing of the bonds?
c. Please provide all data, analyses, workbooks and other financial analysis that supports the contention of Witness Atkins that bonds included in the Bloomberg Barclays Aggregate Bond Index price materially more favorably to the issuer than bonds not included in that index.
d. Please provide a list of all utility securitizations that are or have been included in the Bloomberg Barclays Aggregate Bond Index and the source of this information.
e. What are the requirements for inclusion in the Bloomberg Barclays Aggregate Bond Index (issue size, cusip size, bond rating, duration, etc.)?
f. How will investors be informed prior to pricing whether the SRB Securities will be included in the Bloomberg Barclays Aggregate Bond Index? If so, who will inform investors and on what basis will this be done?
g. At the time of pricing the SRB Securities, will inclusion in the index be confirmed by an official notification from Bloomberg Barclays or be unconfirmed?
h. If there will be a notification or confirmation from Bloomberg Barclays of inclusion in any index, please provide an example of such notification to investors for any previous utility securitization and in particular for any securitization in which Witness Atkins has been involved.
i. Will eligibility and inclusion in the Bloomberg Barclays Aggregate Bond Index be described in the prospectus or a free writing prospectus for the SRB Securities? If not, why not? If not, please explain how unconfirmed potential inclusion in the Bloomberg Barclays Aggregate Bond Index will result in improved pricing.
j. Will underwriters, their sales personnel, or others involved in the marketing of the SRB Securities tell potential investors that the SRB Securities will be included in the Bloomberg Barclays Aggregate Bond Index? If so, on what basis will they make that representation?
k. Given the importance placed by Witness Atkins on this index in driving the structuring of the transaction, has inclusion in the Bloomberg Barclays Aggregate Bond Index been used in any marketing materials, roadshow, sales point memorandum, or prospectus of any other utility securitization (including, but not limited to, the 24 prior utility securitizations in which Witness Atkins has been involved)? If yes, please identify which transactions and provide any such materials.
l. On pages 24 and 25 of his testimony, Witness Atkins states "The DEC bonds and the DEP bonds are to be issued to a third SPE, a grantor-trust that is wholly-owned by Duke Energy ('SRB Issuer'). SRB Issuer issues to the market pass-through securities ('SRB Securities') that are backed by separate storm recovery bonds issued by DEC and

DEP." On page 26 of his testimony, Witness Atkins states this is done in part to qualify the SRB Securities for inclusion in the Bloomberg Barclays Aggregate Bond Index. However according to a description sheet of the Aggregate Index provided by Bloomberg Barclays, the Bloomberg Barclays Aggregate Bond securities that are excluded from the index are "structured notes" or "pass-through certificates." Please explain why the SRB Securities will not be treated as "structured notes" or "pass-through certificates" for purposes of the Bloomberg Barclays Aggregate Bond Index.
m. Have Witness Atkins or any representative of DEC or DEP discussed this proposed complex structure with rating agencies?
n. Compared to selling separate issues under a common marketing plan, will the proposed SRB Securities structure require higher fees payable to the rating agencies?
o. Will the SRB Securities combined structure affect the level of the storm recovery charges required upon offering and then to be adjusted through the true-up?
p. If, on an SRB Securities semiannual payment date, there is a financial default by reason of a failure to pay accrued interest on the SRB Notes issued for DEC, but not on the SRB Notes issued for DEP, will payments of scheduled principal on the SRB Notes issued for DEP be available to pay accrued interest on the SRB Securities?
q. If, on an SRB Securities semiannual payment date, there is a financial extension by reason of a failure to pay scheduled principal on the SRB Notes issued for DEC, but not on the SRB Notes issued for DEP, will payments of scheduled principal on the SRB Notes issued for DEP be available to pay scheduled principal on the SRB Securities?

Response:

a. DEC and DEP are unaware whether the current Index eligibility criteria were in effect for each of the listed transactions since 1997. The current ABS Index criteria require a minimum issue size of $500 million and a minimum tranche size of $25 million. Thus, transactions meeting that criteria are likely to have been eligible for the ABS Index, although Witness Atkins cannot confirm such prior eligibility. Witness Atkins is aware of 7 transactions since 2008 that were included in the Aggregate Bond Index, and a list of those transactions is attached to this submission.

PS DR 2-7ad utility securitizations aggrec

b. The Corporate Utility Index could also positively affect the perceived liquidity of the SRB Securities, as investors may make their own conclusions regarding potential inclusion in the Utility Index, based upon disclosure that the SRB Securities are not "asset-backed securities" pursuant to SEC Regulation AB.

c. There are always several factors affecting the pricing of any bond offering that are difficult to isolate definitively, therefore, Witness Atkins does not have specific data

demonstrating the positive impact of larger bond issues that are eligible for one of the listed Indices. However, based upon Witness Atkins' historical experience and expertise, he opines that larger issues are considered by investors to be more liquid than smaller issues.

d. See response to PS Data Request 2-7.a.

e. The current rules for inclusion in the Bloomberg Barclays US Aggregate Bond Index for ABS require a minimum deal size of $500 million, and a $25 million minimum tranche size. For corporate securities, as of April 1, 2017, a minimum par amount of $300 million outstanding is required (see page 2 of the attached guidelines provided with this response).

PS DR 2-7e Barclays Aggregate Indices.pdf

f. Confirmation of Index inclusion does not occur until after bond issuance. However, Witness Atkins expects that investors are generally aware of the minimum deal size requirements for Index inclusion and will factor into their investment decisions the anticipated greater liquidity of the issues due to potential Index inclusion, and notes that the rules for Index inclusion are publicly available. Since confirmation of Index inclusion does not occur until after issuance, representations would not be made by the underwriters to investors assuring such potential inclusion. The SRB Securities will be structured to satisfy the Index inclusion rules, and investors may be informed of such structural features. Any investor questions regarding the published rules for inclusion may be answered by the sales force without representing that the securities will definitively be included in the Index. Investors may note the issuance size, the minimum size requirements as published and reach their own conclusions.

g. No, the Index does not confirm inclusion of a bond until after the bond is issued.

h. Attached to this response please find the published notification regarding the inclusion of the 2016 DEF transaction in the Barclays Corporate Utility Index.

PS DR 2-7h DEF index notification.pdf

i. See response to PS Data Request 2-7.f.

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Page 4 of 5

j. While the underwriters will notify investors that the SRB Securities have been structured such that they meet the eligibility requirements of the Index, the investors will have to make their own determination whether they believe this is so before they receive any confirmation letters from the Index itself (which would not occur until after closing).

k. See response to PS Data Request 2-7.f.

l. Structured notes are debt securities issued by banks or financial institutions that have an embedded derivative product. The derivative product is used to provide exposure to an asset, such as an equity index, basket of equities, or foreign currency, and the performance of the note is linked to the return on that asset. The SRB Securities are not issued by a financial institution and do not have this embedded derivative, so the SRB Securities are not structured notes. Pass-through certificates pass through to the holders of the certificates principal and interest payments on assets that are held by the issuer of the certificates. Pass-through certificates do not have an interest rate that is set independently of the interest rate on the underlying assets. The SRB Securities' interest rate and pricing terms will all be accomplished at the SRB Securities level and not at the underlying bond level. This distinguishes these securities from pass-through certificates.
m. DEC and DEP object to the description of their proposed structure as complex. While it does add an additional entity to the typical structure of utility securitizations, the additional entity is simply a trust entity that enables aggregation of two issuances into a combined larger issuance amount. Witness Heath has had some preliminary discussions with commercial representatives from both Moody's and S&P. These discussions were primarily related to obtaining fee estimates for the purposes of developing estimates of upfront and ongoing financing expense as reflected in Heath Exhibit 1. Both agencies previously rated the 2013 First Energy transaction which utilized a similar although not identical structure as that being proposed by DEC and DEP.

n. It is possible that the proposed combined structure will result in incremental rating agency fees above those that would be charged if the securities were sold in separate DEC and DEP issuances. A range of rating agency fees is reflected in Heath Exhibit 1 for this possibility. Moody's and S&P indicated they did charge additional fees in the 2013 First Energy transaction referred to in the response to PS Data Request 2-7.m. The rating agency fee estimates included in Heath Exhibit 1 includes a low-end estimate of $0 to a high end estimate of 7.5 basis points charged on the full anticipated issuance of $978.8 million. Witness Heath stated in his testimony that neither DEC or DEP nor the Commission have any effective control over the fees charged by the rating agencies, but that DEC and DEP would use commercially reasonable means to negotiate the lowest possible rating agency fees for the transaction. DEC and DEP believe the substantive portion of the ratings work for its proposed transaction is related to the bonds to be issued by the DEC and DEP SPEs and the servicing function to be performed by DEC and DEP.

As such DEC and DEP plan to make a case to the rating agencies that little, if any, incremental fees are necessary for the proposed transaction above what would be required for separate issuances by DEC and DEP. Again, as stated in response to PS Data Request 2-3(d), the Companies have an obligation to structure and market the bonds for their two customer bases in a manner that is reasonably expected to achieve the lowest storm recovery charges consistent with market conditions. Provided the Commission grants the Companies the flexibility it requested in its Joint Petition to explore various options, the Companies will be able to evaluate pricing impacts under different scenarios, including fees, to meet its statutory objectives.

o. Yes, as reflected in Witness Heath Exhibit 1, there will be some incremental ongoing expenses related to the combined structuring including accounting and auditing fees, trustee fees, independent manger fees, etc.

p. Yes, but there is ultimately no cross-collateralization among the SRB Notes issued for DEP and DEC. In the event of a shortfall for SRB Notes issued for one utility, the difference will be factored into the true-up of the storm recovery charges associated with that utility experiencing the shortfall for the next payment period. Customers of DEP are only obligated to pay storm recovery charges sufficient to pay debt service and financing costs related to the SRB Notes issued for DEP and customers of DEC are only obligated to pay storm recovery charges sufficient to pay debt service and financing costs related to the SRB Notes issued for DEC. Regarding the risk of financial defaults by the SRB Notes, both sets of SRB Notes will be structured to obtain AAA equivalent ratings.

q. Yes.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 2

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 9, 2020
Date of Response: November 17, 2020

[ ] **CONFIDENTIAL**

[X] **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 2-8, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies LLC, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 2
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 2-8
Page 1 of 1

Request:
a. Have any other utility securitizations of two affiliated companies been structured, marketed and priced under a common marketing plan versus the proposed SRB Securities combined structure? If so, which of these two approaches resulted in the tighter spreads to comparable benchmark securities priced close in time to these securitized utility bonds?
b. For the proposed structure in Atkins Exhibit 4, who provided these indicative rates?
c. Page 34 of Witness Atkins' testimony recommends that the underwriters provide price guidance to investors based on both U.S. Treasury benchmarks and interest rate swap benchmarks. Atkins Exhibit 4 presents the "spread" for each class / tranche of DEC bonds and DEP bonds as of October 9, 2020 against benchmark U.S. Treasury obligations. Please also provide the "spread" for each class / tranche of DEC bonds and DEP bonds as of October 9, 2020 against benchmark interest rate swaps. Please also provide the equivalent U.S. Treasury g-spreads for each of the benchmarks used in Atkins Exhibit 4.
d. Has DEP or DEC examined the alternative of developing one set of documents for the offering to investors of one series of Notes for DEP and then using the identical documents conformed for a separate series of Notes for DEC as has been done efficiently by other utilities?

Response:
a. DEC and DEP are familiar with two instances of utility securitizations sponsored by Entergy subsidiaries, marketed as separate issuances under common marketing plans and priced on the same day -- the LCDA/ELL and LCDA/EGSL transactions priced in July 2010, and the LCDA/ELL and LCDA/EGSL transactions priced in July of 2014. In both instances, the smaller transaction priced wider than the larger transaction. Please see the attached spread and coupon information for those transactions included as an attachment to PS Data Request 2-8.

b. The indicative rates for Atkins Exhibit 4 were provided by co-financial advisor Guggenheim Securities, and reviewed by Witness Atkins and Witness Heath.

c. See document provided as an attachment to PS Data Request 2-8.

PS DR 2-8c indicative spreads.pdf

d. Yes, DEC and DEP have and will continue to evaluate different options. The proposed financing orders were drafted to permit the Companies flexibility to issue two series using similar documents or to combine the issuance and use SRB Securities. Ultimately, it will depend on the Companies' consultations with the bookrunning underwriters regarding the preferred issuance strategy given market conditions, with the goal of achieving the statutory cost objectives set forth in the Financing Orders.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 2

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 9, 2020
Date of Response: December 1, 2020

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Confidential Responses are provided pursuant to Confidentiality Agreement

The attached supplemental response to NC Public Staff Data Request No. 2-8, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies LLC, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 2
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 2-8
Page 1 of 1

Request:

a. Have any other utility securitizations of two affiliated companies been structured, marketed and priced under a common marketing plan versus the proposed SRB Securities combined structure? If so, which of these two approaches resulted in the tighter spreads to comparable benchmark securities priced close in time to these securitized utility bonds?
b. For the proposed structure in Atkins Exhibit 4, who provided these indicative rates?
c. Page 34 of Witness Atkins' testimony recommends that the underwriters provide price guidance to investors based on both U.S. Treasury benchmarks and interest rate swap benchmarks. Atkins Exhibit 4 presents the "spread" for each class / tranche of DEC bonds and DEP bonds as of October 9, 2020 against benchmark U.S. Treasury obligations. Please also provide the "spread" for each class / tranche of DEC bonds and DEP bonds as of October 9, 2020 against benchmark interest rate swaps. Please also provide the equivalent U.S. Treasury g-spreads for each of the benchmarks used in Atkins Exhibit 4.
d. Has DEP or DEC examined the alternative of developing one set of documents for the offering to investors of one series of Notes for DEP and then using the identical documents conformed for a separate series of Notes for DEC as has been done efficiently by other utilities?

Supplemental Response Dec. 1, 2020:

a. Please see the attachment titled "Supplemental PS DR 2-8a LDCA Pricings.pdf."

Supplemental PS DR
2-8a LCDA Pricings.pc

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 2

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 9, 2020
Date of Response: November 17, 2020

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Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 2-9, was provided to me by the following individual(s): Shana W. Angers, Manager, Accounting II, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 2
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 2-9
Page 1 of 1

Request:

a. Has DEF or any other utility subsidiary of Duke Energy Corporation that acts or has acted as servicer for securitized utility bonds documented its specific incremental annual servicing and administration out-of-pocket costs to provide the services as described in the proposed DEP/DEC servicing agreement and administration agreement? If so, please provide the supporting documentation for these costs on an annual basis from 2017-2019.
b. Has DEF identified its incremental out-of-pocket costs of acting as servicer and administrator for its 2016 securitized utility bonds in connection with the preparation of its annual financial statements?
c. How do these incremental actual costs compare with estimated annual costs for the DEP/DEC utility securitization?
d. Will any information system set-up fees or other incremental servicing costs be paid from bond proceeds as a "financing cost"?

Response:

a. DEF has not quantified the actual cost of performing the servicing or administration function under the respective transaction agreements for its 2016 securitization transaction. Customers are kept whole for these expenses. The labor and labor related cost of employees performing the servicing and administration functions and the earnings from the servicing and administration fees are factored into DEC and DEP's base rates. The servicing and administration fees will be charged to and collected from customers through the storm recovery charge. The fees will be paid to DEC and DEP and will be recorded as reductions to their operating expenses, as such, customers will not be double paying the servicing and administration fees.

b. See response to PS Data Request 2-9.a.

c. See response to PS Data Request 2-9.a.

d. As provided for in the storm securitization statute, incremental information technology programming costs are considered a financing cost. As discussed in Witness Heath's testimony (page 21 line 21 through page 22 line 2), DEC and DEP intend to recover amounts related to systems modifications to bill, monitor, collect, and remit the storm recovery charges. An estimate for these incremental costs is included in Heath Exhibit 1. The scope and nature of these required systems modifications are still being determined. As a result, the incremental cost related to any modifications may be more or less than the amounts included in Heath Exhibit 1.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 2

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 9, 2020
Date of Response: November 17, 2020

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Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 2-10, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies LLC, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 2
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 2-10
Page 1 of 1

Request:

Witness Atkins testifies that the storm recovery bond transaction proposed by DEP and DEC will comply with the safe harbor federal income tax rules of IRS Revenue Procedure 2005-62. Section 62-172(a)(14) defines "storm recovery costs" to include "the cost to replenish and fund any storm reserves". The Joint Petition states that neither DEC nor DEP "at this time" plans to use proceeds of securitized bonds to replenish or fund any storm reserves, but DEP/DEC appear to reserve the right to change those plans. Is replenishing or funding a storm reserve a "cost" for purposes of the federal income tax safe harbor rule of Revenue Procedure 2005-62?

Response:

As noted in their Joint-Petition, DEC and DEP are not requesting that proceeds from the transaction be used to fund storm reserves. That said, funding of storm reserves would qualify under Revenue Procedure 2005-62. Section 5.03 defines "specified costs" that qualify under the Rev. Proc. as "those costs identified by the State legislature as appropriate for recovery through the securitization mechanism of the specified cost recovery legislation." N.C. Gen. Stat. § 62-172(a)(14) states that "storm recovery costs" includes "the cost to replenish and fund any storm reserves" and thus the legislature deems them "appropriate for recovery through the securitization mechanism".

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 2

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 9, 2020
Date of Response: November 17, 2020

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Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 2-11, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 2
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 2-11
Page 1 of 5

Request:

a. Witness Atkins and Witness Heath recommend a negotiated pricing with underwriters to price the SRB Securities. What is the definition of a negotiated underwriting? Please be specific as to what is negotiated and by whom under this proposal.
b. What specific items or terms will be negotiated with the underwriters? How will underwriters be selected for the proposed SRB Securities?
c. How many underwriters does DEP/DEC expect to negotiate with for the proposed securitization?
d. Will underwriters be compensated regardless of their performance in the structuring, marketing, and pricing of the bonds?
e. If there is more than one underwriter, how will the compensation of each underwriter be determined?
f. What are the requirements to be considered a potential underwriter for the SRB Securities?
g. If experience in underwriting previous utility securitization bonds will be a factor, and given the turnover in personnel at many of these firms, how will DEP/DEC assure itself that a candidate firm has personnel with direct experience in utility securitization?
h. If experience in SEC registered offerings will be a factor, what is the threshold amount?
i. How will the performance of underwriters in previous utility securitizations be evaluated?
j. Will being a lender to Duke Energy Corporation or any of its affiliates be a factor in selecting an underwriter of the SRB Securities?
k. Are there any underwriting firms that are not lenders to Duke Energy Corporation or any of its affiliates that have been selected as underwriters by Duke Energy Corporation or any of its affiliates? If so, please name those firms.
l. For all firms that are lenders to Duke Energy Corporation or any of its affiliates and that also are selected as underwriters, please indicate the lending commitment and the number of times that firm has participated as an underwriter.
m. Do underwriters of securities have a duty to the issuer of those securities? Is it a fiduciary duty?
n. If there is more than one underwriter, how will the compensation of each underwriter be determined?
o. Do underwriters have to act in the best interests of the issuer and not in their own economic interest?
p. The underwriting agreement for the 2016 DEF securitized utility bond transaction states: "No Advisory or Fiduciary Relationship. Each of the Issuer and the Depositor acknowledges and agrees that (a) the purchase and sale of the Bonds pursuant to this Agreement, including the determination of the offering price of the Bonds and any related discounts and commissions, is an arm's-length commercial transaction between the Issuer and the Depositor, on the one hand, and the several Underwriters, on the other hand, (b) in connection with the offering and the process leading thereto, each Underwriter is and has been acting solely as a principal and is not the agent or fiduciary of either the Issuer or the

Depositor, any of their subsidiaries or their respective members, directors, creditors, employees or any other party, (c) no Underwriter has assumed or will assume an advisory or fiduciary responsibility in favor of the Issuer or the Depositor with respect to the offering or the process leading thereto (irrespective of whether such Underwriter has advised or is currently advising the Issuer or the Depositor or any of its subsidiaries on other matters) and no Underwriter has any obligation to the Issuer or the Depositor with respect to the offering except the obligations expressly set forth in this Agreement, (d) the Underwriters and their respective affiliates may be engaged in a broad range of transactions that involve interests that differ from those of the Issuer or the Depositor, (e) any duties and obligations that the Underwriters may have to the Issuer or the Depositor shall be limited to those duties and obligations specifically stated herein and (f) the Underwriters have not provided any legal, accounting, regulatory or tax advice with respect to the offering and each of the Issuer and the Depositor has consulted its own respective legal, accounting, regulatory and tax advisors to the extent it deemed appropriate."
Is this issue commonly addressed in underwriting agreements? If so, please explain why?
q. Will the underwriters provide advice to DEP/DEC concerning the structure, marketing, preliminary pricing and pricing of SRB Securities?
r. Will the underwriters analyze and provide other information or review other information for the benefit of DEP/DEC?
s. Will the underwriters analyze and provide any information or review for the benefit of customers responsible for paying the non-bypassable storm recovery charges?
t. In the Joint Petition, DEC and DEP propose that each will deliver an Issuance Advice Letter following pricing and prior to issuance of the SRB Securities. In those Issuance Advices Letters, DEC and DEP must certify that "the structuring and pricing of the SRB Notes and the underlying Storm Recovery Bonds issued on behalf of [DEC / DEP] resulted in the lowest storm recovery charges payable by customers of [DEC / DEP] consistent with market conditions at the time such SRB Notes and underlying Storm Recovery Bonds were priced and the terms set forth in the Financing Order." Should the bookrunning underwriter(s) of the SRB Securities be required to deliver a similar certification?
u. In any of the 24 transactions that Witness Atkins lists in his experience, did one or more of the bookrunning underwriters deliver a certification that the structuring, marketing and pricing of the securitized utility bonds resulted in the Issuer receiving the lowest cost of funds for the bonds, consistent with the financing order and market conditions at the pricing time? If so, please identify such transactions and provide a copy of such certification.
v. In any of the 24 transactions that Witness Atkins lists in his experience, did one or more of the bookrunning underwriters deliver any type of certification or opinion? If so, please describe and provide a copy of such certification or opinion.

Response:

a. A "negotiated underwriting" is an underwriting conducted pursuant to an underwriting agreement that is negotiated between the issuer and depositor and the underwriters. In such

a negotiated underwriting, the issuer and depositor and the underwriters will work together to market and sell the SRB Securities.

b. In a negotiated underwriting, all terms are subject to negotiation, but DEC and DEP anticipate the underwriting agreement will resemble the underwriter agreements used by DEC and DEP in their traditional capital markets transactions and the underwriting agreement used in the DEF utility securitization.

c. At this stage of the transaction cycle, DEC and DEP have not developed detailed plans for selecting and compensating underwriters for the transaction. However, it is likely that DEC and DEP would ultimately have an underwriting syndicate similar to their affiliate DEF's 2016 transaction. The 2016 DEF transaction had an underwriting syndicate consisting of two joint book-running lead underwriters and six co-managers. DEC and DEP will select underwriters that have relevant experience with the issuance of utility securitization bonds and that share DEC and DEP's approach to the structuring and marketing plans for this transaction (targeted to the broadest spectrum of investors, presented as structured corporate securities, understand the unique credit quality of the bonds, etc.). Underwriters will likely be selected through the use of a request for proposal process.

d. See response to PS Data Request 2-11.c.

e. See response to PS Data Request 2-11.c.

f. See response to question PS Data Request 2-11.c.

g. DEC and DEP have relationships with credit providers and non-credit providing financial institutions and maintain frequent contact with them throughout each year. This relationship management process helps DEC and DEP to stay aware of key personnel changes at these financial institutions. The underwriting group will likely not consist exclusively of DEC and DEP's relationship financial institutions. If a request for proposal process is utilized, one of the relevant questions will be for the financial institution to list specific personnel who will be involved in the proposed transaction and their relevant experience with utility securitization bond issuances.

h. See response to PS Data Request 2-11.c. and 2-11.g.

i. See response to question PS Data Request 2-11.g.

j. See response to question PS Data Request 2-11.g.

k. Since 2018, Duke Energy and its affiliates have selected the financial institutions listed below, which do not provide credit to them, as underwriters on various public debt issuances. Academy Securities, Inc. Blaylock Van, LLC CastleOak Securities, L.P. C.L.

King & Associates, Inc. Great Pacific Securities Guggenheim Securities, LLC Drexel Hamilton, LLC Jefferies LLC Loop Capital Markets LLC Mischler Financial Group, Inc. Samuel A. Ramirez & Company, Inc. Siebert Williams Shank & Co., LLC

l. No underwriters have been selected for this transaction to date. The only financial institution engaged in any capacity at this point are Guggenheim and Atkins Capital, neither of which are credit providers to DEC and DEP or any of their affiliates.

m. The underwriters do not have a fiduciary duty to the issuer, but as required by the statute, the transaction is expected to be structured and priced to result in the lowest storm recovery charges consistent with market conditions at the time the SRB Securities are priced and the terms of the Financing Orders.

n. See response to PS Data Request 2-11.g.

o. DEC and DEP object to this request on the grounds that it calls for the provision of legal conclusions regarding the duties owed to issuers by underwriters generally. Without waiving this objection DEC and DEP provide the following response: The duties between DEC and DEP and underwriters for the proposed SRB transactions will be set forth in the written agreements between DEC and DEP. In addition, the statute requires the structuring and pricing of the storm recovery bonds are reasonably expected to result in the lowest storm recovery charges consistent with market conditions at the time the SRB Securities are priced and the terms set forth in the Financing Orders. DEC and DEP will provide a certification as such in connection with the issuance advice letter process. Therefore, the underwriters, and DEC and DEP, will be working with common purpose to achieve this objective. Furthermore, as noted in prior responses, the relationship between DEC and DEP and the underwriters will be a commercial relationship and at least some of the underwriters are expected to have considerable incentive to deliver for the utilities in order to attract future business from Duke Energy. Lastly, DEC and DEP are sophisticated actors in capital markets transactions, fully capable of evaluating transactions.

p. Yes, the language cited above is common in underwriting agreements. It is an acknowledgement between the parties that the underwriting agreement memorializes a commercial arms-length transaction between the underwriters and the issuer and depositor that creates no fiduciary duties between the parties. As sophisticated market participants, DEC and DEP are knowledgeable in the issuance of securities generally and many of the DEC and DEP employees who will be working on the proposed SRB Securities worked on the DEF transaction. Similar language is found in DEC's and DEP's first mortgage bond underwriting agreements and DEC and DEP are comfortable with this language.

q. Yes, this is common practice in the issuance of securitization bonds and corporate bond issuances in general.

r. Yes, the underwriters will assist in the preparation of rating agency presentations (if engaged at that stage), marketing materials, and other documentation related to the transaction.

s. Underwriters will assist DEC and DEP in ensuring the transaction achieves the statutory objective of providing quantifiable benefits to customers.

t. DEC and DEP will provide the certificate described above. Each are still considering whether or not to request a similar certification from the book-running underwriters.

u. Yes, underwriters in some of these transactions did provide a form of "lowest costs" certificate. The exact form of such certification is heavily negotiated and varies depending on the requirements of the transaction and/or requirements of the applicable statute. Many of these certificates are confidential, so Witness Atkins is not able to identify or provide copies of such certifications.

v. Yes. As discussed in the response above, these certifications are typically confidential and may not be shared with third parties.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 2

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 9, 2020
Date of Response: November 20, 2020

☐ **CONFIDENTIAL**

☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 2-12, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies LLC, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 2
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 2-12
Page 1 of 2

Request:

a. In connection with public offerings of securities, what is the difference between an underwriter and a placement agent?
b. What is the difference between a "firm commitment" underwriting and a "best efforts" underwriting? Do DEC and DEP propose that the SRB Issuer will sell the SRB Securities to underwriters in a "firm commitment" underwriting or a "best efforts" underwriting?
c. In a firm commitment underwriting of bonds, must the underwriters have orders from investors when the bonds are priced and the underwriting agreement is executed?
d. Of the 24 utility securitization transactions in which Witness Atkins has participated, totaling $22.6 billion, as stated on Atkins Exhibit 1, page 2, did underwriters ever use their own capital to purchase bonds for which investors had not placed orders at the public offering price at the time of pricing (not for its proprietary account, which is prohibited, but acting in its capacity as underwriter)?
e. Is Witness Atkins aware of any transaction (including, but not limited to, any utility securitization transaction) during his time at Morgan Stanley in which Morgan Stanley, as underwriter, purchased bonds from an issuer without a corresponding order from an investor(s) for a specific bond? If yes, please describe those transactions.
f. Witness Atkins describes a process in which underwriters will use their "professional judgement" to increase the credit spread (cost to the customers) to a level in which there are enough investors to "clear the market" for each tranche of SRB Securities. In an underwriting of securitized utility bonds, how is pricing each tranche to the last investor's price level in the best interests of consumers?
g. When underwriters use their professional judgement to increase the spread, are they providing advice to the issuer that is in the issuer's best interest and not in the underwriters' economic interest?

Response:

a. The primary difference between an underwriter and a placement agent in a public offering is that the underwriter provides a firm commitment to buy the securities at closing at the time of pricing (subject to the conditions precedent in the underwriting agreement) while the placement agent is retained to locate investors on behalf of the issuer but does not obligate itself to buy the securities at closing. A placement agent is contractually obligated in a placement agency agreement to use its best efforts or commercially reasonable efforts to locate buyers for the securities. An underwriter will sign an underwriting agreement at the time of pricing of the securities obligating it buy the securities at closing subject to conditions precedent being met in the underwriting agreement.

b. DEC and DEP propose that the SRB Issuer will sell the SRB Securities in a firm commitment underwriting. This differs from a "best efforts" placement in which the placement agent will use "best efforts" to locate buyers for the Securities. See also response to PS Data Request 2-12.a.

c. It is DEC and DEP's understanding from underwriters they have worked with previously that the underwriters do not necessarily have to have a full book orders from investors when the bonds are priced and the underwriting agreement is executed. However, practices among underwriters may differ based on firm practices and potential regulatory constraints.

d. Prior to the more stringent bank capital requirements imposed after the 2008 financial crisis, in certain cases, underwriters may have used their own capital to purchase limited amounts of unsold utility securitization bonds. While Witness Atkins does not have a specific deal-by-deal recollection of such events, for those transactions where Morgan Stanley was a lead bookrunning underwriter, it is certainly possible that such events occurred. Regarding other asset classes, Witness Atkins does recall a few such occurrences, but not on a specific transaction basis. After more stringent capital requirements were imposed on banks post-financial crisis, Witness Atkins does not recall any such occurrence, which may be less likely due to the increase in capital requirements. Witness Atkins cannot offer any views whether underwriters may subsidize utility securitization issues with their own capital in current or future market or regulatory environments. e. See response to 12.d. f. A market-clearing pricing would result in interest rates for the SRB Securities that are consistent with market conditions at the time of pricing. Interest rates that are subsidized by private companies, whether underwriter firms or the Companies, through the purchase or retention of unsold utility securitization bonds, are not consistent with market conditions at the time of pricing, and therefore inconsistent with N.C. Gen. Stat. § 62-172.

g. See response to PS Data Requests 2-11.o. and 2-12.f.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 2

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 9, 2020
Date of Response: November 17, 2020

☐ **CONFIDENTIAL**

☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 2-13, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 2
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 2-13
Page 1 of 2

Request:

a. Please provide DEP/DEC's marketing plan for the proposed SRB Securities, including, but not limited to, the trading history of comparable securities to be used in such plan, proposed roadshow materials, pros and cons sales memorandum, and categories of investors to be targeted. P lease provide all objective evidence as practicable to support the recommendations in the plan.
b. Witness Atkins indicates that a broad group of investors in corporate and asset backed securities will be contacted. Please define "broad".
c. How much of utility securitization bonds will be outstanding as of December 31, 2020, and what will be the distribution by weighted average life? Who are the disclosed investors in these securities?
d. What efforts will DEP/DEC will make to attract new sources of investment money to this deal, not just the traditional buyers?
e. Please identify the list of investors to be contacted and how the Designated Member or anyone else can confirm that those investors have actually been contacted. Will the underwriters provide written and accountable certifications that such a distribution has been made?
f. Southern California Edison Company is planning a similar utility securitization offering in January 2021. How could this affect the pricing of these SRB Securities?
g. Pacific Gas and Electric Company is planning a $7.5 billion similar utility securitization offering in 2021. How could this affect the pricing of these SRB Securities?

Response:

a. Marketing plans have not been formally developed at this stage of the transaction as DEC and DEP's primary focus to this point has been directed to this regulatory proceeding phase of the transaction. The marketing plan is expected to be similar to, but not identical to, the marketing plan utilized in DEC and DEP affiliate DEF's 2016 transaction. The marketing plan for DEF's 2016 transaction included non-deal investor meetings at ABS and other investor conferences, in-person and on-line deal roadshows, one-on-one and/or small group investors meetings, etc. Certain aspects of the marketing will also depend on the national health situation due to COVID-19.

b. The marketing of the 2016 DEF transaction represents an example of outreach to a broad group of investors. The current advisor to the Public Staff advised the Florida Commission during the marketing of that transaction, and more than 160 investors were contacted.

c. See attached schedule provided in response to this request.

PS DR 2-13c utility securitization bonds c

d. See response to PS Data Request 2-13.a.

e. See response to PS Data Request 2-13.a. It would be highly unusual and inappropriate for third parties who do not have securities law liability to directly contact potential investors. Financial institutions are very sensitive with respect to their relationships with investors.

f. DEC and DEP have no control over the timing of any competing utility securitization bond transactions, they can only control the timing of their own issuance(s). Given the potential for such large competing issuances, it will be important for DEC and DEP to have underwriters that have significant experience and exposure in the utility securitization bond market. These financial institutions can assist DEC and DEP to determine transaction timing that will avoid, to the extent possible, being in the market at the same time as a competing issuance. With respect to a potential issuance by Southern California Edison in January 2021, DEC and DEP do not expect any significant detrimental impacts to their transaction(s) as they are not expecting to be in the market until mid-2021 which should allow the SCE transaction to be fully digested in the market. Utility securitization bond offerings are generally infrequent. Since DEC and DEP affiliate DEF's issuance in 2016, there have only been two other utility securitization transactions. As result of this infrequent issuance activity, the marketing process includes an element of investor education to refamiliarize the market with the unique aspects of these transactions. A transaction several months prior to DEC and DEP's transaction may actually provide positive pricing benefits to their transaction as investors will already be familiar with this type of transaction. This could allow DEC and DEP to focus investor attention to distinguishing features of their North Carolinas service territories compared to SCE's California territory. An issuance by Pacific Gas and Electric Company later in 2021 has the potential to be of more concern. It will be important to stay clear of the transaction in the market, and if possible, to be in the market prior to the potential PG&E transaction because of its size. If the PG&E transaction were to price in the market prior to DEC and DEP's transaction, investors will attempt to draw direct comparisons between these transactions. With respect to either of these potential competing transactions it will be very important for DEC and DEP to select underwriters who are aligned with their philosophy for marketing the transaction. This includes approaches to cast the broadest net and to identify new investors for utility securitization bonds.

g. See response to PS Data Request 2-13.f.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 3

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 20, 2020
Date of Response: November 23, 2020

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[X] **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 3-1, was provided to me by the following individual(s): Kimberly K Smith, Rates & Regulatory Strategy Manager, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 3
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 3-1
Page 1 of 1

Request:

1. What local, state and federal income tax rate assumptions does Ms. Abernathy use in calculating the revenue requirement impact of the securitization option (including, but not limited to, components related to storm recovery bond payments, upfront financing costs, and ongoing financing costs), as compared to traditional financing mechanisms?

Response:

Witness Abernathy included an after-tax WACC rate in calculating the return component of the storm recovery costs in Abernathy Exhibit 1 through May 31, 2021 as is provided in workpapers provided to the Public Staff in PS DR 1. The statutory tax rate used was approximately 23.4% and 23.2% for DEC and DEP, respectively. These can be found in the workpapers to Abernathy Exhibit 1-7 provided in PS DR 1. These rates are consistent with those used in the pending rate cases.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
Confidential NC Public Staff Data Request No. 3-2
Filed Under Seal

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 3

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 20, 2020
Date of Response: November 23, 2020

[ ] **CONFIDENTIAL**

[X] **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 3-3, was provided to me by the following individual(s): Morgan Beveridge, Rates and Regulatory Strategy Manager, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 3
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 3-3
Page 1 of 1

Request:

3. Please provide a reconciliation of the 18 customer classes shown in Abernathy DEC Exhibit 3 with the 30 customer rate schedules shown in Byrd DEC Exhibit 1. Likewise, please provide a reconciliation of 10 customer classes shown in Abernathy DEP Exhibit 3 with the 22 customer rate schedules shown in Byrd DEP Exhibit 1.

Response:

Reconciliation of Abernathy Exhibit 3 and Byrd Exhibit 1 for DEC and DEP is provided in attached workbook "PS_DR_3-3.xlxs".


PS_DR_3-3.xlsx

The rate class breakout for DEC OPTV rate schedules ties to the Excel workpaper for Abernathy Exhibit 3 provided in PS DR 1.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 3

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 20, 2020
Date of Response: November 23, 2020

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[X] **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 3-4, was provided to me by the following individual(s): Kimberly K Smith, Rates & Regulatory Strategy Manager, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 3
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 3-4
Page 1 of 1

Request:

4. Please provide a reconciliation of the annual DEC storm recovery charge of $15.677 million ($14.169M + $1.508M) in Abernathy DEC Exhibit 7 with the $17.6M total debt service shown in Atkins Exhibit 4. Page 1 of 4. Likewise, please provide a reconciliation of the annual DEP storm recovery charge of $51.357 million ($45.790M + $5.567M) in Abernathy DEP Exhibit 7 with the $57.2M total debt service shown in Atkins Exhibit 4. Page 2 of 4.

Response:

For both DEC and DEP, the amounts shown in Abernathy Exhibit 7 will not agree to the amounts shown in Atkins Exhibit 4 due to the Stipulation agreed to between the Companies and the Public Staff with regards to the calculation of quantifiable benefits to customers for this securitization. Abernathy Exhibit 7 is used in the calculation of savings. Please see the response to DR 3-5 for more information about the Stipulation and the requirements of the savings calculations. The amounts referenced from Atkins Exhibit 4 are shown in Abernathy Exhibit 4 as Principal and Interest for Year 1 and are used when calculating the Storm Recovery Charges for this proceeding.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 3

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 20, 2020
Date of Response: November 23, 2020

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[X] **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 3-5, was provided to me by the following individual(s): Kimberly K Smith, Rates & Regulatory Strategy Manager, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 3
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 3-5
Page 1 of 1

Request:

5. Please provide a reconciliation of the Abernathy DEC Exhibit 7 $215.848 amount to securitize ($195.079 O&M + $20.769M capital) with the $230.8M in Atkins Exhibit 4, page 1 of 4. Similarly, please provide a reconciliation of the corresponding DEP amounts between Abernathy and Atkins.

Response:

For both DEC and DEP, the amounts to securitize shown in Abernathy Exhibit 7 will not agree to the amounts to securitize shown in Atkins Exhibit 4 due to the Stipulation agreed to between the Companies and the Public Staff. Within the Stipulation, the parties agreed to certain criteria/assumptions that would be used for this securitization when calculating and demonstrating quantifiable benefits to customers. This includes several pre-determined dates, including date of the storms, date of new rates effective and the date of securitization. Abernathy Exhibit 7 reflects the annual revenue requirement for storm securitization with the agreed upon requirements of the Stipulation and Atkins Exhibit 4 shows the amounts to securitize based on the actual amounts that will be securitized as shown in Abernathy Exhibit 1. The primary driver of the difference between Abernathy Exhibit 7 and Atkins Exhibit 4 is that in Abernathy Exhibit 7, carrying charges are calculated through September 30, 2020 and the date of securitization is assumed to be October 1, 2020; whereas, Atkins Exhibit 4 includes carrying charges through May 31, 2021 with an expected June 1, 2021 bond financing date.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 3

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 20, 2020
Date of Response: November 24, 2020

[ ] **CONFIDENTIAL**

[X] **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 3-6, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies LLC, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 3
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 3-6
Page 1 of 1

Request:

6. Please explain the additional $224,500 in ongoing expenses shown on Atkins Exhibit 4, page 3 of 4, over and above operating expenses on the prior 2 pages for DEC and DEP separately.

Response:

$224,500 are for ongoing expenses at the SRB trust level which will be allocated as expenses for each of DEC and DEP on a pro-rata basis. The assumption for each of DEC and DEP is shown in line items called “Allocated Trust Expenses,” which reflect what SRB Trust expenses will be paid by DEC’s and DEP’s customers, and those amounts add up to the $224,500.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 3

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 20, 2020
Date of Response: November 23, 2020

[ ] **CONFIDENTIAL**

[X] **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 3-7, was provided to me by the following individual(s): Kimberly K Smith, Rates & Regulatory Strategy Manager, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 3
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 3-7
Page 1 of 1

Request:

7. Why do the DEC and DEP savings calculations use a different principal amount for securitization in Abernathy Exhibit 7 than in Abernathy Exhibits 1 through 4, and why are they different from the amounts used in Witness Atkins' preliminary structure?

Response:

Please see the Companies' response to PS DR 3-5.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 3

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 20, 2020
Date of Response: November 23, 2020

[ ] **CONFIDENTIAL**

[X] **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 3-8, was provided to me by the following individual(s): Kimberly K Smith, Rates & Regulatory Strategy Manager, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 3
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 3-8
Page 1 of 1

Request:

8. Please reconcile the principal amounts financed in Abernathy Exhibits 5 and 7 to the principal amounts used in Abernathy Exhibits 1 through 4 and in Atkins' preliminary structure.

Response:

Please see the Companies' response to PS DR 3-5.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 3

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 20, 2020
Date of Response: November 23, 2020

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☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 3-9, was provided to me by the following individual(s): Kimberly K Smith, Rates & Regulatory Strategy Manager, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 3
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 3-9
Page 1 of 1

Request:

9. Why did DEC and DEP use the same issuance cost estimate in the savings calculations presented in witness Abernathy's exhibits as Witness Atkins used in his preliminary structure even though DEC's and DEP's principal amounts were less?

Response:

DEC and DEP used for upfront and ongoing expenses the best estimates at the time of the securitization filing based on witness Heath's Exhibit 1.

For upfront fees, which are factored into the bond issuance, only rating agency fees, underwriting fees and SEC fees would directly correlate to the amount of the financing (the other amounts would be comparable with no regard to the principal amounts).

Ongoing fees, which do correlate to the magnitude of the principal amounts, would be considered higher than expected based on the lower principal amount in Abernathy Exhibit 7 as compared to Atkins' Exhibit 4; however the estimated data was readily available as a data point. Use of the estimates submitted in Witness Heath's testimony and exhibits was a conservative approach to the cost of securitization (expenses are overstated) and did not improperly inflate customer savings.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 3

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 20, 2020
Date of Response: November 23, 2020

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The attached response to NC Public Staff Data Request No. 3-10, was provided to me by the following individual(s): Kimberly K Smith, Rates & Regulatory Strategy Manager, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

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Request:

10. In Abernathy Exhibit 7 for both DEC and DEP, why was it assumed that principal would be reduced each month even though, in reality, principal payments will most likely be semi-annual?

Response:

The principal payments will most likely be semi-annual as stated in the data request question. The Companies followed the methodology agreed upon with the Public Staff during the Stipulation discussions related to Storms, which calculated the payment stream on a monthly payments methodology, not semi-annual. The Company provided the agreed upon template with Mike Maness of the Public Staff for the calculation in PS DR 1.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 3

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 20, 2020
Date of Response: November 23, 2020

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The attached response to NC Public Staff Data Request No. 3-11, was provided to me by the following individual(s): Kimberly K Smith, Rates & Regulatory Strategy Manager, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 3
DEC Docket No. E-7, Sub 1243
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Request:

11. Please provide Excel worksheets that show DEC and DEP securitization cash flows discounted using the WACC to the net present values shown in DEC Exhibit 5 and DEP Exhibit 5.

Response:

Per email discussion with Public Staff, the Excel sheets have been provided for DEC and DEP.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 4

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 25, 2020
Date of Response: December 4, 2020

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The attached response to NC Public Staff Data Request No. 4-1, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 4
DEC Docket No. E-7, Sub 1243
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Request:

1. QUALIFICATIONS AND EXPERIENCE - WITNESS ATKINS
a. In response to PS DR 2-1(a), Witness Atkins states: "The attached table also includes annotations to specify Mr. Atkins' roles as requested in item 1.d. Where Mr. Atkins indicates a supporting role in the marketing of a transaction, he reviewed and assisted in the preparation of marketing materials, educated the sales force and sometimes answered investor questions. Where he indicates a supporting role in the pricing of the transaction, he coordinated with the Issuer and the Commission Advisor (if engaged), assisted the underwriting syndicate and advocated for tight market-clearing pricing."
i. We would like to please request a clarification on the response. With the exception of the two CenterPoint transactions, entries in the Column titled "Issuer" annotate all assignments "**" – indicating that Witness Atkins served as "Financial Advisor and/or Expert Witness Role." What was Witness Atkins' specific role in the two CenterPoint transactions? Please specify which transactions Witness Atkins acted as a Financial Advisor, Expert Witness, or both, and whether Witness Atkins played a supervisory or supporting role? In each case, please indicate whom Witness Atkins represented.
ii. Entries in the Column titled "Role State Advisor Staff / Commissioner" include subscripts i, v, and/or vi. Please explain the meaning of these subscripts and the duties and activities of the role.
b. Please identify which transactions on Witness Atkins' list with respect to which Witness Atkins has participated in any investor roadshow presentations for utility securitization, met with investors, or held direct discussions with the SEC or FINRA on any matters related to utility securitizations.
c. Guggenheim will be constructing the financial model. What is their experience in modeling utility securitizations?
d. Has Witness Atkins audited or supervised the construction of a financial model concerning utility securitization?
e. In pricing discussions concerning each of the 24 utility securitization offerings on Witness Atkins' list, did Witness Atkins represent underwriters, his employer, ratepayers, or other?

Response:

a. Witness Atkins described his roles in the response to PS DR 2-1.a. and the accompanying attachment, and stated that in each instance where he served as Financial Advisor and/or Expert Witness he was retained by the sponsoring utility. The annotations in the attachment match the specific roles listed in PS DR 2-1.d., i through vi, as appropriate under "Role." The role for the CenterPoint transactions is indicated in the attachment as a support role in the marketing of the transactions, since Morgan Stanley was one of the co-lead underwriters for those transactions and did not serve as structuring advisor. A separate attachment was provided that lists transactions where Witness Atkins also served as Expert Witness, and submitted testimony.

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b. For those transactions where Witness Atkins indicates a marketing support role, he generally supervised and participated in the creation of investor presentation materials. From time to time he participated in investor presentations and responded to investor questions. As a banker, Witness Atkins was not a part of the underwriting syndicate desk or the sales force, which personnel conducted the primary investor discussions, as is routine in major investment banks. With respect to discussions with the SEC and FINRA, in each transaction listed by Witness Atkins, the sponsoring utility and issuer were represented by legal counsel, and any discussions with the SEC were properly conducted by issuer legal counsel. Witness Atkins is not aware of any FINRA discussions taking place during the execution of the listed transactions.

c. Guggenheim constructed the financial model used by Public Service Company of New Mexico in connection with their financial order application that was filed in 2019. Also the Guggenheim team created an internal model for the Duke Energy Florida 2016 transaction. In addition, a member of the Guggenheim team at his prior firm worked closely with the independent structuring team that created models for other utility securitizations.

d. Please see the responses to PS DR 2-2.m. and n.

e. In those listed transactions where Witness Atkins indicates a support role in the pricing process, Witness Atkins was employed by or contracted with Morgan Stanley, and worked closely with issuer and the commission representative/advisor (if participating) during the transparent pricing process, with the issuer and commission representative reviewing the investor order book.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
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Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 25, 2020
Date of Response: December 4, 2020

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The attached response to NC Public Staff Data Request No. 4-2, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 4
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Request:

a. The initial response to PS DR-12 identified Jordan Yarett as "Partner, Paul Weiss," a law firm. Does Witness Yarett represent any of the parties in this proceeding and in what role? If so, please indicate which category of expense depicted in Heath Exhibit 1 to which the Companies will book this expense.

Response:

a. The firm Paul, Weiss, Rifkind, Wharton & Garrison, LLP represents the co-advisors to DEC and DEP and is further expected to represent the underwriters to the transaction once they are selected. Estimated fees to Paul Weiss are included in the Legal Fees lines of Heath Exhibit 1.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 4

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 25, 2020
Date of Response: December 4, 2020

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The attached response to NC Public Staff Data Request No. 4-3, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 4
DEC Docket No. E-7, Sub 1243
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Request:

a. On page 23 of direct testimony, Witness Heath states: "We expect Guggenheim to have the opportunity to continue as an underwriter until the bonds are issued, but all structuring fees are expected to be earned upon commencement of the ratings process."

i. Please provide a detailed explanation and supporting documentation as to why the Company is paying the fee upon the commencement of the ratings process rather than at the successful conclusion of the ratings process. Please provide the Companies' means of recourse per the contract in the event of (a) underperformance, (b) delayed performance, or (c) nonperformance by the firm. Additionally, please provide a detailed explanation and supporting documentation of any additional measures the Companies have undertaken or plan to undertake to protect ratepayers in in such instances.

ii. If Guggenheim also serves as an underwriter of the SRB Securities, how will Guggenheim's duties as an "advisor" to DEP/DEC, the issuer of SRB Securities, and/or ratepayers be affected? Please provide a detailed explanation and any supporting documentation as to how the Companies will verify Guggenheim is working in the best interest of the ratepayers. Additionally, please provide a detailed explanation and supporting documentation of any measures the Companies have or plan to undertake to protect the ratepayers.

iii. Do the Companies believe the Financing Order should specify whether the Structuring Advisor, or other financial advisor to DEC/DEP, and/or structuring advisor to the issuer of SRB Securities may also be an underwriter of the SRB Securities, or should this be left to the Bond Team.

b. In response to PS DR 2-2(h), Witness Heath states: "For the vast majority of utility securitizations not issued by municipal entities, with only a very few exceptions, it is the market practice for the structuring advisor to also serve as a lead underwriter."

i. Please provide verification as to whether DEC/DEP invited the firm that developed the financial model and structured the 2016 Duke Energy Florida Project Finance Aaa/AAA/AAA utility securitization to submit a proposal for performing similar duties in this transaction? If not, please provide an explanation as to why.

ii. "For the vast majority of utility securitizations not issued by municipal entities," did the independent structuring advisor that did not act as an underwriter charge less in fees and obtain the same ratings as structuring advisors who are also underwriters?

iii. Does the potential crediting of structuring fees to underwriting fees give a financial incentive for the underwriters to structure the SRB Securities primarily for a quick sale?

iv. Please provide verification as to whether utility securitizations issued though municipal entities prohibit the structuring advisor from also being an underwriter. If it is prohibited, please provide the Companies' understanding as to why it is prohibited.

c. In response to PS DR 2-11(a), Witness Heath states: "A "negotiated underwriting" is an underwriting conducted pursuant to an underwriting agreement that is negotiated between the issuer and depositor and the underwriters. In such a negotiated underwriting, the issuer and depositor and the underwriters will work together to market and sell the SRB Securities."

i. Does Witness Heath agree that in a "negotiated underwriting," (i) the issuer sells the SRB Securities to the underwriters at agreed upon and negotiated fixed prices; and (ii) the

underwriter agrees to re-offer the SRB Securities to investors for an agreed upon underwriting period at a higher agreed upon price?
ii. Please provide a detailed explanation and supporting documentation as to how the Companies have ensured or plan to ensure that the underwriters are working in the best interests of the ratepayers in a "negotiated underwriting."
iii. In a negotiated underwriting, will any review by the underwriters of the issuer, or any other matters relating to the transaction be performed by the underwriters on behalf of the issuer and for the benefit of the issuer and/or ratepayers?
d. Please provide responses not provided in the initial response to PS DR 2-11:
i. How will underwriters be selected for the proposed SRB Securities?
ii. Will underwriters be compensated regardless of their performance in the structuring, marketing, and pricing of the bonds? If so, what recourses has or do the Companies' plan to negotiate as part of the contract to protect ratepayers in the event of (a) an underperformace or (b) nonperformance of the contract.
iii. If there is more than one underwriter, how will the compensation of each underwriter be determined?
iv. Please provide a detailed explanation as to how the Companies will evaluate the performance of underwriters in previous utility securitizations to ensure the best execution for ratepayers.
v. If experience in SEC registered offerings will be a factor, what is the threshold amount?
e. In responding to PS DR 2-11(g), Witness Heath states: "If a request for proposal process is utilized, one of the relevant questions will be for the financial institution to list specific personnel who will be involved in the proposed transaction and their relevant experience with utility securitization bond issuances."
i. Will a request for proposal be utilized?
ii. Given the infrequent offerings of utility securitizations and the mixed results in pricings and costs to ratepayers, do the Companies believe experience with utility securitization the most relevant factor in selecting a firm to negotiate? If so, please provide a detailed explanation as to why.
iii. Please provide a detailed description of any other relevant factors that the Companies should considered?
f. In response to PS DR 2-12(c), Witness Atkins states: "It is DEC and DEP's understanding from underwriters they have worked with previously that the underwriters do not necessarily have to have a full book orders from investors when the bonds are priced and the underwriting agreement is executed. However, practices among underwriters may differ based on firm practices and potential regulatory constraints."
i. Does Witness Atkins have the same understanding as DEC and DEP? Please explain the basis for Witness Atkins' understanding.
ii. What regulatory constraints prevent underwriters from underwriting AAA rated bonds to facilitate transactions for customers?
iii. Is it better for ratepayers to negotiate with underwriters who are willing to use their financial capital to achieve the best execution for ratepayers without a full book of orders or with underwriters who would refuse to use their capital and require that they have a full

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book of orders and no risk for best execution for ratepayers regardless of the amount of bonds without orders for any given tranche?
iv. When underwriters use their financial capital to underwrite transactions are they subsidizing the issuer? Is risk to their capital reflected in the fee paid to the underwriters for their services? If not, how is the level of their fee determined?
g. In response to PS DR 2-12(f), Witness Atkins states: "A market-clearing pricing would result in interest rates for the SRB Securities that are consistent with market conditions at the time of pricing. Interest rates that are subsidized by private companies, whether underwriter firms or the Companies, through the purchase or retention of unsold utility securitization bonds, are not consistent with market conditions at the time of pricing, and therefore inconsistent with N.C. Gen. Stat. § 62-172."
i. Please respond to the specific question(s) in PS DR 2-12(f): "When underwriters use their professional judgement to increase the spread, are they providing advice to the issuer that is in the issuer's best interest and not in the underwriters' economic interest?"
ii. If the underwriters are permitted (but not required by the Underwriting Agreement or other pre-pricing contractual commitments) to purchase or retain unsold SRB Securities for their own account, but one or more underwriters decides it is in its/their own best interest to do so (for example, to earn the underwriting spread on the SRB Securities for which orders have been placed), why is that not a component of the market-clearing price?
iii. Witness Atkins indicated an underwriter's "purchase or retention of unsold utility securitization bonds [is] not consistent with market conditions at the time of pricing, and therefore inconsistent with N.C. Gen. Stat. § 62-172." What is the basis for this conclusion (Witness Atkins' opinion as a matter of North Carolina law)?

Response:

a.i. DEC and DEP object to any assertion that they would participate in a transaction that is not in the interest of its customers. The Companies' decision to pursue securitization as opposed to traditional cost recovery is based on the premise that it will provide savings to its customers. Notwithstanding the objection, milestone payments were agreed to as part of the negotiation process with the co-advisors. Further, the engagement letters, as is customary in all commercial agreements, set forth the executory obligations of the contracting parties and further provide that advisory engagements may be terminated at any time. These agreements are legally binding and enforceable. The timing of payments under the agreements, as is the case with all commercial contracts, was the subject of negotiation among the contracting parties, each of whom is a sophisticated business entity with experience in the subject matter of the agreements. To the extent this question presumes some potential prejudice or disadvantage to customers associated with the contract payment structures agreed to, DEC and DEP reject that presumption.

ii. See previous response to PS DR 2-2.h. DEC and DEP object to any assertion that they would participate in a transaction that is not in the interest of its customers. The

Companies' decision to pursue securitization as opposed to traditional cost recovery is based on the premise that it will provide savings to its customers. Notwithstanding the objection, the draft lowest costs certification in the IAL includes steps the Companies plan to undertake to protect customers.

iii. See previous response to PS DR 2-2.h. There has been no determination at this time as to whether a Bond Team will or will not be utilized in conjunction with the bond issuances anticipated by this docket.

b. i. See prior response to PS DR 2-2.e.

ii. Other than the DEF transaction, DEC and DEP are not aware of the structuring advisor fees on other prior utility securitization transactions.

iii. Under the terms of the current engagement letter with Guggenheim and Atkins Capital, there are no provisions for crediting structuring fees to underwriting fees.

iv. DEC and DEP object to this question as irrelevant to this proposed transaction since the SRB Securities are not being issued by a municipal entity and are not municipal bonds. As such, there has not been an evaluation of MSRB Rules' applicability for utility securitization bonds issued by municipal entities.

c. i. In a negotiated underwriting, the issuer and depositor and underwriters will negotiate and agree both the price at which the issuer sells the SRB Securities to the underwriter and the price at which the underwriter sells the SRB Securities to investors.

ii. DEC and DEP reject the underlying premise of this question. Underwriters, as do all participants in financing transactions, work in their own best interests consistent with the contractual and legal obligations under which they operate. The protection of customers under the anticipated bond issuances will come from the objective and requirements established in the statute and through the provisions of the respective Financing Orders as proposed by DEC and DEP, including the issuance advice letter process which includes a lowest cost certification from each company, the work of DEC and DEP treasury personnel and the consultants they have retained (all of whom have significant experience in negotiating long-term bond issuances for which customers ultimately pay the costs and who will use the same due diligence to protect customer interests in these transactions as they do in issuing other bonds), and ultimately in the ability of the Commission to reject bond issuances under the IAL process proposed by DEC and DEP.

iii. DEC and DEP reject the underlying premise of this question as it misunderstands the role of underwriters. Underwriters will review the issuers and the depositors as part of their due diligence process. Underwriters do not perform reviews on behalf of issuers or any other party.

d. i. Underwriters will be selected through a request for proposal process.

ii. DEC and DEP expect to follow the common practice in the corporate bond market which is to pay a set underwriting fee on the principal amount of the bonds. Underwriters will be paid from the proceeds of the bond issuance. If the underwriters, as a group, fail to successfully price the bonds then no fees will be paid. Individual underwriters, if not performing according to DEC and DEP's expectations, can be replaced or dropped from the underwriting syndicate prior to the bond issuance and will not be entitled to any compensation.

iii. As noted in the previous response to PS DR 2-11.c., DEC and DEP expect to have an underwriting syndicate consisting of both book-running lead underwriters and co-managers. Similar to DEC and DEP's first mortgage bond offerings, the vast majority (approximately 75-90%) of the total underwriting fees would be allocated to the book-running lead underwriters with the remainder allocated to the co-managers. Fees allocated to these groups would then be shared ratably between the underwriters in each group.

iv. As part of the request for proposal process, the Companies will request that each respondent provide a summary of all utility securitizations in which they were involved. As mentioned in the prior response to PS DR 2-11.g., one of the relevant questions will be for the financial institution to list specific personnel who will be involved in the proposed transaction and their relevant experience with utility securitization bond issuances. Through the RFP process, DEC and DEP will select underwriters that have relevant experience with the issuance of utility securitization bonds and that share DEC and DEP's approach to the structuring and marketing plans for this transaction (targeted to the broadest spectrum of investors, presented as structured corporate securities, understand the unique credit quality of the bonds, etc.).

v. There is no minimum requirement.

e. i. Yes, as stated in the response to PS DR 4-3d, a request for proposal process will be utilized.

ii. No, the most relevant factor is alignment with DEC and DEP's approach to the structuring and marketing plans for this transaction (targeted to the broadest spectrum of investors, presented as structured corporate securities, understand the unique credit quality of the bonds, etc.).

iii. See response to PS DR 4-3.d.ii.

f. i. From Witness Atkins' experience, he has the same understanding.

ii. Capital requirements may have bearing on whether an underwriter purchases and holds any portion of a bond offering rather than selling all of the offering on to investors.

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iii. The Companies object to the premise of this question. The SRB Securities will not be issued by customers, so it is inappropriate to suggest that customers would negotiate with underwriters. In fact, the Companies are not aware of any securities offerings where ratepayers negotiated directly with underwriters. While from time to time underwriters during the pricing process may purchase a certain amount of unsold bonds-- which by definition are bonds at rates that did not attract sufficient orders from investors in the market—such bonds are purchased by definition either at negotiated subsidized rates, or at negotiated rates that are intended to be profitable for the firm. After the Underwriting Agreement is executed, underwriters are the ones taking the risk of investors' orders failing to close if market events occur and so it is incorrect to assume that the underwriters' capital is not at risk.

iv. When underwriters purchase bonds at rates that are below market-clearing rates, they are subsidizing the rates on that bond issuance. Underwriting fees cover the negotiation and management of the offering and sale of the bonds and are generally not set assuming that the underwriter will subsidize the rates on the bond issuance. Underwriters regularly take the risk that investors fail to follow through with their bond purchase.

g. i. Based upon Witness Atkins' experience, when underwriters increase the spread, that decision is made in consultation with the issuer and any commission representative/advisor that is involved. Such advice is based upon market conditions, actual investor feedback, and is designed to discover the market-clearing spreads for the bond issue, consistent with market conditions at the time of marketing and pricing.

ii. Underwriters may for their own reasons at the time of pricing decide to subsidize interest rates on one or more tranches of bonds, and to cut short the interest rate discovery process. In the opinion of Witness Atkins, firms that are engaged as underwriters are not third-party investors in the marketplace, and their purchases of unsold bonds do not represent market-clearing rates. Such purchases represent a decision to halt the market-based rate discovery process, which may certainly be appropriate in certain situations.

iii. A plain reading of the statutory phrase implies a process that involves rates that are determined by investors in the market, at the time of pricing.

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Response to
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Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 25, 2020
Date of Response: December 4, 2020

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The attached response to NC Public Staff Data Request No. 4-4, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 4
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Request:

a. Ordering Paragraph 97 of the Florida PSC's financing order for the 2016 DEF transaction states: "No later than 5:00 p.m. Eastern time on the second business day following pricing, this Commission's financial advisor shall deliver to this Commission an opinion letter consistent with the terms of its contract as to whether the structuring, marketing and pricing of the nuclear asset-recovery bonds achieved: (1) the statutory cost objectives; (2) the lowest nuclear asset-recovery charges consistent with prevailing market conditions at the time of pricing, terms and conditions and terms of this Financing Order, and other applicable law; and (3) the greatest possible customer protections."
i. Did the financial advisor to the Florida PSC for that 2016 DEF transaction deliver such an opinion letter?
b. Ordering Paragraph 97 of the Florida PSC's financing order for the 2016 DEF transaction also states: "That opinion letter shall include a report of any action or inaction which this Commission's financial advisor believes might have caused the transaction not to achieve the statutory cost objectives, the lowest nuclear asset-recovery charges, and/or the greatest possible customer protections regardless of whether the reason for action or inaction by DEF was the result of DEF's sole view that the action or inaction would expose DEF or the SPE to securities law or other potential liability, The report of any such action or inaction which this Commission's financial advisor believes might have caused the transaction not to achieve the statutory cost objectives, the lowest nuclear asset-recovery charges, and/or the greatest possible customer protections, regardless of whether the reason for action or inaction by DEF was the result of DEF's sole view that the action or inaction would expose DEF or the SPE to securities law or other potential liability, shall be treated as a material qualification to the opinion letter of this Commission's financial advisor." (Emphasis added.)
i. Were there any such material qualifications to that opinion letter?
c. Ordering Paragraph 78 of the Florida PSC's financing order for the 2016 DEF transaction states: "The Bond Team may also request one or more of the bookrunning underwriters to deliver an opinion letter as to whether the structuring, marketing, and pricing of the nuclear asset-recovery bonds achieved the lowest overall cost standard."
i. Did the Bond Team for that 2016 DEF transaction request one or more of the bookrunning underwriters to deliver such an opinion letter to the satisfaction of the financial advisor?
ii. If so, did one or more of the bookrunning underwriters deliver such an opinion letter?
iii. Were there any material qualifications to that opinion letter?
iv. Should one or more of the bookrunning underwriters for the proposed SRB Securities be required to deliver such an opinion letter?
v. Does DEC/DEP receive any other legal or financial opinions in this transaction from any entities in this transaction without material qualification for its benefit? If so, please list the opinions the Companies receive and from whom.
d. Should the Bond Team be authorized and directed to require DEP and DEC to deliver such opinion letters concerning the structuring marketing and pricing of the SRBs and/or Recovery Bonds without material qualification for their respective Storm Recovery Bonds?

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Response:

a. i. DEC and DEP object to the question as irrelevant. Notwithstanding the objection, from a review of the public record, such an opinion letter was provided by Saber Partners, advisor to the Florida Public Service Commission.

b. i. DEC and DEP object to the question as irrelevant. Notwithstanding the objection, according to the public record in the DEF proceeding there was no material qualification. The opinion was delivered on a confidential basis by Saber Partners.

c. i. It is the Companies' understanding that one or more opinion letters were delivered to Saber Partners, advisor to the Florida Public Service Commission, on a confidential basis.

ii. See response to PS DR 4-4-c.i.

iii. See response to PS DR 4-4-c.i.

iv. The Companies previously responded to this question in PS DR 2-11.t.

v. Customary legal opinions, with customary qualifications and assumptions, will be delivered to the underwriters and rating agencies in connection with the transaction.

d. There has been no determination as to whether a Bond Team will or will not be utilized in the proposed bond issuances. DEC and DEP, however, have proposed to deliver the lowest cost certification attached to the form of issuance advice letter included with the proposed financing orders for each Company.

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Duke Energy Progress
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Date of Request: November 25, 2020
Date of Response: December 4, 2020

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The attached response to NC Public Staff Data Request No. 4-5, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
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Request:

a. On pages 24 and 25 of direct testimony, Witness Atkins states "The DEC bonds and the DEP bonds are to be issued to a third SPE, a grantor-trust that is wholly-owned by Duke Energy ('SRB Issuer'). SRB Issuer issues to the market pass-through securities ('SRB Securities') that are backed by separate storm recovery bonds issued by DEC and DEP." (Emphasis supplied.)
Finding of Fact 14 in each of the proposed forms of Financing Order attached as exhibits to the Joint Petition states: "In the alternative, [DEC/DEP] is authorized to sell the Storm Recovery Bonds in combination with [DEP/DEC] to a grantor trust (the 'SRB Issuer') that will issue secured pass-through notes that are backed by the storm recovery bonds and storm recovery bonds issued by [DEP/DEC] in one transaction through the use of the SRB Issuer." (Emphasis supplied.)
On page 26 of direct testimony, Witness Atkins states this is done to qualify the SRB Securities for inclusion in the Bloomberg Barclays Aggregate Bond Index. However according to a description sheet of the Aggregate Index provided by Bloomberg Barclays found at https://data.bloomberglp.com/indices/sites/2/2016/08/2017-02-08-Factsheet-US-Aggregate.pdf , the Bloomberg Barclays Aggregate Bond securities that are excluded from the index are "structured notes" or "pass-through certificates."
i. Please explain why the SRB Pass-Through Certificates' Securities will not be excluded for purposes of the Bloomberg Barclays Aggregate Bond Index.
ii. Did the lack of being included in the Corporate Bond Index at the time of pricing the 2016 Duke Energy Florida Project Finance have an effect on the pricing of the 10-year tranche? If yes, please explain.
b. On page 38 of direct testimony, Witness Atkins states: "In addition to the required true-ups, it is important for the servicer to have the option to conduct an optional true-up at any time to ensure that debt service and on-going financing costs are paid on time." On page 24 of direct testimony, Witness Atkins states: "The true-up adjustment effective dates for the DEC and DEP bonds are also to be the same dates."
i. Do the Companies believe optional interim true-up adjustments at any time for either DEP or DEC independently should be required or might be desirable and viewed favorably by the rating agencies and/or investors? If not, please explain.

Response:

a. i. The SRB Securities will be notes, not certificates. See also the Companies' response to PS DR 2-7.l.

ii. DEC and DEP object to this question as it seeks information irrelevant and unrelated to an evaluation of the Companies' Joint Petition in this proceeding. Notwithstanding the objection, yes. Although certain investors indicated that the size of their orders could have been larger with certainty of index inclusion, it is difficult to attribute any effect on price for the bonds sold. An argument can be made that larger orders may have increased ability for additional pricing tension – however these bonds were oversubscribed and allocations

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were required. In light of the status in of the book for the 10 year at the time, a significantly larger order from this investor at that time could have positively affected pricing.

b. i. Witness Atkins recommends that the effective dates for regular semiannual true-ups occur on the same date for DEC and DEP, and that optional interim true-ups should be authorized and may be implemented at any time for DEC and DEP independently. DEC and DEP understand this to be viewed favorably by the rating agencies.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
Confidential NC Public Staff Data Request No. 5-1
Filed Under Seal

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 5

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 25, 2020
Date of Response: December 4, 2020

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Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 5-2, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
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Request:

2. In response to PS DR 2-1(d), Witness Atkins states: "While it is quite possible that two AAA utility securitizations marketed and priced on the same day, one larger and one smaller, may have the same interest coupons (the Public Staff has provided such an example in PS Data Request 2-3(e) below), it is also possible on any given pricing day that the smaller issue may have less demand from investors and may price with higher interest coupons, particularly since larger issues tend to attract more investors. Witness Atkins served as an advisor to Entergy on 2 sets of transactions, involving two Entergy subsidiaries, that were marketed and priced by Citi as lead underwriter on the same day in July of 2010, and again in July of 2014-- the LCDA/ELL and LCDA/EGSL transactions of those years. In both of those instances, the smaller EGSL transactions priced wider than the larger ELL transactions." See also Witness Atkins' response to PS DR 2-8(a).
i. In each of these sets of securitized utility energy bonds issued for Energy subsidiaries, however, the two transactions had materially different weighted average lives ("WALs"). Please explain whether any of the most comparable set of tranches was wider to the identified benchmark security than the other.
ii. Please elaborate on Witness Atkins's statement regarding the 2010 Louisiana Entergy transactions, that a +81 bps spread on an 8.0 year WAL tranche was "tighter" than a +77 bps spread on a 7.0 year WAL tranche.

Response:

a. Please refer to the information provided regarding the LCDA/ELL and LCDA/EGSL transactions. For the 2014 and 2010 transactions, the information illustrates that the weighted average coupon for the smaller issue was higher than the weighted average coupon for the larger issue. While the weighted average lives for the transactions were not precisely the same, they were very close. For the 2014 transactions the WALs were 6.68 and 6.72 respectively. For the 2010 transactions, the WALs were 6.63 and 6.62 respectively. For the 2014 transactions, the smaller LCDA/EGSL transaction had the slightly longer WAL and the higher average coupon. For the 2010 transactions, the smaller LCDA/EGSL transaction had the slightly shorter WAL, but again had the higher average coupon. In any event, regarding the upcoming DEC and DEP transactions, the Companies cannot ensure in advance that the two transactions, if priced separately, would have the same interest rates. The SRB Securities approach, is an approach that ensures the same interest rates for the DEC and DEP customers. As previously discussed, the Companies are seeking the flexibility in the financing order to issue SRB Securities if a single offering would result in lower overall storm recovery charges as compared to two separate offerings. A final determination to issue SRB Securities or storm recovery bonds in concurrent offerings will be based on market conditions and which approach will achieve the Statutory Cost Objectives outlined in the proposed financing order.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
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Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 25, 2020
Date of Response: December 4, 2020

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Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 5-3, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
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Request:

3. In response to PS DR 2-8(a), Witness Atkins states: "Please see the attached spread and coupon information for those [2010 and 2014 Entergy] transactions included as an attachment to PS Data Request 2-8." However, the attachment to PS Data Request 2-8 shows only "indicative" spreads and rates for the proposed SRB Securities, not the actual rates and spreads for the 2010 and 2014 Entergy transactions. Did Witness Atkins intend to refer to the attachment to PS Data Request 2-1? Please provide the accurate final spreads and interest rates.

Response:

Please see the Companies' response to Supplemental PS DR 2-8.a.

Duke Energy Carolinas
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Duke Energy Progress
Response to
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Date of Request: November 25, 2020
Date of Response: December 4, 2020

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The attached response to NC Public Staff Data Request No. 5-4, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

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Request:

4. In response to PS DR-7(c), Witness Atkins states: "Witness Atkins does not have specific data demonstrating the positive impact of larger bond issues that are eligible for one of the listed Indices. However, based upon Witness Atkins' historical experience and expertise, he opines that larger issues are considered by investors to be more liquid than smaller issues."

Absent specific data demonstrating a positive impact of larger bond issues eligible for one of the listed Indices that would result in lower customer charges and increased present value savings, what is the basis for Witness Atkins' "historical experience and expertise" that supports the above opinion?

Response:

By definition, larger bond issues have more bonds than smaller issues, thus larger issues are more likely to have more investors purchasing bonds than in the case of smaller issues. Outstanding bonds with more investor holders have a greater potential for more buyers and sellers in the secondary market—hence the larger issues are more likely to be considered more liquid than smaller issues. Perceived liquidity or illiquidity is often one factor considered by investors, among other factors.

Duke Energy Carolinas
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Duke Energy Progress
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Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 25, 2020
Date of Response: December 4, 2020

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Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 5-5, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

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Request:

5. In response to PS DR 2-7(m), Witness Atkins states: "DEC and DEP object to the description of their proposed structure as complex. While it does add an additional entity to the typical structure of utility securitizations, the additional entity is simply a trust entity that enables aggregation of two issuances into a combined larger issuance amount." See also Witness Atkins' response to PS DR-7(p). The proposed composite SRB Securities structure also modifies the overall credit risk to investors. For example, it is possible that a financial default on only one of the two underlying issues of Storm Recovery Bonds will not result in a financial default on the SRB Securities. Conversely, it is possible that a financial default on only one of the two underlying issues of Storm Recovery Bonds will result in a financial default on the entire amount of SRB Securities.
i. To provide full and fair disclosure in accordance with applicable securities laws, will it be necessary to describe these credit risks that are different from owning the individual underlying SRBs prominently to the credit rating agencies and investors?
ii. If so, will investors seek to be compensated for these unique risks in higher credit spreads on the SRB Securities?

Response:

i. The structure of the transaction, including the credit characteristics of the constituent parts, will be described to investors in a manner that complies with applicable securities laws. The structure of the transaction will also be described to the credit rating agencies, and any questions the credit rating agencies have regarding the structure will be answered.
ii. The Companies anticipate AAA equivalent ratings for the storm recovery bonds separately and also for the SRB Securities. Thus the risk of financial default under both approaches would be a AAA equivalent risk, and the AAA credit profile would be communicated to investors under either approach. The Companies believe that there are significant potential advantages to the larger, more liquid index-eligible offering of the SRB Securities that should be evaluated as a possible alternative to separate issues where only one offering would be index-eligible. Regardless, the Companies petition ultimately seeks flexibility from the Commission to determine which structure is best tailored to then-existing rating agency considerations, market conditions, and investor preferences to achieve a financing that meets the statutory cost objectives.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
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Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 25, 2020
Date of Response: December 4, 2020

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Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 5-6, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
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Request:

6. In response to PS DR 2-1(g), Witness Atkins states: "DEC and DEP are aware of two transactions that have used a similar trust structure with underlying bonds, the FirstEnergy Ohio PIRB Special Purpose Trust 2013 issue, and the Massachusetts RRB Special Purpose Trust 2005-1. These two transactions utilized trust certificates, representing fractional undivided beneficial interests in the underlying bonds. The SRB Securities structure recommended as an option for the Companies issues notes backed by the underlying bonds, rather than certificates. There were no other utility securitizations priced during the same day or the same week as those transactions, that would be suitable for spread comparisons."

i. The PG&E 2005-1 Bonds were priced on February 3, 2005, close in time to the Massachusetts 2005-1 Certificates. How did the pricing of the two compare?

ii. In addition, the Ohio Phase-In Recovery Series 2013 Bonds were priced close in time to the FirstEnergy Ohio PIRB Special Purpose Trust 2013 Certificates. How did the pricing of the two compare?

Response:

i. There are many factors that ultimately determine pricing of a given security, and it is difficult to fully ascertain why different offerings priced at different levels, especially when they were not priced on the same day. That being said, from a review of publicly available information:

On the basis of weighted average coupon, the Massachusetts 2005-1 deal priced tighter than the PG&E 2005-1 transaction, based on data obtained from Bloomberg. On the basis of weighted average spread (with benchmark being EDSF for 1 year WAL tranches and interpolated swaps for all other tranches), the PG&E 2005-1 deal priced tighter than the Massachusetts 2005-1 deal, based on data obtained from Bloomberg.

ii. The Ohio Phase-In Recovery Series 2013 Bonds priced tighter than the FirstEnergy Ohio PIRB Special Purpose Trust 2013 Certificates on the basis of both weighted average coupon and weighted average spread, based on data obtained from Bloomberg.

Duke Energy Carolinas
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Date of Request: November 25, 2020
Date of Response: December 4, 2020

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The attached response to NC Public Staff Data Request No. 5-7, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
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Request:

7. In response to PS DR 2-3(j), Witness Atkins states: "Spreads for ABS bonds and traditional corporate bonds are different and not directly comparable, in addition to the fact that multiple variables affect pricing spreads for ABS and corporate debt instruments. Corporate bonds may typically have a bullet maturity structure, rather than an amortizing structure. Traditional corporate bonds represent a general obligation of the sponsoring corporate issuer, while ABS bonds are generally nonrecourse to the sponsoring company. ABS bonds are generally secured by contractual rights, dedicated property or other assets, rather than the general corporate obligation. For these and other reasons, a traditional bullet maturity corporate bond spread may be tighter than the spread for an amortizing ABS bond of a similar weighted average life, if issued at the same time. The spreads for traditional corporate bonds would not be comparable for nonrecourse structured amortizing debt securities such as the storm recovery bonds or SRB Securities, whether or not they are "asset-backed securities" within the meaning of SEC Regulation AB."

i. Do some of these factors argue for a tighter (not wider) spread for securitized utility bonds and lower customer charges?

ii. In particular, purchasers of securitized utility bonds are protected against the risk of bankruptcy of the utility business enterprise. Would this support a tighter (not wider) credit spread for securitized utility bonds and lower customer charges?

Response:
Spreads for amortizing bond tranches are generally not directly comparable to spreads for bullet maturity bonds. From time to time, the AAA ratings for utility securitizations may contribute to a lower cost of funds compared to BBB rated utility corporate bonds of a similar maturity.

Duke Energy Carolinas
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Date of Response: December 4, 2020

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The attached response to NC Public Staff Data Request No. 5-8, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
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Request:

8. In response to PS DR 2-3(l), Witness Atkins states: "DEC and DEP have recommended provisions of the proposed Trust agreements that are designed to have the SEC determine that the storm recovery bonds and the SRB Securities are not "asset-backed securities" under Item 1101 of SEC Regulation AB. The SEC is an independent agency of the US government, and receiving such a determination for this transaction is not assured."

Will DEC and DEP request the SEC to make an affirmative determination as to whether the storm recovery bonds and the SRB Securities are "asset-backed securities" under Item 1101 of SEC Regulation AB, or will it only be necessary that the SEC not to object to this treatment proposed by the filers of the Registration Statement during the normal review and comment process, as was the case with the DEF 2016 transaction?

Response:

Absent a request for an additional no-action letter, it is unlikely the SEC will make an affirmative determination as to whether the storm recovery bonds and SRB Securities are or are not asset backed securities under Item 1101 of Regulation AB. The Companies intend to rely on existing SEC precedent and no action letters. To the extent the SEC has questions or raises any concerns during its review and comment process, the Companies will respond and take them under advisement.

Duke Energy Carolinas
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Duke Energy Progress
Response to
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Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 25, 2020
Date of Response: December 4, 2020

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Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 5-9, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
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Request:

9. Page 32 of Witness Atkins' testimony states: "I reiterate that it will be beneficial for the storm recovery bonds to be structured to have substantially level annual debt service. This is important because it will facilitate a modest decline in the aggregate storm recovery charges over the life of the storm recovery bonds, assuming actual load growth."
i. Please provide the load growth forecast that is assumed for this purpose. Do DEC and/or DEP have a load growth forecast that goes out longer than the typical 5-year forecast? If so, please provide those longer-term forecasts.
ii. The 2009 transactions for Monongahela Power and Potomac Edison had approximately 20-year scheduled final maturities with interest only for 17 years and 100% of principal scheduled to be paid during the final three years, wrapping around scheduled debt service on previously issued 2007 securitized bonds. Taking into consideration all structuring costs, this deferral of principal repayment resulted in lower customer charges and greater present value savings for customers for the 2009 issuances than level debt service payments and a shorter scheduled final maturity. Those 2009 Monongahela Power and Potomac Edison securitized bonds were rated Aaa/AAA/AAA.
1. [12.01.2020 INTENTIONALLY DELETED BY PUBLIC STAFF]
2. If the SRB Securities proposed by DEP/DEC are issued in more than one series at different times, may the second set of SRB Securities similarly have scheduled debt service that "wraps around" scheduled debt service on the earlier series so as to create a composite level annual debt service and increased present value savings to customers?

Response:

i. Please see the Companies' response to PS DR 3-2.

ii. 2. In the case of multiple series of SRB Securities or separate DEC and DEP issues, a wraparound structure may be considered. However, the currently contemplated issues are not wraparound transactions.

Duke Energy Carolinas
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Duke Energy Progress
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Date of Response: December 4, 2020

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The attached response to NC Public Staff Data Request No. 5-10, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
DEC Docket No. E-7, Sub 1243
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Request:

10. On page 17 of his testimony, Witness Heath states: "DEC and DEP will receive the net proceeds after the payment of up-front financing costs. The net proceeds will be used to relieve DEC and DEP's storm recovery costs."
i. Does "relieve" mean to reimburse DEC/DEP?
ii. If so, how will DEP and DEC spend the net proceeds they receive as reimbursements? For example, will DEP and DEC use these net proceeds
1. to repurchase a mix of outstanding debt and equity?
2. to harden their respective transmission and distribution systems so as to reduce potential damages from future storms?
3. to fund their broader capital spending across the typical spectrum of generation, transmission, and distribution facilities?
4. For other purposes? (please specify)

Response:

i. Yes.

ii. DEC and DEP have funded the underlying storm restoration costs with debt. DEC has funded these costs largely with commercial paper. DEP funded its costs initially with a bank term loan. In August 2020 that term loan was replaced with an 18-month floating rate first mortgage bond, which is callable after six months. DEC and DEP will use the net proceeds from the proposed issuance to repay these outstanding debt obligations.

Duke Energy Carolinas
and
Duke Energy Progress
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Date of Request: November 25, 2020
Date of Response: December 4, 2020

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The attached response to NC Public Staff Data Request No. 5-11, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
DEC Docket No. E-7, Sub 1243
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Item No. 5-11
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Request:

11. On page 16 of his testimony, Witness Heath states: "DEC and DEP will be permitted to earn a return on their capital contribution equal to the rate of interest payable on the longest maturing tranche of the storm recovery bonds." Please provide the justification for DEC/DEP to earn a return above the actual investment of the amount in highly rated short-term securities permitted as eligible investments for the capital account in an AAA-rated subsidiary which is subject to a true-up on a semi-annual basis from the nonbypassable charge.

Response:

A capital contribution of 0.5% of the initial aggregate principal amount of securities is required by IRS Rev. Proc. 2005-62. Each Company will make its capital contribution from its own funds and the capital contributions will be returned to each utility upon the final repayment of the storm recovery bonds. Reasonable and prudent capital investments by DEC and DEP are traditionally entitled to earn a return at their weighted average cost of capital during the amortization period. Accordingly, the Companies expect to earn a return above what DEC and DEP would be entitled for short-term investments.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
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Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 25, 2020
Date of Response: December 4, 2020

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Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 5-12, was provided to me by the following individual(s): Charles, Atkins, CEO, Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
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Request:

12. Have any prior utility securitization financing orders included on Witness Atkins' list allowed the sponsoring utility to earn a return on their capital contribution equal to the rate of interest payable on the longest maturing tranche instead of the actual return of the capital contribution from investments in the highly-rated eligible securities in the Capital Subaccount of the Collection Account? If so, please specify which utility securitization issues and related financing orders specified such a return on the Capital Account.

Response:

The 2016 transaction of DEC and DEP affiliate DEF and the proposed PNM New Mexico transaction provide for a return under the same methodology proposed by DEC and DEP. DEC and DEP anticipate a return at this rate will be less than a return at their weighted average cost of capital.

Duke Energy Carolinas
and
Duke Energy Progress
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Date of Response: December 4, 2020

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The attached response to NC Public Staff Data Request No. 5-13, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
DEC Docket No. E-7, Sub 1243
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Request:

13. Subject to satisfying a Rating Agency Condition, Section 1.07 of the proposed form of LLC Agreement set forth as Exhibit 2e to the testimony of Witness Heath authorizes each of the SPE issuers to issue more than one series of storm recovery bonds, each secured by separate storm recovery property. In addition, page 5 of the proposed form of Trust Agreement included as Heath Exhibit 2f states: "WHEREAS, the Trust may issue additional series of Notes pursuant to the Note Indenture secured by additional series of storm recovery bonds (as defined in the Statute) purchased from the Bond Issuers ('Additional Bonds') . . ."

i. Will this cause (a) the SPE issuers and also the grantor trust which issues the SRB Securities not to be "asset-backed issuers" under Item 1101 of SEC Regulation AB and the September 19, 2007 letter from the SEC Office of Chief Counsel, Division of Corporate Finance to MP Environmental Funding LLC and to PE Environmental Funding LLC (https://www.sec.gov/divisions/corpfin/cf-noaction/2007/mpef091907-1101.htm), and (b) the Storm Recovery Bonds and the SRB Securities not to be "asset-backed securities" under Item 1101 of SEC Regulation AB?

ii. If the SRB Securities are not "asset-backed securities" for purposes of SEC Regulation AB, will the prospectus state that, and will the DEC/DEP and the underwriters seek to qualify the SRBs for the Bloomberg Barclays Aggregate ABS Index as "asset-backed securities"?

iii. Except for the size of the CUSIP, would they qualify for another Bloomberg Barclays index?

iv. Is inclusion in the Corporate Utility Index more favorable or less favorable than inclusion in the Aggregate Bond Index?

v. Did Bloomberg Barclays have a formal market consultation period with market participants concerning any publicly offered issue of utility securitization bonds as to the inclusion in a specific bond index? If so, what were the results of that consultation with market participants?

Response:

iii. As long as the additional series of notes meet the eligibility requirements of the index at the time of issuance, then they may be considered for inclusion in the index.

iv. While inclusion in any index is a positive, inclusion in the corporate utility index would be more beneficial to pricing.

v. The Companies understand from Technical Notes published by Bloomberg Barclays that a consultation was held in connection with their consideration of the 2016 DEF transaction. Bloomberg Barclays concluded after the consultation period that the transaction should be included in the Corporate Utility Index. The Companies do not recall details regarding the consultation process.

Duke Energy Carolinas
and
Duke Energy Progress
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Date of Request: November 25, 2020
Date of Response: December 4, 2020

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Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 5-14, was provided to me by the following individual(s): Charles Atkins, CEO Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

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Request:

14. On page 12 of his testimony, Witness Atkins states: "A true sale of the collateral supports the 'bankruptcy-remoteness' of the SPE and the securitization debt." On page 15 of his testimony, Witness Atkins adds: "When I refer to 'bankruptcy-remote,' I mean that the SPE is structured so that in the unlikely event of a DEC, DEP or Duke Energy Corporation ('Duke Energy') bankruptcy, that SPE would not be consolidated with other Duke Energy entities, would not be included in Duke Energy's bankruptcy estate, and the payment of the securitization debt service would not be 'stayed' or stopped during the bankruptcy process."

i. How does a "true sale" of storm recovery property to the SPE "support" its "bankruptcy-remoteness"?

ii. Is a "bankruptcy remote" subsidiary the same as a "ringed fenced" subsidiary? If not, why not?

iii. In 2001, PPL Corporation indicated they used securitization for a U.S. electricity delivery company (see https://pplweb.mediaroom.com/news-releases?item=16577) that did not involve issuance of utility securitization bonds. How is what PPL did different from what Witness Atkins states on page 15 concerning his use of the term "bankruptcy-remoteness"?

iv. Since all investors are concerned about unencumbered rights to the nonbypassable charge should a bankruptcy of the parent company occur, is there any marketing advantage to using only one commonly used term to describe the relationship between the parent and the subsidiary in disclosure documents and investor education materials?

North Carolina Public Staff
Data Request No. 5
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Response:

i. The "true sale" transfer of the storm recovery property establishes that the SPE is the absolute owner of the property that serves as the collateral for the securitization, and that property provides the cash flow to service the securitization debt service and ongoing financing costs. Without the transfer of the securitization property, there would be no assets separate from the bankruptcy estate of Duke Energy to support the securitization financing. While there are other features required for the bankruptcy remoteness of the SPE, the true sale transfer of the securitization property is a fundamental component of the bankruptcy remoteness analysis supporting the AAA equivalent rating of the securitization bonds.

ii. A "bankruptcy remote" subsidiary is not the same as a "ring-fenced" subsidiary. "Ring-fencing" is a term that encompasses a broad spectrum of credit protection features that may fall far short of bankruptcy remoteness. Such common ring-fencing measures may be financial, not organizational restrictions, including dividend pay-out limitations, capital structure requirements, restrictions of additional indebtedness and the maintenance of certain financial covenants. "Bankruptcy remote" structures require non-consolidation legal opinions, as well as SPE organizational features that mitigate the risk of bankruptcy, beyond the mere presence of financial restrictions.

iii. Witness Atkins was a lead structuring Morgan Stanley banker for the 2001 Securitization Deal of the Year award-winning securitization ring-fencing of PPL's electric transmission and distribution subsidiary. This transaction did not seek nor achieve AAA ratings for the $800 million of debt that was issued by the ring-fenced subsidiary. While the subsidiary was legally insulated from the parent through a range of features that did include some features common in securitizations, the transaction did not involve an absolute transfer of the subsidiary equity to a newly established bankruptcy remote intermediate SPE holding company. The degree of credit separation achieved was not sufficient to support AAA ratings for the debt issued by the ring-fenced subsidiary. This fact sets the PPL ring-fencing transaction apart from AAA rated utility securitizations.

iv. Most ring-fencing measures used in the utility sector are not sufficient to support the issuance of AAA equivalent rated debt. Witness Atkins does not recommend use of the broad "ring-fencing" term without including the "bankruptcy remote" clarifying modifier.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 5

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 25, 2020
Date of Response: December 4, 2020

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Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 5-15, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 5-15
Page 1 of 1

Request:

15. On pages 35 and 36 of his testimony, Witness Heath states he understands that the "customer protections" included in the DEF 2016 transaction documents also are included in the proposed forms of transaction documents which Heath sponsors as exhibits to his testimony.
i. Please confirm that the forms of transaction documents sponsored by Witness Heath do, in fact, include the "customer protections" included in the DEF 2016 transaction documents.
ii. Please provide a specific list of the "customer protections" to which Witness Heath refers on page 35 and 36.

Response:

i. Confirmed.

ii. Please refer to the draft transaction documents included with the Companies' Joint Petition.

Duke Energy Carolinas
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Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 5

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 25, 2020
Date of Response: December 4, 2020

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Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 5-16, was provided to me by the following individual(s): Tom Heath, Finance Corporate Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 5-16
Page 1 of 1

Request:

16. What is the proposed minimum denomination of the Storm Recovery Bonds and SRB Securities? Please explain why this amount is chosen.

Response:

The proposed minimum denomination will likely be $2,000 and $1,000 increments, except for one bond, which may be a smaller denomination. The smaller minimum denomination would likely make it easier for retail investors to participate in the transaction.

Duke Energy Carolinas
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Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 5

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 25, 2020
Date of Response: December 4, 2020

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The attached response to NC Public Staff Data Request No. 5-17, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 5-17
Page 1 of 1

Request:

17. Does DEC/DEP expect to market the Aaa/AAA/AAA-rated Storm Recovery Bonds and SRB Securities solely to institutional investors and not to individual retail investors? If solely to institutional investors, please provide the justification.

Response:

Once an underwriter team is selected, the Issuer and Underwriters will consider a range of distribution options in order to achieve the Statutory Cost Objectives. Distribution options will be evaluated based on market conditions that exist at the time of the offering, incremental costs, and logistical and timing considerations.

Duke Energy Carolinas
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Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 5

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Date of Request: November 25, 2020
Date of Response: December 4, 2020

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The attached response to NC Public Staff Data Request No. 5-18, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 5-18
Page 1 of 1

Request:

18. Has DEC/DEP considered a direct offering of some portion of the Storm Recovery Bonds and SRB Securities to retail investors (for example, to retail investors who live in the respective service territories of DEC and DEP)? Why or why not?

Response:

Please see the Companies' response to PS DR 5-17.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 5

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 25, 2020
Date of Response: December 4, 2020

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Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 5-19, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 5-19
Page 1 of 1

Request:

19. Has DEC/DEP considered setting aside some portion of the Storm Recovery Bonds and SRB Securities to be marketed to smaller institutional investors that are located in the Carolinas? Why or why not?

Response:

DEC and DEP have not fully considered setting aside any portion of the Storm Recovery Bonds and SRB Securities to be marketed to smaller institutional investors that are located in North Carolina, but are not opposed to the idea as long as it does not impact their ability to assert compliance with the Statutory Cost Objectives, including the ability to obtain the lowest storm recovery charges consistent with market conditions at the time of pricing and the terms of the Financing Orders.

Duke Energy Carolinas
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Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 5

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 25, 2020
Date of Response: December 4, 2020

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Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 5-20, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 5-20
Page 1 of 1

Request:

20. Has DEC/DEP considered using alternative bond distribution channels and broker-dealers such as Charles Schwab, Fidelity, and Vanguard to distribute a portion or all of the SRB Securities to credit-sensitive individual retail investors who may value the safety and protection of the SRB Securities more than institutional investors? Why or why not?

Response:

Please see the Companies' response to PS DR 5-17. DEC and DEP have not fully considered using alternative bond distribution channels and broker-dealers such as Charles Schwab, Fidelity, and Vanguard but are not opposed to the idea as long as it does not negatively impact the overall offering, the Companies' ability to assert compliance with the Statutory Cost Objectives or add risk of additional liability to DEC and DEP.

Duke Energy Carolinas
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Duke Energy Progress
Response to
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Data Request No. NCPS 5

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 25, 2020
Date of Response: December 4, 2020

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Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 5-21, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 5-21
Page 1 of 1

Request:

21. Please state all of the material assumptions upon which the estimated interest rates in the preliminary structure in Atkins Exhibit 4 are based. Please be specific. For example, if using the phrase "under market conditions," please describe those market conditions.

Response:

The estimated interest rates are based on treasury rates as of October 9 plus an estimated spread based on comparable bonds. The estimated spreads assume market conditions similar to those on October 9.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 5

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 25, 2020
Date of Response: December 4, 2020

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Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 5-22, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 5-22
Page 1 of 1

Request:

22. Please describe the process by which Witness Atkins determined the interest rates/yields to investors based on a specific credit spread to a benchmark on each of the 5 tranches in the preliminary structure in Atkins Exhibit 4.

Response:

The interest rates are based on a benchmark rate plus credit spread. The benchmark rate is the US treasury bond with the nearest maturity to the WAL for each SRB tranche.

Duke Energy Carolinas
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Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 5

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 25, 2020
Date of Response: December 4, 2020

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Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 5-23, was provided to me by the following individual(s): Charles, Atkins, CEO, Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 5-23
Page 1 of 1

Request:

23. Please provide the excel spreadsheet, workbook including formulas, Bloomberg fields or any other quantitative bases used to calculate Witness Atkins' SRBs overall interest rate of 1.15%/cost of funds from the individual rates estimated on each of the 5 tranches shown in Atkins Exhibit 4.

Response:

Please see the attached file.

DR5 23.xlsx

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 5

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 25, 2020
Date of Response: December 4, 2020

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The attached response to NC Public Staff Data Request No. 5-24, was provided to me by the following individual(s): Charles, Atkins, CEO, Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 5-24
Page 1 of 1

Request:

24. Please describe what types of comparable securities Witness Atkins expects to consider when pricing the individual tranches of the SRB Securities, other than U.S. Treasuries.

Response:

Ultimately, there will be consultation with the underwriters, but the expected comparable securities will be AAA ABS, investment grade first mortgage utility bonds, AAA corporates, and AAA US agency bonds.

Duke Energy Carolinas
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Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 5

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 25, 2020
Date of Response: December 4, 2020

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Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 5-25, was provided to me by the following individual(s): Charles, Atkins, CEO, Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 5-25
Page 1 of 1

Request:

25. In the most recent utility securitization pricing in which Witness Atkins participated, did he or his firm use such securities as benchmarks? If not, which securities were used? Please provide individual CUSIPs for any and all such securities.

Response:

Witness Atkins does not have access to the securities that the Morgan Stanley syndicate desk referred to during a pricing which occurred in 2013.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 5

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 25, 2020
Date of Response: December 4, 2020

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Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 5-26, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 5-26
Page 1 of 1

Request:

26. Please provide a list of the specific outstanding comparable securities referred to in question t. above including CUSIP numbers, outstanding amounts and weighted average life remaining to the 5 tranches proposed in Atkins Exhibit 4, along with their weighted average lives from the date of issuance, yields and credit spreads to interpolated U.S. Treasury curve (G-spreads) as of the date of the preparation of the response.
ties.

Response:

Please see the attached file.

DR5 26.pdf

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 5

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 25, 2020
Date of Response: December 4, 2020

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Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 5-27, was provided to me by the following individual(s): Charles, Atkins, CEO, Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 5-27
Page 1 of 1

Request:

27. Would Witness Atkins consider non-callable AAA-rated U.S. agency securities with similar weighted average lives to be comparable to the proposed SRB Securities?
i. If not, why not?
ii. If so, typically what spread to interpolated weighted average life would Witness Atkins expect the credit spreads to be between these two types of securities?

Response:

Non-callable AAA-rated US agency securities may be considered; however, these securities are generally expected to trade at a tighter credit spread than the utility securitization bonds.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 5

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 25, 2020
Date of Response: December 4, 2020

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Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 5-28, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 5-28
Page 1 of 1

Request:

28. Would any of the interest rates/credit spreads materially change for Storm Recovery Bonds marketed and issued under a common marketing plan at the same time?

Response:

While pricing of bonds is affected by investor perceptions of various transaction features, as well as market interest rate and supply conditions, it is clear that if the DEC and DEP bonds are marketed separately at the same time, that the larger DEP issue will be index-eligible, and would be perceived by some investors as more liquid, while the smaller, index-ineligible DEC issue may be perceived as less liquid by comparison. While investor demand is affected by factors that are difficult to determine definitively in advance, some investors may prefer to submit orders for the larger DEP issue, in part due to perceived greater liquidity. Such investor preferences have the potential to negatively affect the pricing for the smaller DEC issue. At the same time, it is possible that market supply factors may increase investor demand for both issues such that the pricing of the smaller index-ineligible DEC issue may not be negatively affected. However, if a common marketing approach of the separate issues is pursued, investors would be aware of the fact that the DEC issue is smaller and index-ineligible, and they would take that into consideration.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 5

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 25, 2020
Date of Response: December 4, 2020

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Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 5-29, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 5-29
Page 1 of 1

Request:

29. Given that Witness Atkins is recommending a 9-month first payment period, is it correct that the preliminary structure in Witness Atkins' Exhibit 4 show a fractional year in year 15 rather than in year one (1)?

Response:

Deal year 1 in Exhibit 4 represents the first 2 semi-annual bond payments, so it includes cash flows from the expected closing date up to the second bond payment date. There are 29 total scheduled payments, so there is only one payment being shown in deal year 15.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 5

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 25, 2020
Date of Response: December 4, 2020

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Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 5-30, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 5-30
Page 1 of 1

Request:

30. Please explain how in Witness Atkins Exhibit 4, especially for DEP, interest in year 1 for tranches A-3, A-4 and A-5, is substantially more than in year 2 even though the principal balance for those tranches is the same in both years.

Response:

Given the long first period, deal year 1 represents 8 months of interest accrual, whereas year 2 represents 12 months of interest accrual.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 6

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 25, 2020
Date of Response: December 7, 2020

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Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 6-1, was provided to me by the following individual(s): Charles Atkins, CW- Professional, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 6
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 6-1
Page 1 of 13

Request:

1. POST-FINANCING ORDER CONTROL OVER STRUCTURING, MARKETING AND PRICING OF THE PROPOSED SRB SECURITIES

a. In response to PS DR 2-4(a), Witness Heath states: "The table provided in response to PS Data Request 2-1 lists Witness Atkins' utility securitization advisory and lead underwriting banking experience and includes transactions where the commission retained a financial advisor, provides the name of the advisor, and specifies when the advisor's role was limited to participation in the pricing process. The table also reflects those transactions where Witness Atkins recalls a commission staff member or a commission member being involved in the financing process. Apart from the instances where the role of the advisor was limited to the pricing process, the advisor and the commission representative periodically were involved in working group discussions during the structuring, marketing and pricing process."

i. Were the advisor and/or the commission representative involved visibly and in advance in all aspects of the structuring, marketing and pricing process, including in the decision-making process? If not, in which aspects were they involved, and in which aspects were they not involved?

b. Florida Statutes §366.95(3)(c)2. states: "In performing the responsibilities of this subparagraph and subparagraph 5., the commission may engage outside consultants and counsel." The Florida PSC's financing order in the 2016 nuclear asset-recovery bond transaction for DEF states: "We find that this Commission, as represented by designated Commission staff, this Commission's financial advisor, and this Commission's outside legal counsel, shall be actively and integrally involved in the bond issuance on a day-to-day basis . . . as part of a Bond Team that also includes DEF, its structuring advisor or underwriter(s), and its outside counsel(s), in all aspects of the structuring, marketing, and pricing of each series of nuclear asset-recovery bonds." (Finding of Fact 91.)

i. Were commissions more often assisted by independent financial advisors and/or counsel in connection with their first securitized utility bond proceeding(s) than following transactions?

ii. Please comments on the positive comments made on the record by the Florida PSC staff, Office of Public Counsel and other intervenors at the open meeting in June 2016 on the work of the Bond Team in the 2016 securitized bond transaction for DEF?

iii. Do DEP and DEC agree that the Financing Order in this proceeding should direct that a similar "Bond Team" be formed to be actively and integrally involved on a day-to-day basis in the issuance of the proposed SRB Securities, including in all aspects of the structuring, marketing, and pricing of each series of SRB Securities?

iv. If not, why not?

c. N.C. Gen. Stat. § 62-172(n) states: "In making determinations under this section, the Commission or public staff or both may engage an outside consultant and counsel." In response to PS DR 2-4(d), Witness Heath states: "In certain cases, the commission's designated member or representative were assisted by an independent financial advisor and/or counsel. Pursuant to Section 62-172(n), any designated member of the NCUC would be permitted to engage an outside consultant or counsel."

i. Please identify the cases in which a commission's designated member or representative were assisted by an independent financial advisor and/or counsel.
ii. Were commissions more often assisted by independent financial advisors and/or counsel in connection with their first securitized utility bond proceeding(s) than following transactions?
iii. Should the Commission's designated representative and Commission staff in this proceeding be assisted by the Public Staff and independent expertise? If not, why not?
d. In response to PS DR 2-4(e), Witness Heath states: "Although N.C. Gen. Stat. § 62-172 does not mandate that a public utility propose, or the Commission establish, a bond team or designated member, the Joint Petition proposes a process to provide a Commissioner or Commission Staff member (the "Designated Member") with timely information to allow for the Designated Member's participation in the actual structuring, pricing, and issuance of the storm recovery bonds so that the Commission, upon receipt of the issuance advice letter, may determine whether or not the transactions meet the statutory cost objectives identified in the financing orders and consistent with N.C. Gen. Stat. § 62-172. In addition, membership on the DEF Bond Team was limited to DEF and designees of the Florida Public Service Commission, including their financial advisor. Bond Team membership was not extended to any intervening party to the financing proceeding. While it is true that representatives of the customer advocate (Office of Public Counsel) were invited to and joined certain of the Bond Team calls as a courtesy, they were not part of the Bond Team and did not have a formal role in the post-financing order stage of the DEF transaction." Unlike the Florida Office of Public Counsel (which is separate from Florida commission, see Florida Statutes § 350.061), the Commission's Public Staff is an aspect of the Commission itself. (N. C. Gen. Stat. § 62-15(b) states: "There is established in the Commission a public staff.") And whereas Florida Statutes § 366.95(2)(c)2. only authorized the Florida commission to retain outside consultants and counsel, N.C. Gen. Stat. § 62-172(n) states: "the Commission or public staff or both may engage an outside consultant and counsel."
i. If DEP and DEC are included as members of a Bond Team even though they are petitioning parties to the Commission proceeding, do DEP and DEC agree that there would be symmetry if Public Staff also is included as a member of the Bond Team even though Public Staff also is a party to the Commission's proceeding? If not, why not?
ii. Do DEC and DEP agree that outside consultant(s) and counsel(s) to the Commission and to Public Staff also should be included in any Bond Team which is formed pursuant to the Financing Order? If not, why not?
The provisions from the DEF financing order cited in PS DR 2-5(a) are based on the Florida Statutes §366.95(2)(c)(2: "In a financing order issued to an electric utility, the commission shall: . . . Include any other conditions that the commission considers appropriate and that are authorized by this section." Essentially the same "elastic clause" is included in N.C. Gen. Stat. § 62-172(b)(3)b.12.: "A financing order issued by the Commission to a public utility shall include all of the following elements : . . . Any other conditions not otherwise inconsistent with this section that the Commission determines are appropriate." Nevertheless, in response to PS DR 2-5(a), Witness Atkins states: "N.C. Gen.

Stat. § 62-172 is specific to North Carolina. In accordance with North Carolina law, the Companies adhered to the terms and requirements of N.C. Gen. Stat. § 62-172 in creating and requesting approval of their proposed Financing Orders. Accordingly, the Companies did not 'depart' from the Florida PSC's financing order in the 2016 nuclear asset-recovery bond transaction for DEF and instead created Company-specific Financing Orders pursuant to North Carolina law."

Would the Commission be acting within this authority to provide in its Financing Order in this proceeding provisions ensuring that any Storm Recovery Bonds and the SRB Securities authorized by the Financing Order will be structured, marketed and priced so as to result in the lowest storm recovery charges consistent with the Financing Order and market conditions at the time of pricing?

e. Witness Atkins' testimony includes details on the standard process for marketing and sale of the storm recovery bonds. The Florida PSC's financing order in the 2016 nuclear asset-recovery bond transaction for DEF included the following provisions to ensure that the "marketing" of those securitized bonds would result in the lowest securitized charges consistent with market conditions and the terms of the financing order. DEF did not object to any of these Findings of Fact or Ordering Paragraphs related to the securitized bond offering.

i. Finding of Fact 43: "One designated representative of DEF and one designated representative of this Commission should be joint decision makers in all aspects of the structuring, marketing and pricing of the nuclear asset-recovery bonds except for those recommendations that in the sole view of DEF would expose DEF or the SPE to securities law and other potential liability (i.e., such as, but not limited to, the making of any untrue statement of a material fact or omissions to state a material fact required to be stated therein or necessary in order to make the statements made not misleading) or contractual law liability (e.g., including but not limited to terms and conditions of the underwriter agreement(s)). (Emphasis added.)

ii. Finding of Fact 44: "This Commission's designated staff and financial advisor should be visibly involved, in advance, in all aspects of the structuring, marketing, and pricing of the nuclear asset-recovery bonds." (Emphasis added.)

iii. Finding of Fact 45: "All Bond Team members should actively participate in the design of the marketing materials for the transactions as well as in the development and implementation of the marketing and sales plan for the bonds." (Emphasis added.)

iv. Finding of Fact 48: "Together with the Bond Team's involvement in the structuring, marketing and pricing of the nuclear asset-recovery bonds, and the Issuance Advice Letter process, this Commission should be able to fully review the pricing of the bonds as this Commission determines whether to issue a stop order no later than 5:00 pm Eastern time on the third business day following pricing." (Emphasis added.)

v. Finding of Fact 51: "[O]ur primary focus is on ensuring that the structuring, marketing, and pricing of nuclear asset-recovery bonds achieves the lowest overall cost standard and the greatest possible customer protections. Therefore, we find and direct that the standard for this Financing Order should be that the structuring, marketing, and pricing of nuclear

asset-recovery bonds will achieve the lowest overall cost standard and the greatest possible customer protections." (Emphasis added.)
vi. Finding of Fact 55: "This Financing Order provides flexibility to recover such costs through the nuclear asset-recovery charge and the true-up of such charge. At the same time, we have established the Issuance Advice Letter procedures in Findings of Fact paragraphs 98 through 103 of this Financing Order which are intended to ensure that the structuring, marketing and pricing of nuclear asset-recovery bonds achieves the statutory cost objectives and lowest overall cost standard." (Emphasis added.)
vii. Finding of Fact 83: "DEF and this Commission's staff and this Commission's financial advisor as Bond Team members, excluding DEF's structuring advisor, should have equal rights on the hiring decisions for underwriters and counsel for the underwriters." (Emphasis added.)
viii. Finding of Fact 84: "We find that requiring all book-running underwriters of a series of nuclear asset-recovery bonds to deliver periodic reports with indicative pricing levels derived independently by each book-running underwriter for the nuclear asset-recovery bonds before any public offering of that series of nuclear asset-recovery bonds is launched is likely to facilitate achievement of the statutory financing cost objective and the lowest overall cost standard. We also find that the Bond Team may request one or more of the bookrunning underwriters to deliver an opinion letter as to whether the structuring, marketing, and pricing of the nuclear asset-recovery bonds achieved the lowest overall cost standard." (Emphasis added.)
ix. Finding of Fact 85: "We find that requiring the book-running underwriter(s) of nuclear asset-recovery bonds to provide the Bond Team documentary verification that any term sheet, prospectus, registration statement, offering memorandum or other marketing materials used by the underwriting syndicate in marketing the nuclear asset-recovery bonds (collectively, the 'offering documents') receives a broad distribution to potential investors most likely to accept the lowest yield on the nuclear asset-recovery bonds will facilitate achievement of the statutory financing cost objective and the lowest overall cost standard. This documentary 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." (Emphasis added.)
x. Finding of Fact 89: "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 nuclear asset-recovery bonds approved through this Financing Order will achieve the lowest overall cost standard." (Emphasis added.)
"
xi. Finding of Fact 91: "We find that this Commission, as represented by designated Commission staff, this Commission's financial advisor, and this Commission's outside legal counsel, shall be actively and integrally involved in the bond issuance on a day-to-day basis, subject to Finding of Fact paragraph 50 and Ordering Paragraph 67 as part of a Bond Team that also includes DEF, its structuring advisor or underwriter(s), and its outside counsel(s), in all aspects of the structuring, marketing, and pricing of each series of nuclear asset-recovery bonds. This will allow for meaningful and substantive cooperation among

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DEF and this Commission and its representatives to ensure that the structuring, pricing, and financing costs of the nuclear asset-recovery bonds will achieve the statutory cost objectives and the lowest overall cost standard. Cooperation among DEF and this Commission will promote transparency in the nuclear asset-recovery bond pricing process, thereby promoting the integrity of the issuance process. 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." (Emphasis added.)

xii. Finding of Fact 97: "No later than 5:00 p.m. Eastern time on the second business day following pricing, this Commission's financial advisor shall deliver to this Commission an opinion letter consistent with the terms of its contract as to whether the structuring, marketing and pricing of the nuclear asset-recovery bonds achieved: (1) the statutory cost objectives; (2) the lowest nuclear asset-recovery charges consistent with prevailing market conditions at the time of pricing, terms and conditions and terms of this Financing Order, and other applicable law; and (3) the greatest possible customer protections. That opinion letter shall include a report of any action or inaction which this Commission's financial advisor believes might have caused the transaction not to achieve the statutory cost objectives, the lowest nuclear asset-recovery charges, and/or the greatest possible customer protections regardless of whether the reason for action or inaction by DEF was the result of DEF's sole view that the action or inaction would expose DEF or the SPE to securities law or other potential liability, the report of any such action or inaction which this Commission's financial advisor believes might have caused the transaction not to achieve the statutory cost objectives, the lowest nuclear asset-recovery charges, and/or the greatest possible customer protections, regardless of whether the reason for action or inaction by DEF was the result of DEF's sole view that the action or inaction would expose DEF or the SPE to securities law or other potential liability, shall be treated as a material qualification to the opinion letter of this Commission's financial advisor. Such opinion letter may be provided to this Commission on a confidential basis subject to the ability of parties to this proceeding to review it on a confidential basis." (Emphasis added.)

xiii. Finding of Fact 99: "DEF shall file a combined IAL/TUAL in final form with this Commission no later than 5:00 pm Eastern time 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. As shown in the form of IAL/TUAL in Appendix C, the combined IAL/TUAL shall include the following information: the actual structure of the nuclear asset-recovery bond issuance; the expected and final maturities of the nuclear asset-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 nuclear asset-recovery bonds and estimates of debt service and other ongoing financing costs for the first Remittance Period; a statement of the actions taken by the Bond Team and/or DEF 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 investors that placed the orders (on a confidential basis); and other information deemed

necessary by the members of the Bond Team representing this Commission after review of the draft combined IAL/ITUAL, provided that such other information is consistent with the terms of this Financing Order; and a statement setting forth DEF's observations as to efforts made to assist the Bond Team in achieving the lowest overall cost standard. Finally, the combined IAL/TUAL shall include certifications from DEF if required, that the structuring, pricing and financing costs of the nuclear asset-recovery bonds achieved the statutory cost objectives." (Emphasis added.)

xiv. Finding of Fact 100: "The opinion letter from this Commission's financial advisor required pursuant to Finding of Fact paragraph 97 should be provided no later than 5:00 p.m. on the second business day after pricing. The members of the Bond Team will review this information on the second business day after pricing. If the IAL/TUAL and all required certifications and statements have been delivered and the transaction complies with applicable law and this Financing Order, and if this Commission's financial advisor has delivered an opinion letter pursuant to Finding of Fact paragraph 97 concluding without material qualification that the structuring, marketing and pricing of the nuclear asset-recovery bonds achieved: (1) the statutory cost objectives; (2) the lowest overall cost standard; and (3) the greatest possible customer protections, then the transaction shall be allowed to proceed without the need for further action of this Commission and without the need to hold the previously noticed Commission meeting. If, however, this Commission's financial advisor has delivered an opinion letter that contains material qualifications, or if the Commission's financial advisor has not delivered an opinion letter, then at the meeting previously noticed for the third business day after pricing, the members of the Bond Team will present to this Commission the results of their review. Despite there being material qualifications in the opinion letter from the Commission's financial advisor, this Commission retains discretion to allow the transaction to be completed if, after taking into account the opinion letter, if any, of the Commission's financial advisor, the views of other members of the Bond Team, and any other facts and circumstances, except for a change in market conditions after the moment of pricing, this Commission determines that the requirements of Section 366.95, F.S., and the Financing Order have been satisfied, and the transaction is otherwise in the best interests of customers. This Commission expects that any stop order will invite DEF to restructure, remarket and/or reprice the nuclear asset-recovery bonds so as to mitigate some or all of the concerns identified in the opinion letter of the Commission's financial advisor." (Emphasis added.)

xv. Ordering Paragraph 39: "ORDERED that one designated representative of DEF and one designated representative of this Commission shall be joint decision makers in all aspects of the structuring, marketing and pricing of the nuclear asset-recovery bonds except for those recommendations that in the sole view of DEF would expose DEF or the SPE to securities law and other potential liability (i.e., such as, but not limited to, the making of any untrue statement of a material fact or omissions to state a material fact required to be stated therein or necessary in order to make the statements made not misleading) or contractual law liability (e.g., including but not limited to terms and conditions of the underwriter agreement(s))." (Emphasis added.)

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xvi. Ordering Paragraph 40: "ORDERED that this Commission's designated staff and financial advisor shall be visibly involved, in advance, in all aspects of the structuring, marketing, and pricing of the nuclear asset-recovery bonds." (Emphasis added.)
xvii. Ordering Paragraph 41: "ORDERED that all Bond Team members shall actively participate in the design of the marketing materials for the transactions as well as in the development and implementation of the marketing and sales plan for the bonds." (Emphasis added.)
xviii. Ordering Paragraph 51: "ORDERED that this Commission, as represented by designated Commission staff, this Commission's financial advisor, and this Commission's outside legal counsel, shall be actively involved in the bond issuance, subject to Ordering Paragraphs 66 and 67, as part of a Bond Team that also includes DEF, its structuring advisor or underwriter(s), and its outside counsel(s), in all aspects of the structuring, marketing, and pricing of each series of nuclear asset-recovery bonds to ensure that customers are represented in the transaction process and that the lowest overall cost standard is achieved. As a member of the Bond Team, this Commission's financial advisor will advise and represent this Commission on all matters relating to the structuring, marketing, and pricing of the nuclear asset-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 nuclear asset-recovery bonds as discussed in the body of this Order. Cooperation among DEF and this Commission will promote transparency in the nuclear asset-recovery bond pricing process, thereby promoting the integrity of the issuance process." (Emphasis added.)
xix. Ordering Paragraph 58: "ORDERED that the role of this Commission's financial advisor will include, among other things, advising this Commission and its staff whether or not DEF's proposed structuring, marketing, pricing and financing costs of nuclear asset-recovery bonds meet all statutory requirements, including the statutory cost objectives, as well as the lowest overall cost standard. At the direction of this Commission staff, such financial advisor may represent this Commission as an active participant in the actual pricing process in real time. The financial advisor shall promptly inform this Commission's staff of any items that, in the financial advisor's opinion, are not reasonable or are not consistent with applicable statutory requirements, the statutory cost objectives, or the lowest overall cost standard so that such concerns can be brought to the attention of DEF in real time." (Emphasis added.)
xx. Ordering Paragraph 69: "ORDERED that, subject to Ordering Paragraphs 66 and 67, the Bond Team shall work on a cooperative basis (a) to educate and expand the market among underwriters and investors for nuclear asset-recovery bonds and (b) to create the greatest possible participation and competition among underwriters and investors in order to ensure that the statutory cost objectives and the lowest overall cost standard are achieved." (Emphasis added.)
xxi. Ordering Paragraph 74: "ORDERED that no later than 5:00 p.m. Eastern time on the second business day following pricing, this Commission's financial advisor shall deliver to this Commission an opinion letter consistent with the terms of its contract as to whether the

structuring, marketing and pricing of the nuclear asset-recovery bonds achieved: (1) the statutory cost objectives; (2) the lowest nuclear asset-recovery charges consistent with prevailing market at the time of pricing, terms and conditions and terms of this Financing Order, and other applicable law; and (3) the greatest possible customer protections. That opinion letter shall include a report of any action or inaction which this Commission's financial advisor believes might have caused the transaction not to achieve the statutory cost objectives, the lowest nuclear asset-recovery charges, and/or the greatest possible customer protections, regardless of whether the reason for action or inaction by DEF was the result of DEF's sole view that the action or inaction would expose DEF or the SPE to securities law or other potential liability. The report of any such action or inaction which this Commission's financial advisor believes might have caused the transaction not to achieve the statutory cost objectives, the lowest nuclear asset-recovery charges, and/or the greatest possible customer protections, regardless of whether the reason for action or inaction by DEF was the result of DEF's sole view that the action or inaction would expose DEF or the SPE to securities law or other potential liability shall be treated as a material qualification to the opinion letter of this Commission's financial advisor. Such opinion letter may be provided to this Commission on a confidential basis subject to the ability of parties to this proceeding to review it on a confidential basis." (Emphasis added.)

xxii. Ordering Paragraph 78: "ORDERED that the Bond Team may require some or all underwriters of the nuclear asset-recovery bonds to deliver periodic reports on a confidential basis to members of the Bond Team presenting independently derived indicative pricing levels for the nuclear asset-recovery bonds before any public offering of the nuclear asset-recovery bonds is launched. The Bond Team may also request one or more of the bookrunning underwriters to deliver an opinion letter as to whether the structuring, marketing, and pricing of the nuclear asset-recovery bonds achieved the lowest overall cost standard." (Emphasis added.)

xxiii. Ordering Paragraph 79: "ORDERED that, upon the request of any member of the Bond Team, the bookrunning underwriter(s) of the nuclear asset-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 nuclear asset-recovery bonds, together with documentary verification that these marketing materials received a broad distribution to potential investors most likely to accept the lowest yields on the nuclear asset-recovery bonds." (Emphasis added.)

Please explain why DEC and DEP's proposed form of Financing Order departs from each of the above Findings of Fact and Ordering Paragraphs of the Florida PSC's financing order in the 2016 nuclear asset-recovery bond transaction for DEF by proposing in this proceeding that a designated representative of the Commission be involved only with post-financing order decisions concerning the "structuring and pricing" of the proposed SRB Securities, but not with post-financing order decisions concerning the "marketing" of those SRB Securities.

f. In response to PS DR 2-6(b), Witness Heath stated "Since the beginning of 2019, DEC and DEP have issued a combined total of $3.6 billion in debt in the public debt market. Due to the low interest rate environment during this period DEC and DEP has

issued $1.35 billion of that amount in 30-year fixed rate bonds. An additional $0.7 billion was issued as 1.5-year floating rate bond which attracts a different type of investor than fixed rate bonds. The remaining $1.55 billion was issued in 10-year fixed rate bonds. As result of the nature of these issuances, none have directly comparable maturities to the proposed securitization structure. Of the 10-year fixed rate bonds issued, $600 million of that amount was issued as a Green Bond which attracts unique investors with environmental, sustainability, and governance (ESG) goals. Considering the above, there are two issues, both for DEC, while not directly comparable, they are discussed for the purposes of this question. One of these issuances was allocated to 71 unique accounts and the other was allocated to 57 unique accounts. By comparison, DEC and DEP affiliate DEF's 2016 securitization issuance allocated $1.294 billion across five tranches to 56 unique accounts."

i. Why is Witness Heath's response limited to traditional utility bonds issued since the beginning of 2019?

ii. How many separate accounts purchased the $1.35 billion of 30-year fixed-rate traditional utility bonds?

iii. How many separate accounts purchased the $0.955 billion of 10-year fixed-rate traditional utility bonds that were not issued as Green Bonds?

iv. Why does Witness Heath believe that these 10-year fixed-rate traditional utility bonds are not comparable to the 10.4-year WAL Tranche A-4 in Atkins Exhibit 4 – which identifies the 10-year maturity U.S. Treasury bond as comparable?

v. What were the issue dates, maturities and principal amounts of the two DEC traditional utility bond issues mentioned by Witness Heath?

vi. How many unique accounts purchased each Tranche of DEF's 2016 securitized bonds?

g. Witness Heath's response to PS DR 2-13(a) is not completely responsive to the questions asked. Please also provide the trading history of comparable securities, as well as a pros and cons sales memorandum, and categories of investors to be targeted.

h. Witness Heath's response to PS DR 2-13(c) is not completely responsive to the questions asked: "Who were the disclosed investors in these securities [securitized utility bonds outstanding as of December 31, 2020]?" That information is not reflected in the attached schedule. Please provide.

i. Witness Heath's response to PS DR 2-13(e) may not completely respond to the questions asked: "[H]ow the Designated Member or anyone else can confirm that those investors have actually been contacted. Will the underwriters provide written and accountable certifications that such a distribution has been made?" Please respond.

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Response:

a. Witness Atkins' response to PS DR 2-1 provided information on prior securitization transactions in which he has been involved and illustrates his experience with utility securitization transactions generally. Having noted this, neither DEC/DEP nor witness Atkins take the position that each (or perhaps any) of the prior securitization transactions are necessarily particularly relevant, in their details, to the particulars of the DEC/DEP proposed transactions in this proceeding because they involve differing costs being recovered, differing jurisdictions, differing enabling statutory authority, differing state public service commissions, and different ultimate legal standards. Having noted the lack of comparability between DEC and DEP's proposed securitization transactions and those involved in prior securitization proceedings in other states, Mr. Atkins does not have the information or records available to him necessary to provide the requested information for each identified transaction.

b. i. DEC and DEP object to this question as it is overly broad and unduly burdensome on the Companies to research all first time securitized utility bond proceedings in each state that has had this type of transaction. However, they do note that Saber Partners, who is advising the Public Staff, appears to have such information on its website. The Companies have not validated this information, but it generally appears to reflect the Companies' understanding of other utility securitization transactions.

ii. DEC and DEP object to this question as it seeks information irrelevant to and unrelated to an evaluation of the Companies' Joint Petition in this proceeding. Further, the Companies are not in a position to speak to the comments of other parties in other utility proceedings in other states.

iii. As noted in prior response to PS DR 4-2.e., the Joint Petition proposes a process to provide a Commissioner or Commission Staff member (the "Designated Member") with timely information to allow for the Designated Member's participation in the actual structuring, pricing, and issuance of the storm recovery bonds so that the Commission, upon receipt of the issuance advice letter, may determine whether or not the transactions meet the statutory cost objectives identified in the financing orders and consistent with N.C. Gen. Stat. § 62-172.

iv. See response to PS DR 6-1.b.iii. above.

c. i. See response to PS DR 6-1.b.i. above. That being said, in reviewing the public record associated with public transactions since 2010, to the Companies' knowledge, financial advisors were engaged in transactions in Florida, Louisiana, Ohio, Texas and West Virginia and were not engaged in Arkansas, Michigan or New Hampshire.

ii. See response to PS DR 6-1.b.i. above.

iii. See response to PS DR 6-1.b.iii. Ultimately, it is the decision of the Commission and not DEC and DEP as to with whom they should or should not consult. However, as the Public Staff is an independent agency not subject to the supervision, direction, or control of the Commission, and in its role as an intervenor in this and other proceedings, the Companies understand that the Public Staff traditionally provides its recommendations to the Commission during the regulatory proceeding, not after an order is issued.

d. i. The Companies object to the presumption in this question that there should be a Bond Team for this transaction and refer the parties to the responses to PS DR 6-1.b.iii and PS DR 6-1.c.iii. Pursuant to securities laws, DEP and DEC will be the issuers of storm recovery bonds and any SRB Securities with liability under federal and state securities laws. Therefore, there is no "symmetry" and it is not correct to compare the role of DEP and DEC as part of any Bond Team, to the extent there is a Bond Team, and Public Staff.

ii. See responses to PS DR 6-1.b.iii. and PS DR 6-2.d.i.

iii. The statutory language speaks for itself.

e. The draft Financing Order for the proposed DEC and DEP transaction were designed to comply with the North Carolina statutory requirements, which did not include a role for a designated representative in the post-financing order decisions concerning the "marketing" of the securities being offered in the transaction. Comparison to the 2016 DEF transaction are not appropriate as that transaction concerned a different utility regulated by a different commission under a different statute.

f. i. The original response included transactions beginning in 2019 in order to provide almost two full calendar years of issuances for DEC and DEP.

ii. The $1.35 billion was issued across three transactions. DEC issued $350 million in August 2019 which was allocated to 50 accounts. DEC also issued $400 million in January 2020 which was allocated to 72 accounts. DEP issued $600 million in August 2020 which was allocated to 64 accounts. It should be noted that this information reflects final allocations of bonds and not total indications of investor interest at the final market clearing pricing level, which in most cases (not specific to the DEC and DEP transactions referenced herein) is greater than final allocations.

iii. As noted in the prior response to PS DR 2-6(b), $600 million was issued as Green Bonds. This issuance was allocated to 105 accounts. It should be noted that this information reflects final allocations of bonds and not total indications of investor interest at the final market clearing pricing level, which in most cases (not specific to the DEC and DEP transactions referenced herein) is greater than final allocations.

iv. Witness Heath's comment was that the 10-year fixed rate bonds were not "directly comparable" to the 10.4-year WAL Tranche A-4. This is because the 10-year fixed rate bond are bullet maturity bonds whereas the 10.4-year WAL Tranche A-4 is an amortizing bond.

v. DEC issued $450 million in August 2019 which matures in August 2029, this was the issuance allocated to 57 accounts. DEC also issued $500 million in January 2020 which matures in February 2030, this was the issuance allocated to 71 accounts. It should be noted that this information reflects final allocations of bonds and not total indications of investor interest at the final market clearing pricing level, which in most cases (not specific to the DEC and DEP transactions referenced herein) is greater than final allocations.

vi. As noted in the prior response to PS DR 2-6(b), DEC and DEP affiliate DEF's 2016 securitization issuance allocated $1.294 billion across five tranches to 56 unique accounts. The 2-year WAL tranche ($183 million) was allocated to 18 accounts. The 5-year WAL tranche ($150 million) was allocated to 13 accounts. The 10-year WAL tranche ($436 million) was allocated to 30 accounts. The 15.2-year WAL tranche ($250 million) was allocated to 9 accounts. The 18.7-year WAL tranche ($275.3 million) was allocated to 11 accounts. It should be noted that only two investors were allocated bonds in each WAL tranche. It should also be noted that this information reflects final allocations of bonds and not total indications of investor interest which in most cases (not specific to the DEF transaction) is greater than final allocations.

g. Please see prior responses to PS DR 2-13(a) and 2-13(b). Marketing plans have not been formally developed at this stage of the transaction as DEC and DEP's primary focus to this point has been directed to this regulatory proceeding phase of the transaction.

h. DEC and DEP object to this request as it is not reasonably calculated to lead to the discovery of admissible evidence and it seeks information irrelevant to and unrelated to an evaluation of the Companies' joint petition in this proceeding. Notwithstanding, the Companies are not in position to comment on investors in securitized utility bonds outstanding as of a future date and therefore considers their original response to PS DR 2-13(c) to be fully responsive.

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i. The Companies object to the nature of the question and the presumption that they would deceive the Commission as to the action undertaken in any transaction. As proposed in the joint-petition, and described in several responses to the data requests from the Public Staff, each Company will deliver a certification as to the Statutory Cost Objectives, including that the structuring and pricing of the SRB Securities and underlying storm recovery bonds issued on behalf of the applicable Company result in the lowest storm recovery charges payable by the customers of such Company consistent with market conditions at the time such SRB Securities and underlying storm recovery bonds are priced and the terms set forth

in the applicable Financing Order. Included with the proposed certification is an outline of the actions undertaken by the Companies and the underwriters to issue the bonds.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 7

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: December 1, 2020
Date of Response: December 8, 2020

☐ **CONFIDENTIAL**

☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 7-1, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

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Request:

1. Sections 5.01(1) and (6) and 5.03 of Revenue Procedure 2005-62 defines "qualified securitizations" to include only those transactions which finance the recovery of specified "costs." In his response to PS DR 2-10, Witness Atkins states: "N.C. Gen. Stat. § 62-172(a)(14) states that 'storm recovery costs' includes 'the cost to replenish and fund any storm reserves' and thus the legislature deems them 'appropriate for recovery through the securitization mechanism'."
The intent of the question raised in PS DR 2-10 was not whether the North Carolina legislature deems "storm recovery costs" (as defined in N.C. Gen. Stat. § 62-172(a)(14)) to be appropriate for recovery through securitization. Rather, the question is whether funding storm reserves is a "cost" for federal income tax purposes in accordance with the IRS Revenue Procedure and whether DEC/DEP will hold ratepayers harmless for any additional costs if the IRS ultimately determines that the SRB Securities do not qualify for the safe harbor tax treatment under Revenue Procedure 2005-62.

As a general rule, deposits to a reserve for possible (even expected) future payments to others are not a "cost" for federal income tax purposes. In determining "cost" of goods sold ("section 471 costs"), Treasury Regulation § 1.263A-1(d)(2)(iii)(C) states: "A taxpayer that determines the amounts of section 471 costs under this paragraph (d)(2)(iii) may not include any financial statement write-downs, reserves, or other financial statement valuation adjustments when determining the amounts of its section 471 costs."
a) Does Witness Atkins contend that deposits to a storm recovery reserve would be a "cost" for federal income tax purposes?
b) Will DEC/DEP assume the costs and hold ratepayers harmless if the IRS ultimately determines that the SRB Securities do not qualify for the safe harbor tax treatment under Revenue Procedure 2005-62?

Response:

a. The Companies did not evaluate whether a storm recovery reserve would be a "cost" for federal income tax purposes as the Companies are not requesting to fund a storm reserve in their Joint Petition.

b. See response to DR 7-1.i.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 8

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 25, 2020
Date of Response: December 8, 2020

☐ **CONFIDENTIAL**

☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 8-1, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
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Request:

1. RATING AGENCY COSTS FOR DEP/DEC ISSUANCE AND STORM SECURITIZATION PROGRAM

a. Compared to selling separate issues of Storm Recovery Bonds under a common marketing plan, will the proposed SRB Securities structure require higher fees payable to the rating agencies? On pages 23 and 24 of his testimony, Witness Heath states: "Neither DEC or DEP nor the Commission has any effective control over the fees charged by the rating agencies; however, DEC and DEP will use commercially reasonable means to negotiate the lowest possible rating agency fees. The amounts shown on line 4 of Heath Exhibit 1 reflect an estimate of the rating agencies fees to be incurred for a transaction of the size contemplated by DEC and DEP. The low end of the range presented is estimated at 7.5 basis points (or 0.075 percent) on the principal amount of bonds issued, which represents Moody's Investor Service's pricing guidance, payable to two rating agencies. This estimate assumes no additional fees charged for the Trust Issuer. The high end of the range includes a full 7.5 basis point fee charged for the Trust Issuer by two rating agencies. Accordingly, the possibility of a change due to either the size of the offering, or modification of the agencies' fee requirements must be taken into account in determining the level of rating agency fees, and any increase in these fees should be recoverable by DEC and DEP, pursuant to the issuance advice letter procedure."

i. If a composite structure is used, the only instruments sold to investors will be the SRB Securities. Do DEP and DEC propose to request credit ratings solely for the SRB Securities or for ratings for the underlying Storm Recovery Bonds or both?

ii. Please provide the Companies' definition of what "commercially reasonable means" are in this context.

iii. How is a "commercially reasonable means" standard different from a "best efforts" standard? Which standard is more favorable to customers?

iv. Would DEC/DEP agree to use its best efforts to negotiate the lowest possible rating agency fees?

v. Since the statute anticipates additional financings depending on the number of storms occurring in North Carolina and their severity, should an agreement with a rating agency anticipate lower fees on future financings similar to the agreement that DEC and DEP have for their traditional securities that receive ratings from these agencies?

b. In many utility transactions Moody's, S&P and Fitch all have provided credit ratings. However, DEC/DEP is proposing only "at least two of the three major rating agencies" in this transaction.

i. Which rating agencies does DEC/DEP propose to engage?

ii. Is there any cost to ratepayers for not using three rating agencies?

iii. How many rating agencies does DEP/DEC pay to rate their publicly-offered debt securities?

c. Many top-rated bond transactions have only two ratings from Moody's, S&P or Fitch, but only one from either Moody's or S&P but not both. Has this caused any increase in interest costs to those issuers?

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d. Should DEC/DEP request (and pay for) additional, separate ratings on each of the underlying series of Storm Recovery Bonds?
e. If the DEP bonds and the DEC bonds are sold at the same time directly to investors, without using a composite structure involving SRB Securities, under identical Financing Orders, do DEP and DEC expect to be able to negotiate lower fees for the two separate credit ratings under their general agreements with the rating agencies?

Response:

1.a.i. DEC and DEP believe the substance of the analytical work required to rate the proposed transaction is the same regardless of whether the SRB Structure is used or if separate DEC and DEP issuances are pursued. The Companies expect to assert this position with the rating agencies in order to obtain the lowest fees possible for rating the proposed transaction. Whether a formal rating will be issued on Storm Recovery Bonds as well as SRB Securities is yet to be determined.

ii. In this context "commercially reasonable means" indicates that the Companies will make commercially reasonable, arms length, and good faith efforts to obtain the lowest fees possible for the proposed transaction in order to further the Statutory Cost Objectives. The Companies will not take any efforts they consider unreasonable or imprudent. The Companies and their affiliates and parent company have broader relationships with certain rating agencies beyond the proposed transaction and it is critical for them to maintain effective working relationships with these rating agencies. The Companies will not take any actions in negotiating fees for this transaction, which they believe may impact their relationships with these rating agencies.

iii. DEC and DEP will negotiate as described in PS DR 8-1.a.ii. The Companies are unclear what distinction the Public Staff is trying to assert with this question as these are not defined terms under NCGS 62-172.

iv. Please see the Companies' responses to PS DR 8-1.a.i and PS DR 8-1.a.iii.

v.The level and frequency of future transactions are currently unknown. Accordingly, the Companies will focus on the arrangement and fee levels for this particular transaction.

b.i. The phrasing "at least two of the three major rating agencies" means that the Companies intend to engage at least two of the major rating agencies, it is not intended to be a limitation on engaging all three of the major rating agencies. No formal decision has been made at this time on the number of agencies or specific agencies that will or will not be engaged.

ii. The Companies and their affiliates and parent company utilize Moody's and S&P for the publicly rated debt obligations, and the Companies are not aware of any additional costs to

customers at this time.

iii. The Companies and their affiliates and parent company utilize Moody's and S&P for the publicly rated debt obligations.

c. Please see the Companies' response to PS DR 8-1.b.ii.

d. Please see the Companies' response to PS DR 8-1.a.i.

e. No. The Companies do not expect fees for the proposed transaction, with or without the SRB Structure, to be eligible for inclusion in the general or "umbrella" arrangements for Duke Energy and its subsidiaries.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 8

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 25, 2020
Date of Response: December 8, 2020

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The attached response to NC Public Staff Data Request No. 8-2, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

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Request:

2. SERVICER AND ADMINISTRATION COSTS
a. Witness Angers stated that "The servicing and administration fees will be charged to and collected from customers through the storm recovery charge. The fees will be paid to DEC and DEP and will be recorded as reductions to their operating expenses, as such, customers will not be double paying the servicing and administration fees."
i. Does this mean that the excess revenues received will reduce (or be credited against) other customer rates on an ongoing basis beginning with the first payment of servicing and administration fees so that customers receive the benefit at the same time? If not, please explain.
ii. In the 2006 storm recovery bond financing for Florida Power & Light Company, the Florida PSC's financing order directed that such excess servicing and administration fees were to be credited concurrently to a storm cost reserve ("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.") Would this be a better alternative for ensuring DEC and DEP customers receive the benefit?
b. Will any information system programming costs, servicer set-up costs or other incremental servicing costs be paid from bond proceeds as a "financing cost"?
c. Heath Exhibit 1 estimates DEP's and DEC's up-front legal fees to be between $2,775,000 and $3,450,000. Does this include any fees for legal services associated with the Companies' pursuit of the enactment of SB 559?
i. The issuer's bond counsel and disclosure counsel for DEF's 2016 securitization transaction have direct experience with securitization financing orders and the most recent SEC utility securitization registration statements and other public offering materials. Do DEC/DEP propose to use the same issuer's bond counsel and disclosure counsel for the proposed Storm Recovery Bonds and SRB Securities? If not, please explain.
ii. If not, have the issuer's bond counsel and disclosure counsel for the proposed Storm Recovery Bonds and SRB Securities participated in any other utility securitization transactions? If so, please indicate which transactions and whether the individuals assigned to the DEC/DEP transactions are the personnel with this experience.
iii. Please provide a specific breakdown of total anticipated legal expenses by category:
1. Preparing bond transaction documents
2. Regulatory petition and proceeding
3. Tax
4. Securities documentation and disclosure
5. Structuring Advisor
6. Underwriters

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Response:

2.a.i. In regard to the above quote, this was stated in the Company's response to PS DR 2-9a, not by Witness Angers. Customers will not receive the benefit of any of the excess revenues collected in real time. As there are no established riders or mechanisms in North Carolina to refund any overcollections, the Company will adjust the cost of service in its test period for inclusion in future base rate cases to account for any over or under collections of revenue (all fees, whether over or under collected will be recorded to an operating expense account).

ii. DEC and DEP object to this question as it seeks information irrelevant and unrelated to an evaluation of the Companies' Joint Petition in this proceeding. There is no storm reserve established in North Carolina at this time. Any refund for customers would be included in a future rate case as discussed above.

b. Please see the Companies' response to PS DR 2-9.d.

c.i. Please see the Companies' response to PS DR 2-4.e. Hunton Andrews Kurth LLP as issuer counsel, and, Paul, Weiss, Rifkind, Wharton & Garrison LLP as structuring advisor counsel and eventually underwriter counsel, are engaged on the proposed DEC and DEP transaction.

ii. Please see the Companies' response to PS DR 8-2.c.i.

iii. Please see the Companies' response to PS DR 1-8.

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and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 8

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: November 25, 2020
Date of Corrected Response: December 14, 2020

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The attached response to NC Public Staff Data Request No. 8-3, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 8
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Request:

3. STRUCTURING SRB SECURITIES
a. In responding to PS DR 2-2(k), Witness Heath states: "While the engagement letters with Guggenheim and Atkins Capital do not specifically address use of the financial model in the event they are not a party to the transaction, it is DEC and DEP's experience that financial institutions do not permit the continued use of their proprietary financial models after cessation of their engagement." Follow-up questions for Guggenheim Securities:
i. What is Guggenheim's experience in modeling utility securitizations?
ii. Will the financial model that results from Guggenheim's efforts be the property of DEC/DEP or of Guggenheim?
iii. If the financial model that results from Guggenheim's efforts will be the property of Guggenheim, will it be available to the underwriters, the Commission, Public Staff and other intervenors if Guggenheim is not hired as an underwriter for the SRB Securities?
iv. Please specify which aspects of the financial model are considered "proprietary" and the justification for this designation under North Carolina or federal laws.
v. Witness Heath stated in response to PS DR 2-2(a): "As stated in Witness Heath's testimony (beginning on page 25 line 3 through page 26 line 12), the role of the structuring advisor will cease at an appropriate time in the future and some portion of the modeling will then be performed by DEC and DEP's book-running lead underwriter."
1. What "portion" of the modeling must be done by the book-running lead underwriter?
2. Is this necessary? Please explain.
3. Did DEF's book-running lead underwriter take over any portion of the modeling from Analytic Aid (Steve Heller)?
4. What is the benefit to DEC/DEP customers of turning over the results of the financial modeling to the underwriters?
b. Among the securitized utility bond issues listed on Atkins Exhibit 2-1 is the $207,156,000 Entergy Louisiana securitization transaction in 2011. At the time of that transaction, Witness Atkins was an employee of Morgan Stanley, initially the structuring advisor and later as the lead underwriter for these securitized bonds. Morgan Stanley's response to the DEC/DEP Request for Proposals to Serve as Structuring and Financial Advisor (the "RFP") observes that tight (lower credit) spreads for this 2011 Entergy Louisiana transaction were achieved despite "Small deal size, not index eligible".
i. Please have Witness Atkins comment on his former employer's (Morgan Stanley's) view that tighter credit spreads for this 2011 Entergy Louisiana transaction were achieved even though the securitized bonds were not index eligible?
ii. If Witness Atkins agrees with Morgan Stanley's view, then what is the basis for Witness Atkins' assertion that it will be important for the proposed SRB Securities to be eligible for the "Aggregate Bond Index"? If not, what is the basis for objecting to Morgan Stanley's description of the transaction?

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c. Guggenheim's response to the DEC/DEP Structuring Advisor RFP (which included Witness Atkins) makes no mention of the "Aggregate Bond Index." Similarly, neither Goldman Sachs' response to the RFP, the case studies of the NStar Massachusetts 2005 Special Purpose Trust 2005 Pass-Through Certificates transaction nor the First Energy 2013 Ohio Pass-Through Certificates transaction attached as Appendix C to that Goldman Sachs response, mention the "Aggregate Bond Index" as a material factor in driving the structuring of those securities. In addition, neither the Morgan Stanley, Royal Bank of Canada or Guggenheim responses to the RFP mention the "Aggregate Bond Index" cited by Witness Atkins as a motivating factor in structuring the bond offering to achieve the best execution and lowest storm recovery charges consistent with market conditions at the time the storm recovery bonds are priced.

i. Why did the Guggenheim response to the RFP discuss at length the advantages of qualifying the DE/DEP Securities for inclusion in the Bloomberg Barclays Corporate Utility Bond Index, but make no mention of the "Aggregate Bond Index"?

ii. Would seeking to qualify the SRB Securities for the "Aggregate Bond Index" as "Asset Backed Securities" undermine investors' perception of the SRB Securities as similar to the DEF securitization bonds which qualified for the more important Corporate Utility Bond Index, but for their size?

iii. Atkins Exhibit 2-7(ad) lists seven series of securitized bonds issued since 2008 that are or have been included in the "Aggregate Bond Index," including the 2016 DEF securitized bonds. Atkins Exhibit 2-7(h) is a published confirmation that the 2016 DEF securitized bonds qualified for inclusion in the Bloomberg Barclays Corporate Utility Bond Index. Please provide published confirmation that the seven series of securitized bonds listed in Atkins Exhibit 2-7(ad) (including the 2016 DEF securitized bonds) have been included in the "Aggregate Bond Index."

d. Guggenheim's response to the RFP does mention prominently the Corporate Utility Bond Index as a key factor in structuring the bonds. For example, page 19 of Guggenheim's response states:

"The DEF transaction was ground-breaking as the first utility securitization to become eligible for the Barclays Corporate Utility Index

Inclusion in the Corporate Index should make the issue more attractive to a broader set of corporate investors, particularly for maturities longer than 10 years

Given the proposed underlying note structure, it may be required for each note to meet the minimum $300mm size. There may be a benefit to including a storm reserve in the sizing of the smaller transaction to ensure that the entire transaction is eligible for the Index"

Page 22 of Guggenheim's response continues:

"Marketing Plan: Offer Corporate Index-Eligible Bonds" Strategy Overview: Market Barclays Corporate Index-Eligible Bonds

Recommendation: Extensively target corporate buyers early in the marketing period and focus investor materials on the simplicity of the asset class, attractive alternative to hard-to-find AAA / AA corporates or superior credit relative to unsecured or first mortgage utilities

Traditional corporate buyers will provide incremental demand, particularly for longer-dated bonds and will be key to driving tighter pricing

The Guggenheim syndicate efforts are ideally suited for this strategy, with Andrew

Schwartz (Global Credit Group, Corporates) bringing extensive experience to the marketing process in addition to Guggenheim's Structured Products Group
For the Duke Energy Florida transaction, Guggenheim compiled an asset class primer that highlighted the structural simplicity and exceptionally strong credit of the asset class and avoided using traditional ABS nomenclature (refer to Appendix: RRB Primer for additional detail)
Guggenheim recommends transaction related offering and marketing materials be composed similarly to this RRB primer." [emphasis added]
Page 15 of Guggenheim's response to the RFP also states that 63% of all the investors were corporate investors and that corporate investors dominated the longer, most expensive maturities to ratepayers.
i. Is it DEC/DEP's position that inclusion of the SRB Securities in the "Aggregate Bond Index," as an ABS security, will produce lower costs to ratepayers than inclusion in the Corporate Utility Bond Index?
e. In response to PS DR 2-7(b), Witness Atkins states "The Corporate Utility Index could also positively affect the perceived liquidity of the SRB Securities, as investors may make their own conclusions regarding potential inclusion in the Utility Index, based upon disclosure that the SRB Securities are not 'asset-backed securities' pursuant to SEC Regulation AB."
However, in its response to the RFP Guggenheim "recommends transaction related offering and marketing materials be composed similarly to this RRB primer." The primer and offering materials referred to have a more detailed and descriptive disclosure that the bonds are "corporate securities" and not simply "not asset-backed" securities."
i. Does DEC/DEP plan to use the same descriptive disclosure of the reasons why the bond are corporate securities in addition to "not asset backed securities"?
ii. If not, though the nominal issuers are different, what descriptions do DEC/DEP wish to exclude, and what are the reasons to depart from the disclosure and marketing materials describing those aspects of the DEP/DEC transaction that are substantively the same in structure as the 2016 DEF transaction?
f. In response to PS DR 2-7(m), Witness Atkins states: "DEC and DEP object to the description of their proposed structure as complex. While it does add an additional entity to the typical structure of utility securitizations, the additional entity is simply a trust entity that enables aggregation of two issuances into a combined larger issuance amount."
However, Goldman Sachs was the structuring advisor and lead bookrunning manager on the NStar Massachusetts 2005 Special Purpose Trust 2005 Pass-Through Certificates transaction and on the First Energy Phased-In Recovery Bond transaction. Each of these transactions used the structure Witness Atkins is proposing.
In its response to the RFP, Goldman Sachs stated "Based on what we know at this point in time Goldman would recommend the issuance of two sequential securitization offerings for Duke's DEP and DEC subsidiaries given the complexity of a multi-utility offering. That said, Duke may wish to consider a single offering supported by both entities in the future.

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Goldman Sachs is one of the only banks experienced with multi-utility transactions (case studies available in Appendix B), and would expect to work with Duke to consider the benefits and considerations of a multi-utility transaction based on specific facts and market conditions at the time of planned issuance." [emphasis added]
i. If the structuring advisor and lead bookrunner for the only other utilities that have experience with this structure considers it "complex," Witness Atkins, DEC and DEP agree that the structure is complex compared to separate offerings for DEC and for DEP?
ii. If not, what is the basis for their disagreement with Goldman Sachs?
g. In response to PS DR 2-7(o), Witness Atkins states: "Yes, as reflected in Witness Heath Exhibit 1, there will be some incremental ongoing expenses related to the combined structuring including accounting and auditing fees, trustee fees, independent manger fees, etc."
i. Does Witness Atkins expect net present value debt service savings from the issuance of SRB Securities will exceed the net present value of additional up-front and ongoing expenses?
h. In 2013, Toledo Electric Company issued $43,375,000 principal amount of 2013 the FirstEnergy Ohio PIRB Special Purpose Trust Pass-Through Certificates with level annual debt service and approximately 20 years to scheduled final maturity.
i. Why did the rating agencies require a 1.75% deposit to the capital account in that transaction (which also earned a return of over 6% for the issuer paid by ratepayers) rather than the 0.50% minimum required by IRS Revenue Procedure 2005-62 and the amount of the deposits of other two utility issuers of the same offering?
ii. How did this improve or cost the net present value savings to customers?
i. The 2009 West Virginia transactions for Monongahela and Potomac Edison included a 1.75% reserve but not deposited to the capital account and therefore there was no additional charge to ratepayers. Unlike the above Ohio transaction, annual debt service charged to ratepayers included no principal payments for 17 years.
i. Did the net present value savings to West Virginia ratepayers from extending the weighted average life of the 2009 West Virginia securitization transactions, rather than structuring them with level annual debt service over the same 20-year period in a manner similar to what DEC/DEP proposes, exceed the present value cost to West Virginia ratepayers from using proceeds of the securitized bonds to fund the 1.75% reserve accounts? Please note, the discount rate used to calculate ratepayer present value savings required by the West Virginal Financing Order was 10%.
j. Given (i) the historically low interest rates, (ii) high transaction costs, (iii) time delays, including high carrying costs for individual future storm securitizations, and (iv) the benefits of inclusion in the Corporate Utility Bond Index cited by Guggenheim, has DEC/DEP analyzed the benefits and costs of the Guggenheim proposal in its RFP response to fund a storm reserve to meet the $300 million minimum size for inclusion in the Corporate Utility Bond Index so long as there are no other negative consequences to ratepayers?
k. On page 28 of his testimony, Witness Atkins states: "The structure shown is designed…to provide an efficient distribution of securities across the maturity spectrum and thus the lowest weighted average cost of funds to the issuer…"

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i. What is meant by "weighted average"? Weighted by principal amount, by weighted average life, by both, by something else?
ii. Is the length of the repayment window/sinking fund for specific tranches (i.e. the period during which principal is paid) an important factor in structuring the SRB Securities for efficient distribution?
1. If so, why does his structure in Atkins Exhibit 2-4 have payment windows as short as 2 years and as long as 6 years rather than all being close to the same length?
2. If it is not important, please explain.
iii. Has Witness Atkins quantified the net incremental benefit to ratepayers of using a grantor trust structure (additional costs referred to in DR Response 2-7 (o) as opposed to two parallel issuances, such as the 2007 and 2009 transactions for Monongahela Power Company and The Potomac Edison Company?
1. If so, what does Witness Atkins estimate net incremental benefit to be in dollars and in basis points on a per annum basis to be paid by ratepayers?
2. What is Witness Atkins' basis for such estimate?
l. Witness Atkins' response to Item No. 2-8 a, states "DEC and DEP are familiar with two instances of utility securitizations sponsored by Entergy subsidiaries, marketed as separate issuances under common marketing plans and priced on the same day -- the LCDA/ELL and LCDA/EGSL transactions priced in July 2010, and the LCDA/ELL and LCDA/EGSL transactions priced in July of 2014. In both instances, the smaller transaction priced wider than the larger transaction." Please provide the weighted average interest rate for each of the four (4) transactions, weighted by principal amount and weighted average life of the tranches in the respective 4 transactions. If witness Atkins did not base his conclusion that "the smaller transaction priced wider" upon such weighted average rates, then please explain what it was based on and provide supporting data.

Corrected Response:

3.a.i. Guggenheim constructed the financial model used by Public Service Company of New Mexico in connection with their financing order application that was filed in 2019. The Guggenheim team also created an internal model for the Duke Energy Florida 2016 transaction.

ii. The financial model is property of Guggenheim.

iii. Guggenheim's model will not be available if Guggenheim is not hired as an underwriter.

iv. The model in its entirety is considered proprietary and a trade secret under N.C.G.S. § 62-132-1.2.

v.1. The lead underwriter typically performs the transaction modeling, although this is not required.

v.2. Please see the Companies' response to PS DR 8-3.a.v.1.

v.3. Analytic Aid's model was the primary model used to provide data in the disclosure materials. An independent consultant performed agreed upon procedures on Analytic Aid's model.

v.4. DEC and DEP are not aware of any such benefit.

b.i & ii. Witness Atkins observes that his client Entergy Louisiana did not have the option of pursuing an issuance strategy to ensure index eligibility for the 2011 transaction. Therefore, the spread performance of a relatively small index ineligible transaction would not illustrate what the performance would have been for a larger, more liquid transaction that was index eligible. DEC/DEP have the option to present a structure to the market that ensures that the two customer bases will have charges set based upon the same cost of funds, through the SRB Securities Trust option. DEC/DEP retains the option to pursue a separate issuance approach, but such an approach cannot ensure the same market-clearing interest rates for the separate issues. The performance of the 2011 Entergy Louisiana transaction does not inform the decision whether to market a separate smaller DEC index ineligible bond offering at the same time as a larger, more liquid DEP index eligible bond offering. While the DEC customers may not be disadvantaged by such an approach, it is quite possible that the DEC customers may be disadvantaged. The Companies take seriously the obligation to achieve the Statutory Cost Objective regarding both our DEC and DEP customers.

c.i. The Corporate Utility Index is a component of the Aggregate Bond Index.

ii. DEC and DEP object to this request to the extent that it requires them to speculate about the state of mind of potential investors. Without waiving this objection, DEC and DEP would note that the SRB Securities would be structured to become eligible for the Corporate Utility Index, which is a component of the Aggregate Bond Index. If for some reason they were not included in the Corporate Utility Index, they should remain eligible for the ABS component of the Aggregate Bond Index. The advisors do not believe this strategy will undermine investors perceptions.

iii. Confirmation of index inclusion for the listed issues was provided by Bloomberg data services, available to subscribers to the Bloomberg Terminal information services.

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d.i. Please see the Companies' response to PS DR 8-3.c.

e. The testimony of Witness Atkins did not intend to describe in full the marketing and offering materials.

f.i. & ii. As stated in the Companies' response to PS DR 2-7.m., DEC and DEP object to the description of their proposed structure as complex. Witness Atkins does not have access to Goldman Sachs' work papers, and therefore cannot fully comment on the statement referenced in the question. This structure is one alternative which could allow each Company to achieve the Statutory Cost Objectives.

g.i. This will be part of the analysis undertaken by the underwriting team in their consideration of the SRB Securities issuance strategy and separate issuance strategy.

h.i. & ii. DEC and DEP object to this question as it seeks information irrelevant and unrelated to an evaluation of the Companies' Joint Petition in this proceeding. Additionally, the Companies do not have direct knowledge of the discussions First Energy and their structuring advisor had with the rating agencies concerning this transaction. Notwithstanding the objection, based on a review of publicly available information, however, the Companies note that none of the published rating agency reports concerning this transaction cite a level annual debt service structure as a reason for requiring the 1.75% deposit to the capital account.

i.i. DEC and DEP object to this question as it seeks information irrelevant and unrelated to an evaluation of the Companies' Joint Petition in this proceeding.

j. No.

k.i. Weighted average coupons for the described transactions take into account the initial principal amount and coupons for each tranche in the calculation.

ii.1. & 2. The preliminary structure was designed to achieve a level annual debt service for the overall transaction, and the payment windows were taken into account as the indicative interest rates for each tranche were developed.

iii. As mentioned in the response to PS DR 8-3.g., the Companies request permission to consider both the SRB Securities issuance strategy and the separate issuance strategy,

which would ensure that the Statutory Cost Objectives are met. While there may be one or more examples of separate issuances of utility securitization bonds with matching interest rates, there is no assurance that the smaller, DEC issue would not risk being disadvantaged.

l. Please see the Companies' original and supplemental responses to PS DR 2-8.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 9

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: December 8, 2020
Date of Response: December 14, 2020

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The attached response to NC Public Staff Data Request No. 9-1, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 9
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 9-1
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Request:

1. Witness Atkins: Liquidity and Investor Preferences. In testimony (pages 28-29), Witness Atkins states that it is important to ratepayers to "maintain large enough tranche sizes to ensure secondary market liquidity for the SRB Securities, which is a consideration for investors during the bond marketing and pricing process. Liquidity in this context refers to the ability of a noteholder to sell the note in the secondary market without having to discount significantly its price."
a. For purposes of determining "liquidity," which is important: (i) the size of the particular tranche (CUSIP No.), or (ii) the overall size of the issue of which each tranche is just a piece?
b. If the size of the particular tranche is more important, then why is inclusion in the Aggregate Index based on the overall size of the issue and not the tranche?

Response:

a. Both can be important.

b. The ABS component of the Aggregate Bond Index has both tranche and issue minimum size eligibility requirements, while the Corporate component of the Index only has a minimum issue size eligibility requirement.

Duke Energy Carolinas
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Duke Energy Progress
Response to
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Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: December 8, 2020
Date of Response: December 14, 2020

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[X] **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 9-2, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
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Request:

2. Witness Atkins: Liquidity and Investor Preferences. Witness Atkins states "Liquidity in this context refers to the ability of a noteholder to sell the note in the secondary market without having to discount significantly its price."
a. Please explain, elaborate on what is meant by "liquidity in this context"?
b. What is meant by "discount" in this context? i.e., a discount to what?
c. At what price is it assumed the investor/noteholder bought the security?
d. At what time is it assumed the investor/noteholder wants to sell the security?
e. Are there other factors that affect "secondary market liquidity" as referred to by Witness Atkins? If so, please identify them and assign in your professional judgement a relative weight of each factor that affects "secondary market liquidity" and the pricing of the security.
f. Do investors upon purchase of the security in the initial offering expect the security to ever have a value in the secondary market below the initial offering price?
g. When investors purchase securities with a fixed coupon, in the secondary market after the initial offering, that they expect that the bond's price will remain constant after purchasing the bonds? If not, what are their expectations?
h. Liquidity and investor preferences (cont.):
i. What is the difference between a "buy and hold" investor and an investor who actively buys and sells investments in an attempt to earn a higher "total investment returns"?
ii. Does each type of investor value "liquidity" the same?
iii. Would these two types of investors (buy and hold versus total return) be willing to accept a very low or tight credit spread to benchmark securities under market conditions at the time of pricing or are there differences in their preferences?
iv. Is the willingness of each of these two types of investors to accept a tight credit spreads influenced equally by the size of that is part of the same issue or tranche?
i. If a large storm securitization bond tranche size is priced at yield of 2% when the benchmark UST Treasury upon which the tranche was priced was 1% and the UST Treasury benchmark yield of the pricing maturity and all other UST maturities rise by 0.5%, and there are no changes in the bond's credit ratings, the outstanding amount of the tranche or anything material to the credit of the issuer, will anything happen to the "liquidity" of the bonds in accordance with Witness Atkins' definition of liquidity?
j. SB559 does not establish a minimum issue (or tranche) size for utilities to apply for financing orders to issue storm securitization bonds. Is there a minimum issue size for a securitization bond offering that will provide savings to ratepayers based on the standards identified in SB559 and described in DEC/DEP Joint Petition?
k. The response to PS DR 5-6 states that "Ohio Phase-in Recovery Series 2013 Bonds priced tighter than the First Energy Ohio PIRB Special Purpose Trust 2013 Certificates…" If this is true, would it not be contrary to his assertion that the grantor trust structure provides for better pricing?
l. The response to PS DR 5-3 states "deal year 1 represents 8 months of interest accrual, whereas year 2 represents 12 months of interest accrual." Was it instead meant to indicate "8 months plus a normal 6-month accrual"? Otherwise, why would interest be greater in year 1 than in year 2?

m. In response to PS DR 5-1, there is an attached excel spreadsheets showing Witness Atkins' assumed interest rates for a 20-year storm recovery bond structure in which the A-4 14-year tranche has an interest rate of 1.53%, equating to a G-spread of about 50 basis points, whereas the A-5 18.1-year tranche has an interest rate of 2.54%, equating to a G-spread of about 130 basis points. Please explain why the DEC/DEP believes that the 4 additional years of weighted average life for that tranche should cause such a large increase in credit spread given the slope of the US Treasury benchmarks?
n. The response to PS DR 6-1.c.i. states: "in reviewing the public record associated with public transactions since 2010, to the Companies' knowledge, financial advisors were engaged in transactions in Florida, Louisiana, Ohio, Texas and West Virginia and were not engaged in Arkansas, Michigan or New Hampshire."
i. Is it correct that in connection with the first securitized utility bonds issued in Michigan the Michigan PSC engaged First Acceptance Corp. as its financial advisor?
ii. Is it also correct that in connection with the first securitized utility bonds issued in New Hampshire the New Hampshire PSC engaged as its financial advisor, and New Hampshire PSC engaged PRAG as its financial advisor?
o. The response to PS DR 6-1.h. states: "the Companies are not in position to comment on investors in securitized utility bonds outstanding as of a future date and therefore considers their original response to PS DR 2-13(c) to be fully responsive." The question asked in PS DR 6-1.h was not who will own these bonds on December 31, 2020, but rather, who currently owns bonds that will still be outstanding on December 31, 2020?

Response:

a. This portion of the testimony of Witness Atkins discusses the process of a structuring underwriter taking views of investor preferences and potential secondary market liquidity into account as factors in the structuring of issue tranche sizes.

b. The discount to the offering price.

c. The issue offering price.

d. No such assumption is made during the design of the transaction tranche structure.

e. Factors taken into consideration by investors include: issue size, tranche size, ratings, underlying asset class, number of investors in asset class/deal, number of dealers making

markets in the bonds, and available leverage. Investors don't typically rank one factor over the other. They look at all factors together to determine their views on secondary market liquidity at the time of consideration.

f. Institutional investors understand that bond values are subject to change.

g. Please see the Companies' response to PS DR 9-2.f.

h.i. In general, "buy and hold" investors may hold bonds longer than investors with other investment strategies.

ii. Individual institutional investors of all types may value liquidity differently as their portfolio management priorities change, and as their views of particular bonds may vary.

iii. The Companies do not have knowledge of, and therefore cannot provide, accurate generalizations concerning the willingness of individual institutional investors to accept "tight" credit spreads.

iv. Please see the Companies' response to PS DR 9-2.h.iii.

i. Changes in bond market values may affect secondary market activity. While bond issue and tranche size are generally known during the structuring and marketing process, and bond issues may be structured to meet index inclusion criteria (and that fact can be communicated to investors during the marketing process), post-issuance market value

fluctuations are by definition not known during the structuring and marketing process. Post-issuance factors potentially affecting secondary market liquidity were not addressed during the discussion regarding tranche structuring found in the testimony of Witness Atkins.

j. Regarding a separate standalone issue, no.

k. The Companies object to the question as irrelevant because it pertains to another utility's transaction, and the Companies do not have knowledge about the specifics of pricing of another utility's transaction occurring over seven years ago. Notwithstanding the objection, there are always several factors, in addition to varying market conditions, that affect the pricing of bonds.

l. Deal year 1 represents 8 months of interest accrual for the first bond payment, plus 6 months of interest accrual for the second bond payment.

m. The exhibit to the response to PS DR 5-1 contained a clerical error in the estimated spreads as of October 9, 2020 that affected the spread and the yield of the A-4 tranche. The corrected estimated spreads that were intended to be provided are in the attachment provided with this response.

n.i. The Companies object to the question as irrelevant because it pertains to a past utility transaction and does not seek information relevant to the investigation of the Companies' proposals in their Joint Petition. Notwithstanding the objection, based upon information available on the Saber Partners' website, yes.

ii. Please see the Companies' response to PS DR 2-n.i.

o. The Companies consider their original response and accompanying attachment to PS DR 2-13.c. to be responsive based upon available information as it listed current holders of several transactions.

Duke DEC-DEP
Model Output - 20yr S

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 9

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: December 8, 2020
Date of Response: December 14, 2020

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Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 9-3, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 9
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 9-3
Page 1 of 2

Request:

3. Witness Heath Pricing Issues.
a. Is there any yield or credit spread to benchmark pricing securities that the DEP/DEC would not accept from the underwriters after the offering is "announced" and in the market?
b. Under what conditions should an issuer of debt securities not accept the "professional judgement of the underwriters" concerning the structure, marketing or pricing of the bonds?
c. On what basis does DEC/DEP propose that the Commission make a determination to approve or disapprove the terms of the bonds upon DEC/DEP assurances and representations in a proposed sole DEC/DEP issuance advice letter scenario?
d. Has any investment grade corporate debt issuer rejected the "professional judgement of the underwriters" – the interest rate and priced offered by the underwriters to purchase the bonds from the issuer – after a transaction was announced and in the market? Was there a quantifiable result to their costs or savings?
e. The response to PS DR 5-10 indicates that all storm costs are currently funded by some form of debt, including short-term commercial paper. Why is it appropriate, then, for the proposed storm recovery bond principal amount to include accrued carrying costs at the weighted average cost of capital instead of debt alone?

Response:
DEC and DEP and their affiliates and parent company are frequent issuers in the public debt markets. Collectively, the Duke Energy organization has over $50 billion of debt outstanding in the public debt markets, an amount equivalent to the cumulative amount of utility securitization bonds issued since the mid-1990s. The Duke Energy organization has issued an average of approximately $6 billion annually in the public debt markets each year since 2016. Any notion that the Duke Energy organization is not a sophisticated market participant or does not know how to evaluate securities offerings and challenge its underwriting banks is without merit and baseless.

a. As market conditions are fluid and can vary greatly from one point in time to another it is not possible to state, as of today, what spread levels would be appropriate or not appropriate for an issuance that is not likely to occur until mid-2021. Through an analysis of comparable securities as the expected issuance date gets closer, the Companies in collaboration with underwriters, once selected, will develop initial pricing thoughts for the proposed transaction. Acceptance or rejection of credit spreads will be based on facts and circumstances that exist when the transaction is "announced" and in the market.

b. DEC and DEP object to this question as irrelevant and outside the scope of the Companies' knowledge as it relates to this specific transaction and their Joint Petition. The Companies cannot speak to the actions of securities issuers generally. Notwithstanding the objection, neither DEC nor DEP will rely solely on underwriters' professional judgment concerning the structure,

marketing or pricing of bonds but must also conduct their own due diligence related to comparable securities and market conditions. In addition, DEC and DEP will be diligent in the selection of underwriters to ensure those selected share the Companies' philosophy regarding the issuance. If the above actions are taken, instances of a disagreement or dispute over the structure, marketing or pricing of bonds will be addressed collaboratively by the Companies and underwriters, but the ultimate decision will be made by the Companies, as issuers of the securities. It is also important to understand that underwriters do not set prices for bond, it is the market that does so based on the dynamics of that market at the time the transaction is in the market.

c. DEC and DEP object to this question as irrelevant because the Companies did not "propose that the Commission make a determination to approve or disapprove the terms of the bonds upon DEC/DEP assurances and representations in a proposed sole DEC/DEP issuance advice letter scenario." Additionally, the Companies do not have knowledge to provide the basis of how the Commission itself would "make a determination to approve the terms of the bonds upon DEC/DEP assurances and representations in a proposed sole DEC/DEP issuance advice letter scenario." Moreover, the Companies object to the underlying premise of the question that the Companies would not provide "assurances or representations" to the Commission truthfully and in good faith, and note that parties to a proceeding have a statutory obligation to truthfully represent matters to the Commission. Notwithstanding the objection, the Companies' proposal related to post-Financing Order Commission involvement speaks for itself and is included in the Joint Petition.

d. DEC and DEP object to this question as it is overly broad and unduly burdensome on the Companies to research a request related to any investment grade corporate issuer.

e. All funding at a regulated utility must be done in accordance with its regulatory approved capital structure which includes both debt and equity components. While discrete transactions may be funded initially with cash from a particular source, all activities of the utility are effectively funded with debt and equity.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 10

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: December 9, 2020
Date of Response: December 15, 2020

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Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 10-1, was provided to me by the following individual(s): Melissa Brammer Abernathy, Director Rates & Regulatory Planning, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 10
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 10-1
Page 1 of 1

Request:

1. Please provide a detailed explanation and supporting documentation as to why the Companies believe the storm securitization statute supports a deferral of costs not included in the estimates provided by the Companies.

Response:

The Companies do not know what costs the Public Staff is referring to or the basis for the assertion by the Public Staff of the Companies' belief.

Duke Energy Carolinas
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Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 10

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: December 9, 2020
Date of Response: December 15, 2020

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The attached response to NC Public Staff Data Request No. 10-2, was provided to me by the following individual(s): Melissa Brammer Abernathy, Director Rates & Regulatory Planning, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 10
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 10-2
Page 1 of 1

Request:

2. Please confirm that ADIT amortization will be extended to match the maturity of the scheduled maturity of the bonds when determined as depicted in the 20-year scenario that the Companies provided.

Response:

The ADIT amortization will align with the bond period ultimately used in the financing of the bonds.

For tax purposes, the Utility and the SPE are considered one entity. As the storm recovery property that resides on each Utility SPE is amortized, the associated ADIT will also be removed on the applicable Utility's books.

Duke Energy Carolinas
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Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 10

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: December 9, 2020
Date of Response: December 15, 2020

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The attached response to NC Public Staff Data Request No. 10-3, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 10
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 10-3
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Request:

3. Please provide the specific costs intended to be recovered by the servicing fee being sought by the Companies in the application.

Response:

As stated in Witness Heath's testimony (page 29 line 20 through page 30 line 21) the servicing fee is intended to cover costs related to (i) billing, monitoring, collecting and remitting securitization charges, (ii) reporting requirements imposed by the servicing agreement, (iii) implementing the true-up mechanism, (iv) procedures required to coordinate required audits related to DEC and DEP's role as servicers, (v) servicer related legal and accounting functions related to the servicing obligation, and (vi) communication with rating agencies.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 10

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: December 9, 2020
Date of Response: December 15, 2020

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The attached response to NC Public Staff Data Request No. 10-4, was provided to me by the following individual(s): Melissa Brammer Abernathy, Director Rates & Regulatory Planning, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 10
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 10-4
Page 1 of 1

Request:

4. Please provide a detailed explanation as to why the Companies selected a 15-year period for the recovery of storm bonds. Additionally, please provide all other recovery periods the Companies considered or reviewed in the process of selecting the 15-year period, as well as an explanation as to why those periods were not selected.

Response:

As outlined in Witness Heath's testimony, DEC and DEP considered a structure of storm recovery bonds with a scheduled final payment date of approximately 15 years and approximately 20 years.

However, the Companies believe that the 15-year proposal strikes the right balance between the length of the recovery period and the length and level of the recovery charges. Additionally, the proposed 15-year structure is consistent with the longest recovery period proposed by the North Carolina Utilities Commission—Public Staff ('Public Staff') in DEP's storm deferral docket, which was 15 years.

Duke Energy Carolinas
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Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 10

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: December 9, 2020
Date of Response: December 15, 2020

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The attached response to NC Public Staff Data Request No. 10-5, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 10
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 10-5
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Request:

5. Please provide a detailed explanation and supporting documentation as to why the Companies have chosen a preliminary legal maturity of approximately 24 months longer than the scheduled final payment date for each bond. Additionally, please provide the other periods the Companies have reviewed, as well as why the Companies did not select those periods.

Response:

The direct testimony of Witness Atkins explains that the "maturity cushion," the period between the scheduled final maturity and the rated legal maturity, cannot be determined until the rating agencies review the then current data presented by the Companies and review the AAA stress scenarios based upon that data. The 24-month maturity cushion was presented for the purpose of illustrating the importance of the financing order providing flexibility. Witness Atkins strongly recommends that the financing order not specify the maturity cushion but should provide that the rated final legal maturity may be longer than the scheduled final maturity, if required to obtain AAA ratings. As discussed in a previous response to PS DR 2-3.c., the pricing considerations of investors generally focus, among other factors, on the weighted average life of each amortizing tranche, including the longest dated tranche, not the maturity cushion. The Companies do not expect maturity cushions of 12, 24 or 36 months to affect the interest rates on the bonds. See the discussion on page 30 of the direct testimony of Witness Atkins--
"The actual maturity cushion will be determined by the final "AAA" stress scenarios required by the rating agencies during the rating process for the underlying Storm Recovery Bonds and SRB Securities and may be shorter or longer than 24 months. Therefore, it is important that the Financing Order provide flexibility for the transactions to have the specific maturity cushions required to obtain AAA equivalent ratings, which cannot be determined in advance of the rating agency review process." See also the Companies' prior responses to PS DR 2-3.b. and 2-3.c.

Duke Energy Carolinas
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Duke Energy Progress
Response to
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Date of Request: December 9, 2020
Date of Response: December 15, 2020

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The attached response to NC Public Staff Data Request No. 10-6, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 10
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 10-6
Page 1 of 1

Request:

6. Please provide a detailed explanation and supporting documentation as to how the Companies determined a return on invested capital equal to the rate of interest payable on the longest maturity tranche of storm recovery bonds was appropriate for recovery as an ongoing financing cost in this proceeding. Additionally, please provide a detailed listing of all other options the Companies reviewed and an explanation as to why each option was not chosen by the Companies.

Response:

The Companies believe that they are entitled to earn a return on their equity capital contributions to these proposed transactions, as regulated utilities are generally eligible to earn a return on the equity capital investments. The Companies also believe that their proposal to earn a return equal to the interest rate of the longest maturity bond is reasonable and justified for the following reasons: Their cash investment deposited into the capital account is not released to the Companies until after the last payment of the longest tranche of bonds is paid in full. In fact the market interest rate on the longest tranche is based upon the weighted average of that tranche, not the market rate for a "bullet" payment that matches the final payment of the longest tranche. As a result, the return proposed to be earned by the Companies is less than a market rate for the date the equity contribution is expected to be returned to the Companies. Moreover, the Companies are aware that the DEF transaction allowed and utilized the same return as proposed by the Companies.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 10

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: December 9, 2020
Date of Response: December 15, 2020

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The attached response to NC Public Staff Data Request No. 10-7, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 10
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Item No. 10-7
Page 1 of 1

Request:

7. Please provide the present return the Companies earn on their capital to be set aside to support their normal issuances of debt.

Response:

The Companies do not set aside capital to support or service their “normal” debt issuances. The Companies' allowed return on equity is approved by the NCUC in base rate case proceedings and is applicable to all aspects their business.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 10

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: December 9, 2020
Date of Response: December 15, 2020

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The attached response to NC Public Staff Data Request No. 10-8, was provided to me by the following individual(s): Shana W. Angers, Manager, Accounting II, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 10
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 10-8
Page 1 of 1

Request:

8. For each up-front financing fees, please provide the following information:
a. The actual costs incurred to date;
b. Comparison of actual costs to estimated costs; and
c. Detailed explanation as to whether the actual costs incurred to date are in-line, above, or below the Companies' estimate for the costs and why.

Response:

a. and b. See attached Excel file "DR 10-8 Upfront Costs".

DR 10-8 Upfront Costs.xlsx

c. All costs are currently below estimates due to the securitization process being incomplete. Furthermore, per the testimony of Witness Heath (page 24, rows 20-22), "The total cost of the Public Staff's financial advisor and its legal counsel, if any, is not within DEC and DEP's control or influence and may not be known until closing".

Duke Energy Carolinas
and
Duke Energy Progress
Response to
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Data Request No. NCPS 10

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: December 9, 2020
Date of Response: December 15, 2020

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Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 10-9, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 10
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 10-9
Page 1 of 2

Request:

9. Please provide the supporting detail for the ranges of each of the upfront financing fee included by the Companies in its overall cost estimates. Please provide the detailed analysis as to how the Companies determined the included estimates.

Response:

These fees estimated were based on DEC and DEP's review of other utility securitization transactions, including DEC and DEP affiliate DEF's 2016 transaction. All of these amounts represent DEC and DEP's best estimate at the time Heath Exhibit 1 was prepared. It is the Companies' intention to update all of these expenses through the IAL process and the Companies will only seek to recover actual costs incurred. See file "Estimated Fees in Utility Securitization" for a summary of expenses related to recent utility securitization transactions.

Estimated Fees in
Utility Securitization.d

Underwriting expenses – based on structuring advisor RFP responses and review of recent, similar transactions. Refer to RFP response previously provided in the response to PS DR 2-2.c.

Servicer set-up fees (including IT Programming Costs) – amount presented in Heath Exhibit 1 was simply a very rough estimate developed at the time the exhibit was prepared, the primary basis of this estimate was the actual cost incurred by DEC and DEP affiliate DEF in its 2016 transaction. As mentioned in Witness Heath's testimony (page 21 line 2-3) this amount will be updated through the IAL process and the Companies will only seek to recover actual costs incurred.

Legal fees – as stated in Witness Heath's testimony (page 22 lines 22-23) "these estimated expenses are based on discussion with our internal legal counsel and estimates from external counsel." Further these estimates were based on information available at the time Heath Exhibit 1 was prepared. Witness Heath's testimony (page 23 lines 4-11) states "[t]he legal fees (over and above those incurred to date) will be affected by events between the date of the filing of the Joint Petition and the date of bond issuance, including the extent to which this proceeding is contested by intervenors, the scope of any appeals, the extent of any comments received during the SEC review, the requirements of underwriters, trustees, rating agencies, regulators or the Commission's Designated Member, if applicable, for any requested revisions to documents, the use of additional credit enhancements, and other factors that cannot be foreseen." As a result, these amounts will be updated through the IAL

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Page 2 of 2

process and the Companies will only seek to recover actual costs incurred. See attached file "legal fee estimates."

legal fee estimates (1).pdf

Rating agency fees – Refer to Witness Heath testimony (page 24 lines 2-14) which states "[t]he amounts shown on line 4 of Heath Exhibit 1 reflect an estimate of the rating agencies fees to be incurred for a transaction of the size contemplated by DEC and DEP. The low end of the range presented is estimated at 7.5 basis points (or 0.075 percent) on the principal amount of bonds issued, which represents Moody's Investor Service's pricing guidance, payable to two rating agencies. This estimate assumes no additional fees charged for the Trust Issuer. The high end of the range includes a full 7.5 basis point fee charged for the Trust Issuer by two rating agencies. Accordingly, the possibility of a change due to either the size of the offering, or modification of the agencies' fee requirements must be taken into account in determining the level of rating agency fees, and any increase in these fees should be recoverable by DEC and DEP, pursuant to the issuance advice letter procedure." Also see prior responses to PS DR 2-7.m. 2-7.n., and 2-7.o. See attached file "Moody fee schedule."

Moodys fee schedule.pdf

Public Staff Financial Advisor Fee & Public Staff Financial Advisor Counsel Fees – Refer to Witness Heath testimony (page 24 line 15 through page 25 line 2).

DEC/DEP Structuring Advisor Fees – Refer to Witness Heath testimony (page 25 line 3 through page 26 line 12). Also refer to prior response to PS DR 2-2.f. for engagement letters with Guggenheim and Atkins Capital.

All others (Heath Exhibit 1 lines 8-13) – estimates are based on other utility securitization transaction estimates and actual expenses incurred for DEC and DEP affiliated DEF's 2016 transaction. All of these amounts will be updated through the IAL process and the Companies will only seek to recover actual costs incurred.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 10

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: December 9, 2020
Date of Response: December 15, 2020

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Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 10-10, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 10
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
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Page 1 of 1

Request:

10. Please provide the "recent, similar transactions" the Companies reviewed in determining the underwriting expenses were consistent.

Response:

See file provided in the response to PS DR 10-9.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 10

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: December 9, 2020
Date of Response: December 15, 2020

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The attached response to NC Public Staff Data Request No. 10-11, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 10
DEC Docket No. E-7, Sub 1243
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Item No. 10-11
Page 1 of 1

Request:

11. Please provide verification that the Companies will provide the actual upfront financing fee for each category of expenses included in the Companies' estimates in detail to be audited by the Public Staff.

Response:

Upfront financing costs are paid from proceeds of the bond issuance. Prior to formally launching the transaction, the Companies will solicit final invoices, including from any advisors and counsel to the Commission and Public Staff so the aggregate principal amounts of the bonds may be sized appropriately to ensure recovery of the upfront financing costs. After the bonds are priced, and in accordance with the proposed financing orders filed with the Joint Petition, the upfront financing costs will be identified in the issuance advice letter which will be filed with the Commission. At the same time, the Companies will provide Public Staff with the amounts and access to the Companies' books and records to verify such amounts. While there is a reconciliation process in the financing orders to address any differences between the upfront financing costs identified in the issuance advice letter and actual upfront financing costs paid in connection with the transaction, the statute does not permit upfront financing costs which are included as part of the authorized storm recovery charge to be altered after the bonds are issued.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 10

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: December 9, 2020
Date of Response: December 15, 2020

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The attached response to NC Public Staff Data Request No. 10-12, was provided to me by the following individual(s): Jonathan L. Byrd, Development Assignment Leader, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 10
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Item No. 10-12
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Request:

12. Please provide a detailed explanation and any supporting documentation as to all information technology system modifications the Companies intend or have undertaken in order to bill, monitor, collect, and remit securitization charges.

Response:

The Companies must make the following system modifications in order to bill, monitor, collect, and remit securitization charges. Duke's IT team is presently working on, but has not completed, specific requirements and modification plans.

- For DEC, storm securitization charges will be implemented after implementation of Customer Connect, the Company's new billing and customer information system. The billing system will be modified to:
  - calculate the applicable securitization charge for each customer/account,
  - represent the charge separately and clearly on customers' bills, and
  - account for funds received appropriately given the 3rd party collection nature of the charges.
- For DEP, storm securitization charges will be implemented prior to Customer Connect implementation. Accordingly, the Company's legacy billing system will need to be modified in a similar fashion to the list above.

Duke Energy Carolinas
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The attached response to NC Public Staff Data Request No. 10-13, was provided to me by the following individual(s): Shana Angers, Manager Accounting II, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
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Request:

13. For each ongoing financing cost, please provide the following information:
a. The actual costs incurred to date;
b. Comparison of actual costs to estimated costs; and
c. Detailed explanation as to whether the actual costs incurred to date are in-line, above, or below the Companies' estimate for the costs and why.

Response:

Ongoing financing costs are only incurred after the bonds are issued. Therefore, no ongoing financing costs have been incurred.

Duke Energy Carolinas
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The attached response to NC Public Staff Data Request No. 10-14, was provided to me by the following individual(s): Tom Heath, Corporate Financial Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

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Request:

14. Please provide the supporting detail for the ranges of each of the ongoing financing fees included by the Companies in its overall cost estimates. Please provide the detailed analysis as to how the Companies determined the included estimates.

Response:

These fees estimated were based on DEC and DEP's review of other utility securitization transactions, including DEC and DEP affiliate DEF's 2016 transaction. All of these amounts represent DEC and DEP's best estimate at the time Heath Exhibit 1 was prepared. It is the Companies' intention to update all of these expenses through the IAL process and the Companies will only seek to recover actual costs incurred. See file provided in response to PS DR 10-9.

Duke Energy Carolinas
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The attached response to NC Public Staff Data Request No. 10-15, was provided to me by the following individual(s): Shana W. Angers, Manager, Accounting II, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
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Request:

15. Please provide verification that the Companies will provide the actual ongoing financing fees for each category of expenses included in the Companies' estimates in detail to be audited by the Public Staff.

Response:

Public Staff will be provided access to DEC and DEP's books and records to verify that the actual ongoing financing costs were incurred. That being said, all ongoing financing costs are to be approved in the financing orders and issuance advice letter.

Duke Energy Carolinas
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Duke Energy Progress
Response to
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The attached response to NC Public Staff Data Request No. 10-16, was provided to me by the following individual(s): Shana W. Angers, Manager Accounting II, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

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Request:

16. For all expenses included in the financing fees, both upfront and ongoing, please provide a detailed explanation and supporting documentation verifying the costs and/or expenses were not included in the cost of service amounts included in either of the Companies' last general rate cases. Additionally, for internal costs, such as salaries, benefits, outside services, etc., please provide a detailed costing of the total Company expenses for each employee, the amounts included in the last general rate case, and the amounts being estimated in the current application.

Response:

There were no financing fees incurred during the 2018 test year and as such no costs were not included in the Cost of Service. There we no internal costs included in the last rate case that are being estimated in the current application.

Duke Energy Carolinas
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Duke Energy Progress
Response to
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The attached response to NC Public Staff Data Request No. 10-17, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 10
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Request:

17. In the application, the Companies have requested In summarizing prior securitized utility bond issuances, page 8 of Witness Atkins' testimony states:
"In some cases, customer charges are further mitigated through extending the securitization payment period longer than the recovery period under a traditional ratemaking approach."
N.C. Gen. Stat. § 62-172(b)(3)b.3. requires the Commission's Financing Order to include a "finding that the structuring and pricing of the storm recovery bonds are reasonably expected to result in the lowest storm recovery charges consistent with market conditions at the time the storm recovery bonds are priced and the terms set forth in such financing order."
a. Whether tested on each annual period, or on an absolute net present value basis, won't "the lowest storm recovery charges" be achieved on a present value basis to ratepayers by the longest possible weighted average maturity? If not, please explain why not.
b. Will not net present value savings for customers also be maximized by a longer scheduled final maturity and longer weighted average maturity? If not, please explain why not.

Response:

Generally, during interest rate environments with a relatively flat or not very steep yield curve, longer dated transactions would typically have an annual revenue requirement for debt service and ongoing financing costs that is lower than the annual revenue requirement for shorter transactions of the same size. Longer dated transactions typically pay less principal on an annual basis than shorter transactions of the same size, and the smaller amount of principal paid may outweigh the higher interest rates that may result from a longer dated transaction

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The attached response to NC Public Staff Data Request No. 10-18, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 10
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DEP Docket No. E-2, Sub 1262
Item No. 10-18
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Request:

18. On page 7 of his testimony, Witness Heath proposes a 15-year scheduled final maturity. Page 8 adds:
"DEC and DEP also considered a structure of storm recovery bonds with a scheduled final payment date of approximately 20 years. However, the Companies believe that the 15-year proposal strikes the right balance between the length of the recovery period and the length and level of the recovery charges. Additionally, the proposed 15-year structure is consistent with the longest recovery period proposed by the North Carolina Utilities Commission—Public Staff ('Public Staff') in DEP's storm deferral docket, which was 15 years."
Page 22 of Witness Abernathy's testimony states that the NPV customer savings analysis assumes that under traditional ratemaking, current expenses for storms would be amortized over 15 years, and capital expenses for storms would be amortized over 40 years. Abernathy Exhibit DEC 2 appears to show that approximately 11.4% of SRBs issued for DEC will finance capital expenditures, and Abernathy Exhibit DEP 2 appears to show that approximately 12.8% of SRBs issued for DEP will finance capital expenditures. If scheduled final maturity of the SRB Securities is weighted 12% by 40 years and 88% by 15 years, the result would be 18.0 years.
a. Given the above, would it be more appropriate for the Commission to approve SRB Securities with a scheduled final maturity of at least 18 years? If not, please explain why not.
N.C. Gen. Stat. § 62-172(b)(3)b.3. requires the Commission's Financing Order to include a "finding that the structuring and pricing of the storm recovery bonds are reasonably expected to result in the lowest storm recovery charges consistent with market conditions at the time the storm recovery bonds are priced and the terms set forth in such financing order."
N.C. Gen. Stat. § 62-172(b)(3)b.3. is similar to the recently enacted California wildfire cost securitization statute (California Public Utilities Code § 850.1(a)(1)(A)(ii)(III)), which requires financing orders to find that the securitized bonds will "reduce, to the maximum extent possible, the rates on a present value basis that consumers within the electrical corporation's service territory would pay as compared to the use of traditional utility financing mechanisms". (Emphasis supplied.)
b. Do DEP and DEC agree that "the lowest storm recovery charges" also should be tested on a present value basis? Please confirm if you are using after-tax WACC to calculate customer savings in alternative bond maturity scenarios? If not, please explain why not, and how they should alternatively be evaluated.
c. Whether tested on each annual period, or on an overall net present value basis, do DEP and DEC agree that "the lowest storm recovery charges" be achieved by the longest possible weighted average maturity? If not, please explain why not.

Response:

a. The Companies stand by their prior response that the 15-year proposal (i) strikes the right balance between the length of the recovery period and the length and level of the recovery charges and (ii) is consistent with the longest recovery period proposed by the North Carolina Utilities Commission—Public Staff ('Public Staff') in DEP's storm deferral docket, which was 15 years."

b. Yes, the customer savings calculations are done on a net present value basis using the after-tax WACC. The Companies designed the proposal to comply with the requirements of North Carolina's storm securitization statute, and therefore the reference to California is not applicable.

c. In general, the longer the recovery period the greater the customer savings on a net present value basis. The general reason for this is that under the traditional recovery method customers would be paying the utility's WACC on the unrecovered balance over a longer period of time.

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The attached response to NC Public Staff Data Request No. 10-19, was provided to me by the following individual(s): Tom Heath, Corporate Financial Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 10
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Item No. 10-19
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Request:

19. On page 28 of his testimony, Witness Heath states:
"If the actual up-front financing costs are in excess of the amount appearing in the issuance advice letter, then DEC and DEP will have the right to collect such prudently incurred excess amounts through the establishment of a regulatory asset."
There is no provision for a post-Financing Order review of Up-front Financing Costs identified in the issuance advice letter to determine whether they were prudently incurred or otherwise.
Both Florida utility securitization statutes require a 120-day post-issuance Commission review to ensure that Financing Costs in fact were as low as possible. Should the Financing Order require such a post-issuance Commission review within 120 days to ensure that Financing Costs in fact were as low as possible? If not, please explain why not.

Response:

See response to DR 10-11. N.C. Gen. Stat. Sec. 62-172 does not have a provision permitting a post-issuance review of upfront financing costs, so references to the Florida statutes are not relevant to this transaction. The citation to Witness Heath's testimony leaves out the other half of the reconciliation process to ensure that customers are not over charged for upfront financing costs. To the extent actual upfront financing costs paid in connection with the offering are less than collected through the issuance of the SRB Securities (or storm recovery bonds), those amounts are factored into the next true-up resulting in lower storm recovery charges for customers. If actual upfront financing costs exceed the amounts collected, the transaction is structured to minimize costs to customers which means the SPEs will not have excess funds to pay the difference. Therefore, DEC or DEP, as applicable, will be required to pay the difference to avoid negatively impacting the SRB Securities and DEC and DEP should be entitled to recover prudently incurred costs through normal rate making processes.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 11

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: December 11, 2020
Date of Response: December 18, 2020

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Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 11-1, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 11
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 11-1
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Request:

1. Please provide a detailed explanation and supporting documentation as to whether the funds remaining in the excess funds subaccount and general subaccount, as described on page 24 of Atkins' testimony include funds collected from customers after the final payment in full has been made of the storm recovery bonds. If it does not, please explain why it does not.

Response:

Pursuant to the proposed Financing Orders, the Companies are authorized to impose storm recovery charges "until the related storm recovery bonds are paid in full and all related financing costs and other costs of the bonds have been recovered in full" (Proposed Financing Order, Ordering Paragraph 15). The Companies do not intend to continue to impose storm recovery charges after the storm recovery bonds and all related financing costs are paid in full.

Duke Energy Carolinas
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Duke Energy Progress
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Date of Response: December 18, 2020

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The attached response to NC Public Staff Data Request No. 11-2, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 11
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 11-2
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Request:

2. Do the Companies intend to refund ratepayers monies remaining in the general subaccount and excess funds subaccount as well as the excess servicing and administrative fee as discussed in response to DR 2 and 8 at each of the Companies next general rate case proceeding? Do the Companies believe they may only return the ratepayers monies remaining in the storm recovery subaccounts during a general rate case proceeding? If so, please provide a detailed explanation and supporting documentation as to why. As for the excess servicing and administrative fees as discussed in response to DR 2 and 8, will the customers receive a refund for all the previous years prior to the test year for the general rate case?

Response:

With respect to the questions related to the general subaccount and excess funds subaccount, please refer to Witness Atkins testimony (page 21 line 1 through page 24 line 11) for a discussion of the subaccounts of the collection account. During the time the bonds are outstanding, all funds in the general subaccount and excess funds subaccount may only be used to service the bonds (i.e. pay bond principal and interest and ongoing financing expenses). Once funds are deposited into either of the subaccounts they are the property of the SPEs and cannot be used for any purpose other than servicing the bonds and paying the legitimate expense of the SPEs. Customers will receive the benefit of all funds in these subaccounts as they will be taken into consideration when calculating storm recovery charges in each true-up adjustment. All funds remaining in these subaccounts after the bonds, financing costs and other required amounts are paid in full will be returned to DEC and DEP and will be credited to customers' electricity bills as part of their next base rate proceedings unless another mechanism for crediting these funds to customers is established by the Commission.

Duke Energy Carolinas
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Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 11-3, was provided to me by the following individual(s): Melissa Brammer Abernathy, Director, Rates & Regulatory Planning, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 11
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Item No. 11-3
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Request:

3. Please provide supporting documentation for the following decreases in storm expenses included in witness Abernathy's testimony of (a) $11 million for DEP incremental O&M estimate, and (b) $31,000 for DEC incremental O&M estimate.

Response:

(a) For DEP, please see attached PS DR 11-3_DEP.xlsx with support for the approximate $11 million decrease in incremental storm expenses. Please note that the final 2018 and 2019 storm summary is being provided in the same format as PS DR 27-1 in Docket No. E-2 Sub 1219. The updates are attributed to the true-up and finalization of actual costs and remaining invoices since the capital cutoff in the rate case where much of the incremental O&M was estimated.

PS DR 11-3_DEP.xlsx

(b) For DEC, please see attached PS DR 11-3_DEC.xlsx with support for the approximate $32,000 decrease in incremental storm expenses. Please note that the final 2018 storm summary is being provided in the same format as PS DR 46-1 in Docket No. E-7 Sub 1214. The updates are attributed to final cleanup and closing of the 2018 storm projects.

PS DR 11-3_DEC.xlsx

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The attached response to NC Public Staff Data Request No. 11-4, was provided to me by the following individual(s): Melissa Brammer Abernathy, Director, Rates & Regulatory Planning, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 11
DEC Docket No. E-7, Sub 1243
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Request:

4. Please provide verification the Company will provide the Public Staff with final storm amounts for both O&M and rate base accounts as the storm projects are closed to be audited by the Public Staff. Additionally, please provide verification as to whether the Companies plan to adjust the storm amounts included in the present securitization filings for any future adjustments to the estimated costs. If not, please provide an explanation as to why not.

Response:

As noted in witness Abernathy's testimony, there were "small adjustments related to the 2018 Storms as the actual costs and remaining invoices were finalized". As such, the Companies confirm there are no more costs associated with these storms after June 30, 2020.
Also noted in witness Abernathy's testimony is the description of the estimates surrounding DEP's incremental costs associated with 2019's Hurricane Dorian at the time of the original rate case cutoff (February 29, 2020). Hurricane Dorian happened in close proximity to the rate case cutoff and as the actual costs and remaining invoices were finalized, there was an approximate $11 million decrease in Hurricane Dorian incremental costs that were included in DEP's storm securitization filing.

Witness Abernathy also states in her testimony that "no further adjustments to incremental O&M or capital costs included in this securitization financing are expected."

Refer to PS DR 11-3 for more details.

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The attached response to NC Public Staff Data Request No. 11-5, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 11
DEC Docket No. E-7, Sub 1243
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Item No. 11-5
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Request:

5. For up-front financing costs that are below the amounts appearing in the issuance advice letter, please provide a detailed explanation and supporting calculations and examples as to how the monies will be credited/refunded back to ratepayers.

Response:

As stated in the draft Financing Order (page 21), the Companies are proposing that any up-front costs that are below amounts appearing in the final Issuance Advice Letter be factored into the next true-up adjustment. All other things being equal, this will result in lower storm recovery charges than would otherwise be required.

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The attached response to NC Public Staff Data Request No. 11-6, was provided to me by the following individual(s): Shana Angers, Manager, Accounting II, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
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Request:

6. For on-going actual financing costs that are below the amounts estimated in the Companies' filings, please provide a detailed explanation and supporting calculations and examples as to (a) whether the Companies intend to credit or refund the ratepayers for the excess, (b) how the Companies would credit or refund the ratepayers for the excess, and (c) if the Companies do not intend to credit or refund the ratepayers, why not?

Response:

Actual ongoing financing costs are paid when they become due and are recovered through the collection of storm recovery charges. The storm recovery charges will be adjusted through the true-up mechanism, as listed in Witness Angers' Exhibit 1. Per the testimony of Witness Angers (page 6, rows 6-10), "This true-up mechanism will help to ensure that customers pay no more or less than what is required to pay the debt service on the storm recovery bonds and all on-going financing costs." The calculation will take into account total financing costs (including debt service) for the forecasted upcoming two periods and prior period adjustments. To the extent there is an over-collection of ongoing financing costs, the excess collections will be held in the excess funds subaccount and factored into the next true-up adjustment. To the extent there are under-collections of ongoing financing costs, the difference will similarly be factored in to the next true-up.

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Duke Energy Progress
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Date of Response: December 18, 2020

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The attached response to NC Public Staff Data Request No. 11-7, was provided to me by the following individual(s): Shana Angers, Manager, Accounting II, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 11
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Item No. 11-7
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Request:

7. Please provide estimates of actual ongoing expenses (administration and servicing costs) for DEC and DEP, not the special purpose entity. For any revenues above these expenses, please provide a detailed explanation and supporting calculations and examples as to (a) whether the Companies intend to credit or refund the ratepayers for the excess, (b) how the Companies would credit or refund the ratepayers for the excess, and (c) if the Companies do not intend to credit or refund the ratepayers, why not?

Response:

See Witness Heath's Exhibit 1 for estimated ongoing expenses (administration and servicing costs) for DEC and DEP. As proposed in the Financing Orders, the servicing and administration fees collected by DEC and DEP, acting as either the servicer or the administrator, will be included in the applicable Company's cost of service such that each company will credit back all periodic servicing and administration fees in excess of such Company's incremental costs of performing servicing and administration functions. The expenses incurred by each of DEC and DEP to perform obligations under the applicable Servicing Agreement or Administration Agreement not otherwise recovered through the storm recovery charges will likewise be included in the applicable Company's cost of service.

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Duke Energy Progress
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Date of Response: December 18, 2020

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The attached response to NC Public Staff Data Request No. 11-8, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
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Request:

8. Please provide a current estimate for an expected yield for DEC's and DEP's unsecured debt instrument or first mortgage bonds within a hypothetical scenario that the Company's issued long-term debt to fund the proposed storm expenses. If available, this response should provide estimates for the yields over 15-year, 20-year, and 30-year terms for each utility.

Response:

See attached file "DEC and DEP indicative FMB rates as of 12-02-2020.xlsx."

DEC and DEP indicative FMB rates a

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Date of Response: December 18, 2020

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Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 11-9, was provided to me by the following individual(s): Shana W. Angers, Manager, Accounting II, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
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Page 1 of 1

Request:

9. For all other costs included in the securitization filing that are below the amounts estimated in the Companies' filings, please provide a detailed explanation and supporting calculations and examples as to (a) whether the Companies intend to credit or refund the ratepayers for the excess, (b) how the Companies would credit or refund the ratepayers for the excess, and (c) if the Companies do not intend to credit or refund the ratepayers, why not?

Response:

It is unclear what "other costs" the question is referring to. Other than financing costs, the only other costs being recovered from the issuance of the bonds are NCUC approved storm recovery costs.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 11

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: December 11, 2020
Date of Response: December 18, 2020

[ ] **CONFIDENTIAL**

[X] **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 11-10, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 11
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 11-10
Page 1 of 1

Request:

10. In the Companies response to DR 8-1(e), the Companies response was as follows: "e. No. The Companies do not expect fees for the proposed transaction, with or without the SRB Structure, to be eligible for inclusion in the general or "umbrella" arrangements for Duke Energy and its subsidiaries."
a. Why is the SRB not eligible for inclusion under the umbrella if the statute anticipates potential securitizations for future storms?
b. And should this not be an issue to be discussed and negotiated with the rating agencies to lower ratepayer costs?

Response:

DEC and DEP affiliate DEF requested the rating agencies to include its 2016 transaction under the Duke Energy umbrella arrangement. The request was not successful. For example, Moody's requires that for an umbrella structure to be applied the entities being rated must share "common credit characteristics" and they also exclude Project Finance and Structured Transaction from their umbrella arrangements. Moody's considers utility securitization transactions to be Structured Transactions. The Companies do not share common credit characteristics with the SRB Issuer or the SPEs.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 11

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: December 11, 2020
Date of Response: December 18, 2020

[ ] **CONFIDENTIAL**

[X] **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 11-11, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 11
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 11-11
Page 1 of 1

Request:

11. The Companies response to DR 8-2c.i, refers to response to PS DR 2-4.e, though a response to the question was not located there. Please review again and respond.

Response:

The reference to DR 2-4.e. was unintended and was not needed to add to the completeness of the response to DR 8-2.c.i.

Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 12

Docket Nos. E-7, Sub 1243 and E-2, 1262

Date of Request: December 11, 2020
Date of Response: December 18, 2020

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[X] **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 12-1, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 12
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 12-1
Page 1 of 1

Request:

1. Does DEC/DEP plan to use the same descriptive disclosure of the reasons why the DEF bonds were corporate securities in addition to being "not asset backed securities" under SEC regulation AB?
a. If not, though the nominal issuers are different, what descriptions do DEC/DEP wish to exclude, and what are the reasons to depart from the disclosure and marketing materials describing those aspects of the DEP/DEC transaction that are substantively the same in structure as the 2016 DEF transaction? Please provide a detailed explanation and supporting documentation as to whether the funds remaining in the excess funds subaccount and general subaccount, as described on page 24 of Atkins' testimony include funds collected from customers after the final payment in full has been made of the storm recovery bonds. If it does not, please explain why it does not.

Response:

DEC and DEP refer to the discussion in response to questions PS DR 2-3(k) through (m) regarding the definition of "asset backed securities" under Item 1101 of SEC Regulation AB as it relates to the SRB Securities. DEC and DEP's disclosure will comply with the relevant requirements under applicable securities laws. DEC and DEP expect that storm recovery charges will be collected from customers until the principal, interest and all financing costs have been paid in full. As proposed in the Joint Petition, after the storm recovery bonds and all financing costs have been repaid, each SPE shall distribute the final balance of its Collection Account to DEP and DEP, as applicable, and each Company shall credit other electric rates and charges by a like amount, less the amount of the relevant Capital Subaccount and any unpaid return on invested capital.

Public Staff Response to
Duke Energy Carolinas, LLC's & Duke Energy Progress, LLC's Data Request
Data Request No. 1-1

Docket No. E-2, Sub 1262
Docket No. E-7, Sub 1243

Date of Request: **December 21, 2020**
Date of Response: **December 29, 2020**

☐ **CONFIDENTIAL**

☒ **NOT CONFIDENTIAL**

Confidential Responses (if any) are provided pursuant to Confidentiality Agreement

The attached response was prepared by William E. H. Creech, Staff Attorney, Public Staff – North Carolina Utilities Commission.

Docket No. E-2, Sub 1262
Docket No. E-7, Sub 1243
Item No. 1-1
Page 1 of 1

Request:

1-1. Duke Energy Carolinas, LLC and Duke Energy Progress, LLC adopt as their own all of the interrogatories, requests for production of documents, and other requests for data (individually or collectively) of all other parties and participants, whether written or oral, formal or informal, propounded to the Public Staff in this proceeding. All such requests should be treated by the Public Staff as being independently asked by the Company as of the date such requests are received by the Public Staff, and the Public Staff's initial and revised responses to such formal or informal interrogatories or data requests should be provided accordingly. This request applies to any such interrogatories, requests for production of documents, and other requests for data that have been propounded to the Public Staff since the commencement of this proceeding as well as going forward.

Response:

To-date, apart from requirements in the Commission's Procedural Order and the Data Requests from the Companies, the Public Staff has received no interrogatories, requests for production of documents, or other requests for data from any other parties or participants.

Public Staff Response to
Duke Energy Carolinas, LLC's & Duke Energy Progress, LLC's Data Request
Data Request No. 1-2

Docket No. E-2, Sub 1262
Docket No. E-7, Sub 1243

Date of Request: **December 21, 2020**
Date of Response: **December 29, 2020**

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[X] **NOT CONFIDENTIAL**

Confidential Responses (if any) are provided pursuant to Confidentiality Agreement

The attached response was prepared by William E. H. Creech, Staff Attorney, Public Staff – North Carolina Utilities Commission.

Docket No. E-2, Sub 1262
Docket No. E-7, Sub 1243
Item No. 1-2
Page 1 of 1

Request:

1-2. **Please provide copies in electronic, native file format of all documents, exhibits and supporting workpapers, cited or referenced in the testimony of any witness on behalf on the Public Staff filed in the above-captioned proceeding ("Public Staff witness"), irrespective of whether such documents are appended to said witness testimony. Please also provide copies of all documents that any Public Staff witness relied on; all documents, tables, charts or figures that are referenced in the exhibits appended to or embedded in any Public Staff witness's testimony, including all workpapers and/or analysis prepared for and by any Public Staff witness that relate to such exhibits and tables. Again, please provide all copies in electronic, native file format, and with respect to all such documents that are Microsoft ("MS") Excel files, please provide such copies as working MS Excel files with all formulas, cell references and links left intact.**

Response:

Attached are the requested documents of Public Staff witnesses.

Public Staff Response to
Duke Energy Carolinas, LLC's & Duke Energy Progress, LLC's Data Request
Data Request No. 1-2 (Supplemental – Fichera)

Docket No. E-2, Sub 1262
Docket No. E-7, Sub 1243

Date of Request: **December 21, 2020**
Date of Response: **December 29, 2020**

☐ **CONFIDENTIAL**

☒ **NOT CONFIDENTIAL**

Confidential Responses (if any) are provided pursuant to Confidentiality Agreement

The attached response was prepared by Public Staff witness Joseph S. Fichera, Chief Executive Officer, Saber Partners, LLC, and provided to William E. H. Creech, Staff Attorney, Public Staff – North Carolina Utilities Commission.

Docket No. E-2, Sub 1262
Docket No. E-7, Sub 1243
Item No. 1-2
Page 1 of 1

Request:

1-2. **Please provide copies in electronic, native file format of all documents, exhibits and supporting workpapers, cited or referenced in the testimony of any witness on behalf on the Public Staff filed in the above-captioned proceeding ("Public Staff witness"), irrespective of whether such documents are appended to said witness testimony. Please also provide copies of all documents that any Public Staff witness relied on; all documents, tables, charts or figures that are referenced in the exhibits appended to or embedded in any Public Staff witness's testimony, including all workpapers and/or analysis prepared for and by any Public Staff witness that relate to such exhibits and tables. Again, please provide all copies in electronic, native file format, and with respect to all such documents that are Microsoft ("MS") Excel files, please provide such copies as working MS Excel files with all formulas, cell references and links left intact.**

Response:

In providing the statement on line 22 of page 60 through line 2 of page 61 of his testimony, Public Staff witness Joseph Fichera relied on publicly-available information set forth in prospectuses for prior Ratepayer-Backed Bond transactions, as reported on the SEC's EDGAR website (https://www.sec.gov/edgar/searchedgar/companysearch.html) or on the MSRB's EMMA website (https://emma.msrb.org/Search/Search.aspx).

Public Staff Response to
Duke Energy Carolinas, LLC's & Duke Energy Progress, LLC's Data Request
Data Request No. 1-2 (Supplemental Maness Boswell 1 of 2)

Docket No. E-2, Sub 1262
Docket No. E-7, Sub 1243

Date of Request: **December 21, 2020**
Date of Response: **December 29, 2020**

☐ **CONFIDENTIAL**

☒ **NOT CONFIDENTIAL**

Confidential Responses (if any) are provided pursuant to Confidentiality Agreement

The attached response was prepared by MICHAEL C. MANESS, DIRECTOR – ACCOUNTING DIVISION, and MICHELLE M. BOSWELL, MANAGER – ACCOUNTING DIVISION ELECTRIC SECTION, Public Staff – North Carolina Utilities Commission, and provided to William E. H. Creech, Staff Attorney, Public Staff – North Carolina Utilities Commission.

Docket No. E-2, Sub 1262
Docket No. E-7, Sub 1243
Item No. 1-2
Supplemental Maness Boswell 1
Page 1 of 3

Request:

1-2. **Please provide copies in electronic, native file format of all documents, exhibits and supporting workpapers, cited or referenced in the testimony of any witness on behalf on the Public Staff filed in the above-captioned proceeding ("Public Staff witness"), irrespective of whether such documents are appended to said witness testimony. Please also provide copies of all documents that any Public Staff witness relied on; all documents, tables, charts or figures that are referenced in the exhibits appended to or embedded in any Public Staff witness's testimony, including all workpapers and/or analysis prepared for and by any Public Staff witness that relate to such exhibits and tables. Again, please provide all copies in electronic, native file format, and with respect to all such documents that are Microsoft ("MS") Excel files, please provide such copies as working MS Excel files with all formulas, cell references and links left intact.**

Response:

Below are narrative responses, references, attachments, and links supporting the Joint Testimony of Public Staff witnesses Maness and Boswell filed on December 22, 2020 in this proceeding.

a. Testimony page 5, Lines 4-20 – References to N.C. Gen. Stat. § 62-172:

SL 2019-244 (SB 559)
NCGS 62-172.pdf

b. Testimony page 6, Line 7, through Page 7, Line 19 – References to Partial Stipulations in Docket Nos. E-7, Sub 1214 and E-2, Sub 1219:

Please see Maness-Boswell Exhibits 1 and 2, filed in this proceeding.

c. Testimony page 8, Lines 6-12 – Description of Storms:

The storms are listed in DEC/DEP witness Abernathy's workpapers filed with her testimony in the present securitization case, Storm Impacts Tab, for both the DEC and DEP files. "Storms" are also defined in Heath Exhibit 2a,

Docket No. E-2, Sub 1262
Docket No. E-7, Sub 1243
Item No. 1-2
Page 2 of 3

page 46 of 50, and Heath Exhibit 2b, page 80 of 82. Additional information is provided in DEC/DEP witness Atkins' testimony, page 6, Lines 21–23; witness Abernathy's testimony, page 3, Lines 8-10; and witness Abernathy's testimony, page 3, Lines 15-22 and page 4 Lines 1-13.

d. Testimony page 8, Lines 12-22 – Quantification of Storm costs:

Please see DEC/DEP witness Abernathy's Exhibits 2 for DEC and DEP, respectively, as well as her supporting schedules included in the filing.

e. Testimony page 9, Lines 6-22 – Differences in Storm costs from amounts presented in general rate cases:

Please see DEC/DEP witness Abernathy's testimony, page 11, Lines 7–18. Also, the Public Staff made a comparison of witness Abernathy's exhibits to Company schedules filed in each respective rate case regarding Storm Costs. Finally, please see the Company's response to Public Staff Data Request 11, Question 3.

f. Testimony page 10, Lines 14-16 – Reference to supporting documentation gathered:

Please see DEC/DEP witness Abernathy's testimony, page 4, Lines 6-8. Also, please see the Company's response to Public Staff Data Request 11, Question 3.

g. Testimony page 10, Lines 16-20 – Verification of carrying cost calculation:

Please see DEC/DEP witness Abernathy's Exhibits filed in this proceeding. Public Staff Accounting Division personnel verified that the ROE, capital structure, and tax rates matched the general rate case stipulations, and reviewed formulas to verify the calculations. No additional workpapers were generated.

h. Testimony page 15, Lines 10-11 – Reasonableness of regulatory liability approach for overrecoveries of up-front financing costs:

The Public Staff believes that its proposed regulatory liability approach for overrecoveries of up-front financing costs is reasonable for ratemaking purposes and consistent with the ratemaking treatment authorized by N.C.G.S. § 172(a)(14)c for true-ups of storm recovery costs and other appropriate ratemaking adjustments.

i. Testimony page 25, Lines 5-11 – Traditional ratemaking treatment of storm O&M amortization, depreciation and return on capital investments, and carrying charges on deferred costs between the time the storms occur and the dates rates in the next general rate case go into effect:

Please see the Evidence and Conclusions for Findings of Fact Nos. 37-43 in the attached general rate case order issued by the Commission in Docket No. E-2, Sub 1142, on February 23, 2018, for discussion of the Commission's historical treatment of these items.

Sub 1142 Fina

Public Staff Response to
Duke Energy Carolinas, LLC's
&
Duke Energy Progress, LLC's
Confidential Data Request No. 1-2
(Supplemental Maness Boswell 2 of 2)

Public Staff Response to
Duke Energy Carolinas, LLC's & Duke Energy Progress, LLC's Data Request
Data Request No. 1-3

Docket No. E-2, Sub 1262
Docket No. E-7, Sub 1243

Date of Request: **December 21, 2020**
Date of Response: **December 29, 2020**

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Confidential Responses (if any) are provided pursuant to Confidentiality Agreement

The attached response was prepared by Public Staff witness Joseph S. Fichera, Chief Executive Officer, Saber Partners, LLC, and provided to William E. H. Creech, Staff Attorney, Public Staff – North Carolina Utilities Commission.

Docket No. E-2, Sub 1262
Docket No. E-7, Sub 1243
Item No. 1-3
Page 1 of 1

Request:

1-3. Other than the West Virginia transactions introduced by Public Staff in PS DR 2-3, please provide examples of two utility securitizations sponsored by the same investor owned utility that were marketed and priced on the same day, where the larger transaction was index eligible and the smaller transaction was not. Please also provide the pricing information, including tranches, benchmarks, spreads and interest rate coupons.

Response:

As a preliminary matter, we point out that the West Virginia transactions introduced by Public Staff in PS DR 2-3 do not involve two utility securitizations sponsored by "the same investor owned utility" that were marketed and priced on the same day, as assumed by Data Request 1-3. In each case, two utility securitizations were sponsored by different investor-owned utilities: The Potomac Edison Company (PE) and Monongahela Power Company (MP). PE and MP were separate wholly-owned subsidiaries of a common parent corporation.

The Public Staff is not aware of any case in which two utility securitizations sponsored by "the same investor owned utility" were priced on the same day.

However, the Public Staff is aware of two additional cases in which two utility securitizations were sponsored by utilities that were directly or indirectly owned by a common parent corporation were priced on the same day. These are the same two cases previously identified by the Companies' witness Charles Atkins. In response to PS DR 2-3.e, witness Atkins states:

> Witness Atkins served as an advisor to Entergy on 2 sets of transactions, involving two Entergy subsidiaries, that were marketed and priced by Citi as lead underwriter on the same day in July of 2010, and again in July of 2014 -- the LCDA/ELL and LCDA/EGSL transactions of those years.

The Public Staff assumes that Companies' witness Atkins already has the pricing information, including tranches, benchmarks, spreads and interest rate coupons requested in this Data Request 1-3; we believe the Company's witness is already in possession of the information.

Public Staff Response to
Duke Energy Carolinas, LLC's & Duke Energy Progress, LLC's Data Request
Data Request No. 1-4

Docket No. E-2, Sub 1262
Docket No. E-7, Sub 1243

Date of Request: **December 21, 2020**
Date of Response: **December 29, 2020**

[ ] **CONFIDENTIAL**

[X] **NOT CONFIDENTIAL**

Confidential Responses (if any) are provided pursuant to Confidentiality Agreement

The attached response was prepared by Public Staff witness Joseph S. Fichera, Chief Executive Officer, Saber Partners, LLC, and provided to William E. H. Creech, Staff Attorney, Public Staff – North Carolina Utilities Commission.

Docket No. E-2, Sub 1262
Docket No. E-7, Sub 1243
Item No. 1-4
Page 1 of 1

Request:

1-4. Please provide examples of utility securitization transactions where principal amortization started 5 years or later after issuance, in cases other than "wrap-around" transactions that were designed to start amortization after the final bond payment associated with a prior transaction.

Response:

Apart from the "wrap-around" transactions that were designed to start amortization after the final bond payment associated with a prior transaction, the Public Staff is not aware of any utility securitization transactions where principal amortization started 5 years or later after issuance.

Public Staff Response to
Duke Energy Carolinas, LLC's & Duke Energy Progress, LLC's Data Request
Data Request No. 1-5

Docket No. E-2, Sub 1262
Docket No. E-7, Sub 1243

Date of Request: **December 21, 2020**
Date of Response: **December 29, 2020**

[ ] **CONFIDENTIAL**

[X] **NOT CONFIDENTIAL**

Confidential Responses (if any) are provided pursuant to Confidentiality Agreement

The attached response was prepared by Public Staff witness Joseph S. Fichera, Chief Executive Officer, Saber Partners, LLC, and provided to William E. H. Creech, Staff Attorney, Public Staff – North Carolina Utilities Commission.

Docket No. E-2, Sub 1262
Docket No. E-7, Sub 1243
Item No. 1-5
Page 1 of 1

Request:

1-5. Please provide a list of utility securitization transactions since January 1, 2007, where the permitted return on the capital subaccount was equal to the interest rate on the last maturing bond tranche or permitted at a higher stated rate. Include in the list the name of the state utility commission advisor, if any.

Response:

Attached in native format is a list of utility securitization transactions from 1997, together with the permitted return on the capital subaccount.

Covenant Study
Limits on Rate of Re

Public Staff Response to
Duke Energy Carolinas, LLC's & Duke Energy Progress, LLC's Data Request
Data Request No. 1-6

Docket No. E-2, Sub 1262
Docket No. E-7, Sub 1243

Date of Request: **December 21, 2020**
Date of Response: **December 29, 2020**

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Confidential Responses (if any) are provided pursuant to Confidentiality Agreement

The attached response was prepared by William E. H. Creech, Staff Attorney, Public Staff – North Carolina Utilities Commission.

Docket No. E-2, Sub 1262
Docket No. E-7, Sub 1243
Item No. 1-6
Page 1 of 1

Request:

1-6. In preparing its discovery requests and testimony, has Public Staff engaged, or does the Public Staff intend to engage, outside counsel or advisors other than Saber Partners? If so, please name.

Response:

The Public Staff has engaged Saber Partners, LLC.

The Public Staff reserves the right to engage outside counsel, consultants, and/or other professionals, including, without limitation, as authorized by N.C.G.S. § 62-172(n).

Public Staff Response to
Duke Energy Carolinas, LLC's & Duke Energy Progress, LLC's Data Request
Data Request Nos. 2-1 to 2-6

Docket No. E-2, Sub 1262
Docket No. E-7, Sub 1243

Date of Request: **December 28, 2020**
Date of Response: **January 4, 2021**

☐ **CONFIDENTIAL**

☒ **NOT CONFIDENTIAL**

Confidential Responses (if any) are provided pursuant to Confidentiality Agreement

The attached response was prepared by or under the supervision of Public Staff witness Barry M. Abramson, CFA, Senior Advisor, Saber Partners, LLC, and provided to William E. H. Creech, Staff Attorney, Public Staff – North Carolina Utilities Commission.

Docket No. E-2, Sub 1262
Docket No. E-7, Sub 1243
Data Request Nos. 2-1 to 2-6

2-1. Witness Abramson states "securitization that enables a utility to recover significant costs with the smallest impact on rates, is considered a positive." Are there any circumstances in which securitization would be seen as detrimental by investors, rating agencies, or other parties?

Response:

Witness Abramson respectfully objects to this question as vague and requiring speculation. If the Companies believe circumstances might exist or arise that could cause investors, rating agencies or other parties to see securitization as detrimental, please specify those circumstances. Notwithstanding this objection, Witness Abramson draws attention to Witness Sutherland's response to DR 2-48.

2-2. Witness Abramson states "I believe that the ability to securitize significant storm damage costs is an important factor that will make the holding company Duke Energy, and its subsidiaries in North Carolina, more attractive to investors." Are there any circumstance in which securitization would make the holding company Duke Energy, and its subsidiaries in North Carolina, less attractive to investors?

Response:

Witness Abramson respectfully objects to this question as vague and requiring speculation. If the Companies believe circumstances might exist or arise that could make the holding company, Duke Energy Corporation (Duke Energy), and its subsidiaries in North Carolina, less attractive to investors, please specify those circumstances. Notwithstanding this objection, Witness Abramson draws attention to Witness Sutherland's response to DR 2-48.

2-3. Witness Abramson states "I believe that the current storm damage securitization financing in this docket should be considered the first of many."

a. What is the basis of Witness Abramson's belief?

b. In Witness Abramson's opinion, which party or parties should make the decision as to whether particular storm recovery costs should be securitized?

c. In Witness Abramson's opinion, are there any constraints to issuing additional storm recovery bonds?

Response:

a. Please see Abramson Exhibit 1 and Abramson Exhibit 2.

b. Witness Abramson notes that N.C.G.S. § 62-172(c)(2) states: "The Commission may not order or otherwise directly or indirectly require a public utility to use storm recovery bonds to finance any project, addition, plant, facility, extension, capital improvement, equipment, or any other expenditure. After the issuance of a financing order, the public utility retains sole discretion regarding whether to cause the storm recovery bonds to be issued, including the right to defer or postpone such sale, assignment, transfer, or issuance. Nothing shall prevent the public utility from abandoning the issuance of storm recovery bonds under the financing order by filing with the Commission a statement of abandonment and the reasons therefor. The Commission may not refuse to allow a public utility to recover storm recovery costs in an otherwise permissible fashion or refuse or condition authorization or approval of the issuance and sale by a public utility of securities or the assumption by the public utility of liabilities or obligations, solely because of the potential availability of storm recovery bond financing."

c. Witness Abramson respectfully objects to this question as vague. Does this question concern (i) constraints under N.C.G.S. § 62-172? (ii) constraints under other provisions of North Carolina law? (iii) constraints under federal securities laws? (iv) constraints under federal tax law? (iv) constraints under bankruptcy law? (v) other legal constraints? (vi) constraints based on covenants in other Company agreements? (viii) rating agency constraints? (ix) other non-legal capital market constraints? If the Companies wish Witness Abramson to respond about any particular constraint, please specify. Notwithstanding this objection, Witness Abramson draws attention to Witness Sutherland's response to DR 2-48 below.

2-4. Witness Abramson states "[w]hen one of the parties has no financial stake in the outcome of the pricing process, the results can become skewed in the direction of the party that does have a financial stake in the outcome. In this case that would be the underwriters and the investors."

a. Please provide examples of instances in which Witness Abramson believes a utility intentionally allowed a securitization transaction to be skewed toward the underwriters and investors.

b. If any, did these transaction also require the utility to deliver a "lowest cost" certification similar to what the Companies have proposed?

Response:

a. and b. Witness Abramson has not testified that any utility has "intentionally" allowed a securitization transaction to become skewed toward the underwriters. The results can become "skewed in the direction of" the underwriters and investors if the sponsoring utility is not keenly and pro-actively alert to ensuring that all aspects of the structuring, marketing, and pricing of Ratepayer-Backed Bonds result in the lowest securitized charges at the time the bonds are priced, consistent with the terms of the financing order.

2-5. Witness Abramson states "I am concerned about investor perception if the NCUC and the Public Staff are excluded from the most important part of this financial transaction, and the resulting impact on the relationship between the utility and regulatory bodies." Please elaborate on these concerns.

a. Specifically, how would investors perceive an offering in which the NCUC and the Public Staff are "excluded" compared to one in which they were actively included?

b. Please provide examples of transactions where investors had a negative perception due to the aforementioned exclusion.

c. For those transactions where a commission and/or an intervenor have been excluded from "the most important part" of the transaction, what have the pricing impacts been?

d. Was this exclusion noted in any reports about the transaction? If so, please provide.

e. How would a transaction in which the NCUC and the Public Staff were "excluded" impact the relationship between the Companies and the NCUC?

Response:

a., b., c., d. and e. Please see Sutherland Exhibit 2, Sutherland Exhibit 3, Sutherland Exhibit 4 and Sutherland Exhibit 6.

In addition, the NCUC, the Companies, the Public Staff and many underwriters and investors are aware that Duke Energy Florida (DEF), another utility operating subsidiary of the holding company Duke Energy, used a Bond Team in a Ratepayer-Backed Bond financing in 2015-16. That Bond Team included the Florida Public Service Commission's independent advisor. Witness Heath participated on that Bond Team as the primary DEF representative. DEF's issuance advice letter filed with the Florida Public Service Commission stated that the Bond Team's post

financing order / pre-bond issuance review process resulted in the lowest cost to ratepayers. Total net present value savings to ratepayers exceeded all pre-pricing DEF estimates. If the same procedure is not agreed to in North Carolina, it raises serious questions. Among them are why the same holding company, Duke Energy, allowed DEF to stipulate including similar parties in a Bond Team then but now seeks to exclude the NCUC Public Staff and its independent advisor, as ratepayer advocates, from being involved in a possible North Carolina Bond Team.

2-6. Witness Abramson states the Commission should "[i]nclude the Public Staff and its independent expert (Financial Advisor) in the structuring, marketing and pricing." Please provide examples of securitization transactions in which an intervening party, and not the commission itself, were included in the manner being proposed by the Public Staff.

Response:

Please see page 24 of the direct testimony of Public Staff Witness Klein: "As petitioners, the Companies are parties to the Commission proceeding and are expected to participate on the Bond Team with a view to protecting their own interests. Witness Abramson, who has been an equity analyst following Duke Energy and its affiliates for 40 years, believes the Public Staff's participation on the Bond Team would enhance the symmetry of ratepayer interests and viewpoints. The direct testimonies of Public Staff Witnesses Schoenblum and Fichera discuss this as well. The Public Staff, given its express legislative mandate to advocate and protect ratepayers, should also be included as a member of a Bond Team.

8ublic Staff Response to
Duke Energy Carolinas, LLC's & Duke Energy Progress, LLC's Data Request
Data Request Nos. 2-7 to 2-8

Docket No. E-2, Sub 1262
Docket No. E-7, Sub 1243

Date of Request: **December 28, 2020**
Date of Response: **January 4, 2021**

☐ **CONFIDENTIAL**

☒ **NOT CONFIDENTIAL**

Confidential Responses (if any) are provided pursuant to Confidentiality Agreement

The attached response was prepared by or under the supervision of Public Staff witness Calvin C. Craig III, Public Staff financial analyst, and provided to William E. H. Creech, Staff Attorney, Public Staff – North Carolina Utilities Commission.

Docket No. E-2, Sub 1262
Docket No. E-7, Sub 1243
Data Request Nos. 2-7 to 2-8

2-7. Witness Craig quotes the NC securitization statue by saying that it "requires that the financing order include a finding that the issuance of storm recovery bonds and the imposition and collection of a storm recovery charge are expected to provide quantifiable benefits to customers as compared to the costs that would have been incurred absent the issuance of storm recovery bonds." However, he goes on to state "[t]hese statutes require the maximization of benefits to the ratepayers." Please provide a citation to the relevant North Carolina law to explain how you interpret "quantifiable benefits" to be the same as "maximization of benefits."

Response:

Witness Craig does not interpret "quantifiable benefits" to be the same as "maximization of benefits."

In requiring a Commission finding of "quantifiable benefits," N.C.G.S § 62-172(b)(3)b.2. states: "A financing order issued by the Commission to a public utility shall include all of the following elements: . . .2. A finding that the proposed issuance of storm recovery bonds and the imposition and collection of a storm recovery charge are expected to provide quantifiable benefits to customers as compared to the costs that would have been incurred absent the issuance of storm recovery bonds."

Further, N.C.G.S § 62-172(b)(3)b.3. states "A financing order issued by the Commission to a public utility shall include all of the following elements: (3) A finding that the structuring and pricing of the storm recovery bonds are reasonably expected to result in the lowest storm recovery charges consistent with market conditions at the time the storm recovery bonds are priced and the terms set forth in such financing order."

Separately, and in addition, N.C.G.S § 62-172(b)(3)b.12. states: "A financing order issued by the Commission to a public utility shall include all of the following elements: . . . 12. Any other conditions not otherwise inconsistent with this section that the Commission determines are appropriate." Public Staff witnesses in this proceeding propose that the Commission's financing order follow the template adopted by the Florida Public Service Commission in the 2016 DEF transaction (applying similar language in Florida Statutes § 366.95(2)(c)2.i.) by determining that it is appropriate for the financing order to require that the structuring, marketing, and pricing of storm recovery bonds in fact result in the lowest storm recovery charges consistent with market conditions at the time of pricing and the terms of the financing order. (See page 16 of the proposed form of Financing Order attached as

Appendix B to the Joint Petition, which defines the "Standards of this Financing Order" to include "7) the structuring and pricing of the Storm Recovery Bonds, including the issuance of SRB Securities, resulted in the lowest Storm Recovery Charges consistent with market conditions at the time the Storm Recovery Bonds are priced and the terms set forth in this Financing Order.")

Witness Craig agrees that the specific phrase "maximization of benefits to ratepayers" is not in the statute. In his direct testimony, Witness Craig used "maximization of benefits to ratepayers" as shorthand for structuring, marketing, and pricing of storm recovery bonds that result in the lowest storm recovery charges consistent with market conditions at the time of pricing and the terms of the financing order. Witness Craig does not believe the legislature would intend the statute to be interpreted not to maximize benefits to ratepayers.

2-8. Witness Craig states "[s]ince a longer amortization period does not penalize the utility but does benefit the ratepayer, an amortization period longer than fifteen years strikes a more appropriate balance." Please explain why a longer amortization period does not penalize a utility.

Response:

A longer amortization period does not penalize the sponsoring utility because, upon receiving all net proceeds from the sale of the Ratepayer-Backed Bonds, the utility recovers all its costs that are eligible to be financed by the Ratepayer-Backed Bonds. The utility's future revenues are not diminished or encumbered by any liability to repay the Ratepayer-Backed Bonds while the net present value of savings for ratepayers is increased compared to traditional utility financing mechanisms.

Public Staff Response to
Duke Energy Carolinas, LLC's & Duke Energy Progress, LLC's Data Request
Data Request Nos. 2-9

Docket No. E-2, Sub 1262
Docket No. E-7, Sub 1243

Date of Request: **December 28, 2020**
Date of Response: **January 4, 2021**

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The attached response was prepared by or under the supervision of Public Staff witness Joseph S. Fichera, Chief Executive Officer, Saber Partners, LLC, and provided to William E. H. Creech, Staff Attorney, Public Staff – North Carolina Utilities Commission.

Docket No. E-2, Sub 1262
Docket No. E-7, Sub 1243
Data Request No. 2-9

2-9. Witness Craig discusses the importance of obtaining AAA bond ratings.

a. Does the Public Staff and its advisors understand that the rating agencies are likely to rate the securitization bonds AAA(sf), indicating they are what the rating agencies consider structured finance bonds?

b. Does the Public Staff and its advisors make any distinction between bonds rated AAA and those rated AAA(sf)? If yes, please explain those distinctions.

Response:

Witness Fichera notes that the Joint Petition and the proposed form of Financing Order attached as Appendix B to the Joint Petition use "AAA," "AAA-equivalent" and "AAA(sf)" interchangeably.

The Companies' Witness Heath states at pages 16 and 17 of his testimony in this proceeding: "The targeted ratings on the storm recovery bonds are expected to be AAA from at least two rating agencies."

The Companies' Witness Atkins states at page 10 of his testimony: "The financing orders must be crafted in a manner to enable the storm recovery bonds to achieve AAA equivalent ratings . . ."

To avoid potential confusion in their direct testimony in this proceeding, various Public Staff Witnesses followed the convention of the Companies' Joint Petition and of Witnesses Heath and Atkins in using "AAA," "AAA-equivalent" and "AAA(sf)" interchangeably.

a. and b. Rating agencies commonly assign an "(sf)" subscript to ratings on instruments that are not backed by an unconditional promise to pay from an issuer that operates a business enterprise. Witness Fichera anticipates that the rating agencies will assign an "(sf)" subscript to the storm recovery bonds proposed by the Companies. Rating agency criteria related to the (sf) subscript in the case of Ratepayer-Backed Bonds indicates a focus on the legal structure of the financing entity, including enforceability of the True-up Mechanism, enforceability of the State Pledge, and accuracy of forecasts of electricity sales, among other things.

Public Staff witnesses have proposed "best practices" in accordance with the rating agency criteria. These "best practices" have been applied in multiple states for many utilities. All Ratepayer-Backed Bonds that were structured, marketed and priced

under similar "best practices" received the top credit ratings from Moody's, Standard and Poor's and Fitch. The rating agencies have monitored those transactions after issuance. None of the Ratepayer-Backed Bonds issued in accordance with such "best practices" has ever been downgraded or placed on a "watch list" for possible downgrade.

As part of the ratings process, the rating agencies also review all legal opinions delivered, including legal opinions that the Ratepayer-Backed Bonds were validly issued under applicable state law. If any "best practice" were to have been based on questionable legal authority or to have increased materially the liability of any participants in the transaction, that information should have been disclosed and the rating agencies would have questioned that and identified it as a potential risk to investors.

To the best knowledge of Witness Fichera, no legal opinion associated with any Ratepayer-Backed Bond was qualified in any way because participants followed "best practices" proposed by Public Staff witnesses in this proceeding.

In reviewing responses by Witness Atkins, Witness Fichera notes that Witness Atkins state various legal opinions about the meaning of North Carolina statutes. See especially Witness Atkins' response to PS DR 2-12: "Interest rates that are subsidized by private companies, whether underwriter firms or the Companies, through the purchase or retention of unsold utility securitization bonds, are not consistent with market conditions at the time of pricing, and therefore inconsistent with N.C. Gen. Stat. § 62-172."

Public Staff Response to
Duke Energy Carolinas, LLC's & Duke Energy Progress, LLC's Data Request
Data Request Nos. 2-10 to 2-17

Docket No. E-2, Sub 1262
Docket No. E-7, Sub 1243

Date of Request: **December 28, 2020**
Date of Response: **January 4, 2021**

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The attached response was prepared by or under the supervision of Public Staff witness Steven Heller, President of Analytical Aid, Consultant to Saber Partners, LLC, and provided to William E. H. Creech, Staff Attorney, Public Staff – North Carolina Utilities Commission.

Docket No. E-2, Sub 1262
Docket No. E-7, Sub 1243
Data Request Nos. 2-10 to 2-17

2-10. Witness Heller states that detailed modeling should be performed as part of the pre-issuance review process to "ensure compliance with the requirement that that customer costs be minimized and present value savings to customers maximized to the extent possible." Please provide statutory references to these requirements.

Response:

N.C.G.S § 62-172(b)(3)b.12. states: "A financing order issued by the Commission to a public utility shall include all of the following elements: . . . 12. Any other conditions not otherwise inconsistent with this section that the Commission determines are appropriate." Moreover, in Ratepayer-Backed Bond transactions where an active, independent advisor such as Saber Partners was involved, it has been Witness Heller's experience that the goal of minimizing customer costs and maximizing present value savings to customers has been the direction he received from the advisor and the utility with whom Witness Heller was working. Witness Heller considers such requirements "best practices" for Ratepayer-Backed Bonds.

2-11. With regard to Witness Heller's description, on pages 5 and 6 of his direct testimony, regarding his prior experience working on "Ratepayer-Backed Bond" offerings, please identify each such transaction (by state, docket number, year, and utility involved) and identify whether, with regard to each such transaction Saber Partners or any of its principals were also involved in the transaction.

Response:

Sponsoring Utility	Year	State	Docket No.	Was Saber Partners Involved?
Duke Energy Florida	2016	Florida	150171-EI	Yes
Monongahela Power	2009	West Virginia	05-0402-E-CN	Yes
The Potomac Edison Company	2009	West Virginia	05-0750-E-PC	Yes
Florida Power & Light Company	2007	Florida	060038-E1	Yes
AEP Texas Central	2006	Texas	32475	Yes
CenterPoint Energy	2005	Texas	30485	Yes
West Penn Power	2005	Pennsylvania	D.T.E. 04-70	No

2-12. Witness Heller states "my typical direction came from a syndicate or trading desk with a subjective guidance on average life targets and number of classes or tranches

including scheduled maturities. The objectives usually will be the easiest or fastest sale." Does Witness Heller intend to indicate that never is his time at an investment bank did he experience a sponsoring utility challenge the assumptions and modelled scenarios being presented to it by the investment bank?

Response:

No. "Typical" does not mean always. "Typical" in this context means more often than not.

2-13. Witness Heller references modeling work performed for the 2016 DEF transaction and that Saber Partners challenged the underwriters initial 4-tranche structure. The transaction was ultimately issued in a 5-tranche structure which was proposed by Saber Partners.

a. Please discuss the pricing and sales challenges that the 2016 DEF transaction experienced related to its 10-year tranche and whether these challenges were related to the fact that the 5-tranche structure had two tranches pricing on the same underlying benchmark treasury rate (10-year US treasury rate).

b. Did the initial 4-tranche structure proposed by DEF's underwriters have included multiple tranches priced on the same underlying benchmark treasury rate?

Response:

a and b. Witness Heller is confused by the premise of this request and the facts of the transaction. The Companies indicated in response to PS DR 4-5(a)ii that the 10-year tranche was "oversubscribed." Are the Companies suggesting that Ratepayer-Backed Bonds are successfully marketed only if they are easy to sell and there are no "challenges" that underwriters may need to address to achieve the lowest cost to ratepayers?

In an attempt to be responsive to the Companies question, Witness Heller has reviewed the descriptions of the marketing of the DEF Ratepayer-Backed Bonds by the two bookrunning underwriters, Royal Bank of Canada and Guggenheim Partners, that the Companies provided in response to PS DR 2-2(a). Neither underwriter mentions any such "sales challenge" on the 10-year tranche. Both underwriters speak of the success of the transaction and their broad distribution with all the securities sold under market conditions at the time of pricing. Witness Heller has also reviewed the transcript of the Florida Public Service Commission public meeting on the transaction in June 2016 at which time the Florida Commission could have stopped the transaction. DEF and others spoke about the transaction and pricing, and there was no mention of any marketing challenge.
The only specific information Witness Heller has on the 10-year tranche was provided by the Companies in response to Public Staff DR 5-4(a)ii:

Request

ii. Did the lack of being included in the Corporate Bond Index at the time of pricing the 2016 Duke Energy Florida Project Finance have an effect on the pricing of the 10-year tranche? If yes, please explain.

Response:

ii. DEC and DEP object to this question as it seeks information irrelevant and unrelated to an evaluation of the Companies' Joint Petition in this proceeding. Notwithstanding the objection, yes. Although certain investors indicated that the size of their orders could have been larger with certainty of index inclusion, it is difficult to attribute any effect on price for the bonds sold. An argument can be made that larger orders may have increased ability for additional pricing tension – however these bonds were oversubscribed and allocations were required. In light of the status in of the book for the 10 year at the time, a significantly larger order from this investor at that time could have positively affected pricing.

Witness Heller understands that both the 4-tranche and 5-tranche structures were priced in accordance with market conventions relating to benchmark U.S. Treasury securities and the weighted average life of specific tranches as proposed by the underwriters and agreed to by DEF and the independent advisor.

Witness Heller notes that the bookrunning underwriters (see Klein Exhibit 4) and the independent advisor all certified that the lowest cost objective was achieved, and Witness Heller knows of no reason to doubt that those certifications were accurate and true.

2-14. Witness Heller states "all transactions I have worked on were sold to investors at tight spreads." Please provide context to what you consider "tight spreads."

Response:

The West Penn Power transaction was a private placement. For the other transactions, please see Sutherland Exhibit 2, Sutherland Exhibit 3, Sutherland Exhibit 4 and Sutherland Exhibit 6.

2-15. Please provide the model prepared by Witness Heller for the rating agency cash flows and closing cash flows prepared in connection with the 2016 DEF transaction, in a format including the formulas.

Response:

Witness Heller respectfully objects to this request.
The financial model was provided to the Companies' affiliate under the direct supervision of Witness Heath without any restrictions.
Witness Heller's contract for that financial model has ended and the Ratepayer-Backed Bonds were issued for DEF with top ratings from three rating agencies. He should not be required to provide additional work product that the Companies could use in this transaction without providing him additional compensation. The Companies did not request an RFP response from Witness Heller.

2-16. Witness Heller states "the investment bank typically charges a fee for structuring between $300,000 and 500,000 and typically wants access to the underwriting fees which are higher in amounts since they are based on a percentage of the bond size and not a fixed fee. This fee is roughly three to five times the fee that I accept, which I believe is fair for the work involved." Please further explain the scope of work that Witness Heller performs compared to the scope of work normally undertaken by an investment bank serving as a sponsoring utility's structuring advisor.

Response:

Guggenheim Securities	Atkins Capital	Is This Work Typically Performed by Heller, as Structuring Agent?
Review and analysis of the business, financial condition and prospects of the Company, including historical Company performance data required for rating agency stress scenarios	Review and analysis of the business, financial condition and prospects of the Company, including historical Company performance data required for rating agency stress scenarios	Yes
Review and consideration of various structural and financial considerations relating to the Financing, including indicative interest rates, maturity and amortization profiles, certain servicing considerations and the proposed true-up adjustment mechanism	Review and consideration of various structural and financial considerations relating to the Financing, including indicative interest rates, maturity and amortization profiles, certain servicing considerations, and the proposed true-up adjustment mechanism	Yes
Development of the Company's application for the Financing Order,	Development of the Company's application for the Financing Order, including	Yes. If retained by a party other than the sponsoring utility, Witness Heller has

Guggenheim Securities	Atkins Capital	Is This Work Typically Performed by Heller, as Structuring Agent?
including written and oral testimony (including rebuttal testimony) to be provided by Charles Atkins or other qualified senior personnel of Guggenheim Securities in support of the application (collectively, "Testimony"	written and oral testimony (including rebuttal testimony) to be provided by Charles Atkins in support of the application (collectively, the "Testimony")	assisted in development of that party's response to the Company's application for the Financing Order, including written and oral testimony (including rebuttal testimony) provided by the other party's witnesses in response to the application.
Pre-hearing and post-hearing activities, including discovery, in each case, relating to the Testimony; including but not limited to communications with representatives of the Commissioners of the North Carolina Utilities Commission	Pre- hearing and post-hearing activities, including discovery, in each case, relating to the Testimony, including but not limited to communications with representatives of the Commissioners of the North Carolina Utilities Commission	Yes
Such other matters as the Company and Guggenheim Securities mutually agree	Such other matters as the Company and Atkins Capital mutually agree	Yes

2-17. During the time when Witness Heller worked at Salomon Brothers, Merrill Lynch, Credit Suisse and Andrew Davidson & Co., were models prepared by those firms that were similar to the model prepared by Guggenheim Securities considered proprietary work product? If not, please provide documentation outlying their terms of use.

Response:

Witness Heller does not have access to any work product from his time at these firms. His recollection is that the underwriting agreements did not assert that spreadsheet analysis was proprietary.

Public Staff Response to
Duke Energy Carolinas, LLC's & Duke Energy Progress, LLC's Data Request
Data Request No. 2-18

Docket No. E-2, Sub 1262
Docket No. E-7, Sub 1243

Date of Request: **December 28, 2020**
Date of Response: **January 4, 2021**

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The attached response was prepared by or under the supervision of Public Staff witness William Moore, Consultant to Saber Partners, LLC, and provided to William E. H. Creech, Staff Attorney, Public Staff – North Carolina Utilities Commission.

Docket No. E-2, Sub 1262
Docket No. E-7, Sub 1243
Data Request No. 2-18

2-18. Witness Moore states that the fact that the Public Staff is an intervening party does not impact his opinion about whether they should be included on the Bond Team, should one be implemented by the Commission.

a. In Witness Moore's opinion does the Public Staff, or any other member of the Public Staff's proposed Bond Team other than the issuer, absorb any securities law liability?

b. Further, in Witness Moore's term as a treasurer, CFO, and CEO, did Westar Energy ever allow the Citizens' Utility Ratepayer Board, another intervenor or third party to (i) have equal decision-making authority for its securities offerings, (ii) participate in the selection of underwriters for Westar securities offerings or (iii) speak with investors or potential investors during a securities offering?

Response:

a. Witness Moore respectfully objects to this request on the ground that it calls for a legal opinion. Witness Moore's testimony is as a former utility chief financial officer and chief executive officer with more than 30 years' experience, and not as a lawyer. His testimony in this proceeding is about using "best practices" for Ratepayer-Backed Bonds to allow the Companies to raise the capital in the public markets and protect ratepayer interests. It does not directly or indirectly opine on securities law matters.

b. Witness Moore has testified that there are material differences between traditional utility debt and Ratepayer-Backed Bonds. The interests and efforts of Westar Energy to achieve lowest cost bond offerings in traditional utility debt issues would be very similar to the Companies' interests and efforts in connection with traditional utility debt issues. Both utilities have ongoing regulatory review and oversight in connection with traditional utility debt issuances.

In connection with traditional utility debt issued by Westar, Witness Moore does not believe there was a need to, nor does he recall an intervenor or any other party ever proposing to, (i) have equal decision-making authority for Westar Energy's securities offerings; (ii) participate in the selection of underwriters for securities issued by Westar Energy; or (iii) speak with investors in connection with any offering of securities by Westar Energy. Westar's traditional utility debt costs, like the Companies' traditional utility debt costs, are subject to ongoing regulatory oversight.

However, in Ratepayer-Backed Bonds the utility is not responsible for repaying the bonds, and ongoing regulatory review and oversight concerning the cost of the bonds does not exist. Approval from the Kansas Legislature to issue Ratepayer-Backed Bonds similar to storm recovery bonds that are subject of the Joint Petition was not available during Witness

Moore's employment at Westar Energy. Witness Moore believes the "best practices" described by Witnesses Schoenblum and Fichera are appropriate in this case. Witness Moore saw the success of those practices in the initial public offering of Ratepayer-Backed Bonds in 2001, as described by Witnesses Klein, Fichera, Schoenblum and Sutherland. Witness Moore agrees with reasons for the "best practices" described by Witness Maher in response to DR 2-29. The issues in this Joint Petition are about what is the right thing to do for ratepayers, and that is to follow the proposed "best practices."

fPublic Staff Response to
Duke Energy Carolinas, LLC's & Duke Energy Progress, LLC's Data Request
Data Request Nos. 2-19 to 2-28

Docket No. E-2, Sub 1262
Docket No. E-7, Sub 1243

Date of Request: **December 28, 2020**
Date of Response: **January 4, 2021**

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The attached response was prepared by or under the supervision of Public Staff witness Rebecca Klein, Principal, Klein Energy LLC, Consultant to Saber Partners, LLC, and provided to William E. H. Creech, Staff Attorney, Public Staff – North Carolina Utilities Commission.

Docket No. E-2, Sub 1262
Docket No. E-7, Sub 1243
Data Request No. 2-19 to 2-28

2-19. Witness Klein states "[t]he utilities receive the proceeds determined through separate proceedings but the ratepayers are responsible for costs of issuance and principal interest on the bonds with no further review by the commission after the bonds are issued."

a. Does Witness Klein not recognize that a commission has the authority to reject a transaction after pricing but before bonds are issued (with or without "active commission oversight")?

b. Why doesn't this authority give a commission the ability to ensure a transaction that achieves the applicable statutory objectives?

c. Does Witness Klein believe that a sponsoring utility would be lackadaisical or careless in the execution of a transaction when this authority exists?

d. Does Witness Klein believe there are no reputational risks to a sponsoring utility for having a securitization transaction rejected by a commission?

Response:

a., c., and d. Witness Klein believes it would be more efficient and pragmatic for a commission to strive for lowest storm recovery charges with active Commission review and oversight prior to and during pricing of the proposed storm recovery bonds. By implementing "best practices" throughout the transaction cycle, the prospect of rejecting the transaction just before bonds are issued would be minimized. This would avert any prospect of risking the reputation of the utility and/or suggestion of utility carelessness about which the Joint Petitioners may be concerned.

The Companies' proposal for the Commission to use the heavy hand of totally rejecting the transaction at the end of the process with only updates as requested by a designated Commissioner is unwise. A designated Commissioner or staff designee may not be experienced in Ratepayer-Backed Bond capital market negotiations with underwriters and sophisticated investors. At pricing and at other critical "real time" moments, the designated Commissioner or staff designee would be without independent technical support from those who do have such experience and expertise. That is not an appropriate position in which to put a Commissioner.

Witness Klein agrees with Witness Maher in his response to DR 2-29 that the central issue in this Joint Petition is doing the right thing for the ratepayers. As described by Witnesses Moore, Schoenblum, Sutherland, Maher, Abramson and Fichera in their direct testimony, and as noted by the Companies in their response to PS DR 4-

3c.ii, the capital markets function on the basis of self-interest: "Underwriters, as do all participants in financing transactions, work in their own best interests consistent with the contractual and legal obligations under which they operate." The Companies will not be responsible for any of the costs of the proposed storm recovery bonds, and the Commission must give up future ongoing regulatory review and review that it has in connection with the Companies' traditional debt.

a. The Joint Petition proposes that the Commission have authority to issue an order stopping the storm recovery bond issuance before noon on the third business day after pricing if the Commission determines that the issuance advice letter and all required certifications have not been delivered or the transaction does not comply with the "Standards of this Financing Order." Page 16 of the proposed form of Financing Order attached as an exhibit to the Joint Petition defines the "Standards of this Financing Order" to include "7) the structuring and pricing of the Storm Recovery Bonds, including the issuance of SRB Securities, resulted in the lowest Storm Recovery Charges consistent with market conditions at the time the Storm Recovery Bonds are priced and the terms set forth in this Financing Order."

b. Witness Klein's direct testimony recommends that the Commission's Financing Order in this proceeding require that the structuring, marketing, and pricing of the approved storm recovery bonds in fact achieve the lowest storm recovery charges consistent with market conditions and the terms of the Financing Order. There are at least two reasons why the form of Financing Order proposed by the Joint Petition does not ensure that this will be achieved.

    1. First, the Joint Petition's proposed form of Financing Order does not require the Commission's involvement in the "marketing" of the storm recovery bonds to achieve the lowest storm recovery bonds. This stands in contrast with the financing order issued by the Florida Public Service Commission to DEF.

    2. Second, capital markets are dynamic and challenging, and the Ratepayer-Backed Bonds are complex. They are fundamentally different from traditional utility debt as discussed by former utility finance executives: Witnesses Moore, Schoenblum and Sutherland in addition to Witnesses Abramson, Fichera and Heller. N.C.G.S § 62-172(n) states: "In making determinations under this section, the Commission or public staff or both may engage an outside consultant and counsel." If the Commission adopts the Public Staff's recommendation, this will include a determination that the structuring, marketing, and pricing of the approved storm recovery bonds in fact achieve the lowest storm recovery charges consistent with market conditions and the terms of the Financing Order. N.C.G.S § 62-172(n) reflects the General Assembly's awareness that

> storm recovery bonds are unlike other securities previously reviewed and approved by the Commission, and that outside expertise is likely needed to enable the Commission to make the required determinations. This legislative purpose would be frustrated if any outside consultant or counsel retained by the Public Staff is excluded from "participating fully and in advance" in structuring, marketing, and pricing the storm recovery bonds.

Suggesting that the Commission only use the power to reject the entire transaction at the end of the process is like asking the Commission's representatives to sit outside the negotiating room and then ask the Commission to accept or reject what resulted from the negotiation. This kind of approach was discussed and rejected by my fellow commissioners in Texas more than 20 years ago. This option is not meaningful without having someone in the room and at the negotiating table who represents the ratepayers' interests and is not motivated by a desire either (a) to receive the bond proceeds quickly (as the Companies have) or (b) to receive the bonds themselves (as the underwriters and investors have).

2-20. Witness Klein states "[i]n my view, and based on my oversight of three Ratepayer-Backed Bond issues as Chair of the PUCT, it will be difficult or perhaps even impossible for the Commission to make this after-the fact determination that the structuring, marketing and pricing of the Companies' offerings achieved the "lowest storm recovery charge" with confidence unless the Commission Staff, the Public Staff and an independent financial advisor are involved as joint decision makers in all aspects of the structuring, marketing and pricing of the storm recovery bonds through the time when the utilities file their issuance advise letters and when the Commission has authority to disapprove the bond offering."

a. Please explain what is meant by "independent financial advisor" in this context (i.e. whom should this adviser be independent of).

b. Can an advisor to an intervening party be considered independent?

c. Please explain "joint decision making" in this context. Also please discuss how disputes between these various parties are to be resolved and whether one party ultimately has more authority than any other party.

Response:

a. During Witness Klein's term as Chair of the PUCT, the Financing Orders approving the issuance of Ratepayer-Backed Bonds all stated: "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."[1]

In addition, in a PUCT open meeting held on March 8, 2000, Administrative Law Judge Journeay clarified that the PUCT's financial advisor would be required to deliver its certificate confirming that the lowest securitized charge in fact had been achieved, and that in delivering that certificate, the financial advisor may not rely on a similar certification from the utility: "the Company's certification will not in and of itself demonstrate compliance to you [the financial advisor], that you are to exercise your **independent** judgment". (Emphasis added.)[2] In the context of these three issues of Texas Ratepayer-Backed Bonds, Witness Klein uses the term "independent financial advisor" to mean a financial advisor that satisfies these criteria. See also page 37, lines 19 through 22 of the direct testimony of Witness Fichera in this proceeding: "Independent means no financial interest in the bond proceeds or the bonds themselves and with a duty of loyalty – a fiduciary responsibility to the ratepayer – the Commission and the Public Staff."

b. Yes. See response to 2-20(a).

c. Please see pages 29 through 32 of the direct testimony of Witness Schoenblum and pages 29 through 32 of the direct testimony of Witness Fichera, which recommend that the Commission adopt the approach adopted in the Florida Public Service Commission's financing order issued to DEF. If other members of the Bond Team cannot agree on any aspect of the proposed structuring, marketing, and pricing of the storm recovery bonds – other than matters affecting the Companies' direct liability under federal securities law – the designated member of the Commission who is a member of the Bond Team will have authority to cast the deciding vote.

2-21. Witness Klein states "PUCT staff and the PUCT's independent financial advisor also participated actively and were joint decision makers with the utility in the process of structuring, marketing, and pricing the "transition bonds." They acted as an informal "Bond Team."" Did any of the transactions in which Witness Klein was involved include an independent advisor for any party other than the utility or the commission on the informal "Bond Team?"

Response:

No, the Texas transactions in which Witness Klein was involved included only the sponsoring utility and the PUCT and its financial advisor on the informal "Bond Team."

[1] Finding of Fact 103 in the Financing Order issued to TXU Electric in PUCT Docket No. 25230; Finding of Fact 94 in the Financing Order issued to Reliant Energy in PUCT Docket No. 21665
[2] Transcript of March 8, 2000 Open Meeting at page 133 lines 4 through 7.

In Texas there was no separate state agency, other than the PUCT itself, charged with responsibility to represent the interests of all classes of electric ratepayers. This is unlike North Carolina where the Public Staff is statutorily charged in N.C.G.S. § 62-15(d)(3) to "Intervene on behalf of the using and consuming public, in all Commission proceedings affecting the rates or service of any public utility".

2-22. Witness Klein states "[t]he PUCT understood that the work required to give that certification was substantial and could add to the cost of the transaction. However, the PUCT believed the benefits would exceed the costs and that the certification, like an insurance policy, would provide protection that our mandate would be met." Please provide any financial analysis performed that led to the PUCT and Witness Klein's belief that "the benefits would exceed the costs and that the certification..."

a. Do financial advisors charge extra to provide such certifications?

b. If yes, please provide benchmarking and any other support for Saber's proposed costs for such certification.

Response:

In response to "Please provide any financial analysis performed that led to the PUCT and Witness Klein's belief that "the benefits would exceed the costs and that the certification..." please see Sutherland Exhibit 2, Sutherland Exhibit 3, Sutherland Exhibit 4 and Sutherland Exhibit 6.

a. In Witness Klein's experience, financial advisors in the three Texas Ratepayer-Backed Bond transactions she supervised as Chair of the PUCT did charge extra to provide such certifications. However, Witness Klein observes that the PUCT's financing orders for those Texas Ratepayer-Backed Bonds required a substantial portion of the financial advisor's fee to come from the underwriters' compensation. See Witness Klein's response to DR 2-28.

b. Neither the Commission nor the Public Staff has yet determined whether to request a "lowest storm recovery charge" certification from Saber Partners or anyone else.

2-23. Witness Klein states "[t]he incremental costs of the active financial advisor approach in each of the three Texas Ratepayer-Backed transition bond transactions I helped oversee as Chair of the PUCT were easily justified by savings in other issuance costs and savings in interest costs." Please provide any financial analysis performed that led to the PUCT and Witness Klein's belief the incremental costs were "easily justified by savings in other issuance costs and savings in interest costs."

Response:

See Sutherland Exhibit 2, Sutherland Exhibit 3, Sutherland Exhibit 4 and Sutherland Exhibit 6.

2-24. In reference to Witness Klein's testimony at p. 6, ll. 11-15 of her direct testimony regarding the alleged statutory fiduciary duty of the PUCT to the public interest, please provide a reference to and copy of every law, statute, regulation, rule or administrative or judicial decision or precedent establishing such duty.

Response:

Witness Klein respectfully objects to this question as overbroad and requesting Witness Klein to perform legal research. Notwithstanding those objections, in Texas the Public Utility Regulatory Act, Chapter 11, Section 11.002 states:

> (a) This title is enacted to protect the public interest inherent in the rates and services of public utilities. The purpose of this title is to establish a comprehensive and adequate regulatory system for public utilities to assure rates, operations, and services that are just and reasonable to the consumers and to the utilities.
> * * *
> (c) . . . It is the purpose of this title to grant the Public Utility Commission of Texas authority to make and enforce rules necessary to protect customers of . . . electric services consistent with the public interest.

Additionally, please see pages 7 through 20 of the direct testimony of Witness Maher in this proceeding and Witness Maher's response to DR 2 -29.

2-25. In reference to Witness Klein's testimony at P. 6, ll. 15-17 of her direct testimony regarding the standard of conduct required of a fiduciary, please provide a reference to and copy of every law, statute, regulation, rule or administrative or judicial decision or precedent establishing such duty.

Response:

Witness Klein respectfully objects to this question as overbroad and requesting Witness Klein to perform legal research. Notwithstanding those objections, Witness Klein draws attention to pages 7 through 20 of the direct testimony of Public Staff Witness Maher, including in particular pages 10 and 11 of that testimony which discuss EBC I, Inc. v. Goldman, Sachs & Co., 5 N.Y.3d 11 (N.Y. 2005), 799 N.Y.S.2d 170, 832 N.E.2d 26 (2005). See also Maher Exhibit 3. This duty would necessarily arise given the statutory grant of authority to the PUCT "to protect the public interest inherent in the rates and services of public utilities" and "to protect

customers . . . consistent with the public interest" as noted in the previous response.

2-26. In reference to Witness Klein's description of the actions taken by the PUCT's financial advisor in the Texas Transition Bond proceedings at pages 12-13 of her direct testimony, please identify any party (other than the utility, the PUCT, or their respective advisors) who took an active and participatory role in accomplishing any of the tasks listed in items 1 through 5) on page 12 of Witness Klein's testimony and with respect to each such party:

a. Identify the status of such party relative to the proceedings in which the bonds were considered;

b. Identify the individuals involved in such active participatory roles and by whom they were employed;

c. Describe, in detail, their roles and actions with respect to the bond offerings and specifically with respect to achievement of the objectives identified on page 12 of Witness Klein's testimony;

d. Identify whether each such party had a fiduciary duty to utility customers under Texas law and the legal basis for the assertion of such duty.

Response:

a., b. and c. The bookrunning underwriters and their counsel took an active and participatory role in many aspects of the structuring, marketing, and pricing of the Texas Transition Bond transactions discussed at pages 12 through 13 of Witness Klein's direct testimony including, for example, working with the utility to:

- ensure that the Registration Statement contained proper disclosures to communicate the superior credit features of the Texas Transition Bonds as authorized by the statute and the PUCT's Financing Order which is the basis for the bond offering;

- develop rating agency presentations and work actively with the rating agencies during the rating agency process to achieve Aaa / AAA / AAA ratings from the three major rating agencies;

- submit marketing plans acceptable to the utility;

- develop all bond transaction documents, marketing materials and legal opinions in a plain English manner while balancing SEC disclosure requirements, in an effort to ensure investors could more easily understand the high-quality nature of the bond offering;

- allow sufficient time for investors to review relevant marketing materials

and a preliminary prospectus and to ask questions regarding the transaction;

- attend telephonic pre-marketing investor meetings;
- arrange issuance of rating agency pre-sale reports during the marketing period;
- during the period that the bonds were marketed, hold numerous market update discussions with the utility and the PUCT's financial advisor to develop recommendation for pricing;
- develop and implement a marketing plan designed to encourage each of the underwriters to aggressively market the bonds to a broad base of prospective investors, including investors who have not previously purchased this type of security;
- conduct in person and telephonic roadshows;
- provide other potential investors with access to an internet roadshow for viewing at investors' convenience;
- adapt the bond offering to market conditions and investor demand at the time of pricing consistent with the guidelines outlined within the Financing Order. Variables impacting the final structure of the transaction were evaluated including the length of the average lives and maturity of the bonds and the interest rate requirements at the time of pricing so that the structure of the transaction would correspond to investor preferences and rating agency requirements for the highest rating possible; and
- develop bond allocations and preliminary price guidance designed to achieve customer savings.

The bookrunning underwriters for those transactions were Merrill Lynch, Goldman Sachs, Lehman Brothers and Morgan Stanley. Witness Klein does not know or recall the specific individual personnel at these underwriting firms who were involved in such active participatory roles.

d. Witness Klein understands the underwriters assert that they had no fiduciary duty to utility customers.

2-27. Explain, in detail, the basis for witness Klein's conclusion on page 18, ll. 3-6 of her direct testimony that "in ratepayer-backed bond transactions generally, the utility has an interest in closing the transaction as expeditiously as possible, even if that requires the utility to settle for less than the lowest storm recovery charges to ratepayers" and state

whether this rationale applies to the pending DEC and DEP bond issuances.

Response:

Please see pages 18 and 19 of the direct testimony of Witness Schoenblum.

2-28. In reference to witness Klein's testimony on p. 33, ll. 13-17, please identify the outside advisor costs incurred by the PUCT with respect to the each of the three Transition Bond issuances supervised by witness Klein and each specific area of savings asserted by witness Klein achieved through the use of outside advisors.

Response:

Using the financial advisor did not cost ratepayers anything beyond the financing costs estimated by the utility before a PUCT financial advisor was proposed, and in fact saved ratepayers many, many millions of dollars.

First, the PUCT ordered that the cost of the independent advisor be absorbed in the cap on upfront costs that the PUCT approved based on the utility's estimated costs in their filing. Second, the PUCT ordered that nearly 30% of the independent advisor's fee be paid from the fees to be paid to the underwriters. The PUCT required that the caps are "ceilings not floors". The amounts paid to the advisor were negotiated with the advisor based on the required "lowest transition bond charge opinion" from the financial advisor and looking at disclosed fees for independent financial advisor opinions known as "fairness opinions" in financial transactions. See pages 6, 43 and 44 of the direct testimony of Witness Schoenblum.

Finally, the cumulative efforts and activities of the financial advisor in developing and implementing "best practices" produced substantial additional savings to Texas ratepayers. This was accomplished through the auditing of expenses submitted for the financing by the utility and by participating in negotiations with the underwriters and investors as to the credit spreads associated with the bonds. This resulted in lower interest rate costs applied to individual tranches of the Ratepayer-Backed Bonds creating additional present value savings. See Sutherland Exhibit 2, Sutherland Exhibit 3, Sutherland Exhibit 4, and attached press reports and a bookrunner assessment.


Attachment
2-28_News Reports.pd


Attachment
2-28_Bookrunner Asse

In addition, Witness Klein notes that the Financing Orders for these first three transactions specified that a substantial portion, approximately 30%, of the PUCT's outside advisor costs with respect to the each of the three Transition Bond issuances supervised by Witness Klein reduced the amount of compensation otherwise

payable to the underwriters. For example, see Finding of Fact 103 of the PUCT's 2002 Financing Order issued to TXU for approximately $1.3 billion in Ratepayer-Backed Bonds: "the financial advisor's fee should be capped at an amount not to exceed $2,450,000, of which $718,667 will come from the underwriting spread with the remainder to be included in the aggregate cap on the up-front costs to be securitized of $52,586,374 ($20,225,528 in connection with transition bonds issued before 2004)."

Public Staff Response to
Duke Energy Carolinas, LLC's & Duke Energy Progress, LLC's Data Request
Data Request Nos. 2-29 and 2-31 to 2-40

Docket No. E-2, Sub 1262
Docket No. E-7, Sub 1243

Date of Request: **December 28, 2020**
Date of Response: **January 4, 2021**

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Confidential Responses (if any) are provided pursuant to Confidentiality Agreement

The attached response was prepared by or under the supervision of Public Staff witness Brian A. Maher, Senior Advisor, Saber Partners, LLC, and provided to William E. H. Creech, Staff Attorney, Public Staff – North Carolina Utilities Commission.

Public Staff Response to
Duke Energy Carolinas, LLC's
&
Duke Energy Progress, LLC's
Confidential Data Request No. 2-30

Docket No. E-2, Sub 1262
Docket No. E-7, Sub 1243
Data Request No. 2-29 and 2-31 to 2-40

2-29. In reference to Witness Maher's assertion that Saber Partners has a fiduciary duty to North Carolina DEC and DEP customers, please explain the basis for such assertion including citations to and copies of each and every contract, agreement, stipulation, statute, rule, regulation, ruling or precedent establishing or supporting the existence of such alleged duty.

Response:

Witness Maher respectfully objects to this request as overbroad. In addition, Witness Maher respectfully objects to this request on the grounds that it calls for the provision of legal conclusions. Witness Maher's testimony is as a former finance executive with more than 30 years' experience in finance and the capital markets and not as a lawyer. Notwithstanding those objections, Witness Maher draws attention to pages 7 through 20 of his direct testimony, including in particular pages 10 and 11 which discuss EBC I, Inc. v. Goldman, Sachs & Co., 5 N.Y.3d 11 (N.Y. 2005), 799 N.Y.S.2d 170, 832 N.E.2d 26 (2005), and Maher Exhibit 3. Witness Maher also draws attention to page 17, lines 10 through 12 of his direct testimony in this proceeding: "As financial advisor to the Public Staff, Saber Partners considers itself as having a fiduciary duty to North Carolina ratepayers."

Witness Maher believes the central issue in this proceeding is about what is the right thing, the best thing, to do for the ratepayer in connection with the proposed storm recovery bonds. Witness Maher and other Public Staff witnesses recommend using "best practices" based on their experience. Apart from contracts, agreements, stipulations, statutes, rules, regulations, rulings or administrative or judicial decisions or precedents, based on more than 30 years of experience in business and specific experiences in the capital markets with bankers, underwriters and investors, Witness Maher knows the principles of ethical behavior in government and in business. From this experience, Witness Maher discusses what the "best practices" are for this unique type of financing.

SB559 authorizes this special type of bond. It allows the net bond proceeds to be provided to the utility as reimbursement for storm damage costs and the cost of the Ratepayer-Backed Bonds billed to the ratepayers. The utility and its shareholders are not responsible for paying back the Ratepayer-Backed Bonds. The statute protects the utility from any financial liability for the bonds and there is no ongoing regulatory review and oversight process with regard to the Ratepayer Backed Bonds. The statute (N.C.G.S. § 62-172(b)(3)b.12.) explicitly directs the Commission to add conditions to a proposed financing order that the Commission determines to be appropriate.

Witness Maher believes that the "best practices," the right thing to do, in this transaction is to give the Companies net bond proceeds for prudently incurred storm damage costs and to protect the ratepayers in the process of structuring, marketing, and pricing the bonds. Ratepayers should not overpay underwriters and investors. Ratepayers need to be represented in the bond offering process by someone with a responsibility, a duty to them and to be supported by technical ability. That is how the capital markets work best. Witness Maher believes this would be a "best practice" for the Commission, the Public Staff, the ratepayer, and the Companies in this proceeding.

2-31. In reference to witness Maher's testimony on pages 19 and 20 of his direct testimony regarding the need to maximize ratepayer interests at the negotiating table, please identify each and every prior "Ratepayer-Backed Bond" transaction of which the witness is aware where an entity commensurate with the Public Staff actively participated in the negotiation of bond terms with underwriters (in addition to the Commission and the Commission's advisors).

Response:

Witness Maher respectfully objects to this question as vague as to the meaning of "an entity commensurate with the Public Staff". Notwithstanding that objection, assuming "an entity commensurate with the Public Staff" means a necessary party to the proceeding, in each Ratepayer-Backed Bond transaction of which Witness Maher is aware, the sponsoring utility was a necessary party to the proceeding and also actively participated in the negotiation of bond terms with the underwriters. See also Witness Fichera's response to DR 2 -56.

In addition, Witness Maher notes that in Florida Public Service Commission proceedings where the utilities Florida Power & Light Company and DEF proposed using Ratepayer-Backed Bonds, staff of the Florida Public Service Commission sponsored witnesses from the commission's financial advisor who presented direct testimony, responded to data requests from the applicant utilities, and were subject to cross-examination by the utilities in public hearings. In connection with the DEF transaction, as members of the Bond Team, the Florida Public Service Commission's staff and financial advisor both participated visibly and in advance in all aspects of structuring, marketing and pricing the Ratepayer-Backed Bonds.

2-32. In reference to witness Maher's testimony regarding the need for the Public Staff and its advisors to participate in a bond team, please state whether witness Maher anticipates that the Public Staff's "advisors" in the scenario he describes would include Saber Partners? If yes, please explain how Saber Partner's alleged fiduciary duty to North Carolina customers is consistent with its own pecuniary interest in participating in the Public Staff's proposed bond team.

Response:

As to the first sentence of DR 2-32, Witness Maher does anticipate that the Public Staff's "advisors" could include its outside financial advisor, whose engagement for such purposes is specifically authorized by N.C.G.S. § 62-172(n).
Witness Maher respectfully objects to the second sentence of DR 2-32 as based on a false premise: that Saber Partners has a "pecuniary interest in participating in the Public Staff's proposed bond team." Saber Partners is being compensated for its subject matter expertise as requested by the Public Staff pursuant to N.C. General Statute 62-15(h), similar to the payment of the Companies' advisors and counsel in this proceeding. This is not like the payment of the Companies' underwriters. Potentially unlike the Companies' advisor Guggenheim, Saber Partners will not be an underwriter and therefore will not be paid from proceeds of the proposed storm recovery bonds or based on the amount of bonds sold. In other words, Saber Partners' compensation is not dependent on the amount of storm recovery bonds issued.

2-33. Witness Maher states "[a]s financial advisor to the Public Staff, Saber Partners considers itself as having a fiduciary duty to North Carolina ratepayers." Does Saber Partners' contract with the Public Staff expressly create a legally binding fiduciary duty to North Carolina customers or anyone else?

a. If so, is Saber Partners liable as a fiduciary to DEC and DEP's customers in North Carolina?

b. If not, is Saber Partners liable as a fiduciary to anyone involved in this proceeding?

Response:

Witness Maher respectfully objects to this this request on the ground that it calls for the provision of legal conclusions. Witness Maher's testimony is as a former finance executive with more than 30 years' experience in finance and the capital markets and not as a lawyer. Witness Maher draws attention to page 12 of his direct testimony:

> **Q. Are you giving an opinion as to whether there is a legal requirement of any party in this transaction to have a fiduciary relationship?**
>
> A. No. I am discussing the important issues related to whether a fiduciary relationship exists and what the Commission should consider in deciding how to evaluate information it receives from different parties to the proposed transaction.

2-34. If Saber Partners' contract with the Public Staff creates a legally binding fiduciary duty to North Carolina customers then please confirm that it is Witness Maher's testimony that the Public Staff has a fiduciary duty to North Carolina customers. If so, is the Public Staff liable as a fiduciary to the customers in North Carolina?

Response:

Witness Maher respectfully objects to this this request on the ground that it is based on a premise that Saber Partners' contract with the Public Staff creates a legally binding fiduciary duty to North Carolina customers. Please see Witness Maher's response to DR 2-33.

2-35. Witness Maher suggests that the subject of fiduciary responsibility has become a public policy issue for corporate issuers, please provide citations to policy statements or other publications that support this statement.

Response:

Please see Maher Exhibit 3, Maher Exhibit 4 and Maher Exhibit 5. In addition, please see page 9, line 9 through page 10, line 11 of the direct testimony of Witness Maher.

2-36. Witness Maher states "I believe that the Bond Team should consist of the Companies, the Companies' advisor (provided such advisor is not one of the banks acting as underwriter for the transaction), the Commission, either directly or through a designated staff member(s), the Public Staff, and the independent advisors and counsel."

a. Why does Witness Maher desire to exclude the underwriters for the transaction from the Public Staff's proposed Bond Team, assuming one is implemented by the Commission?
b. Since the Public Staff is an intervening party, is it witness Maher's testimony that any intervening party should be a member of the Public Staff's proposed Bond Team? Why or why not?

Response:

a. Underwriters are on the other side of the negotiating table from the issuer in a bond offering. Their interests are not aligned with interests of the issuer, nor are their interests aligned with interests of the ratepayers who are responsible for all costs. When negotiating with anyone, it is important to have private and confidential discussions to evaluate all information including that provided by the other party in the negotiation. This allows one to decide on the approach to negotiating with the parties on the other

side of the table. Besides being a standard business practice in all negotiations, it is common sense. Why would one include the opposing party in discussions about the opposing party?

Moreover, Witness Klein's response to DR 2-20(a) observes that the PUCT financing orders she oversaw as PUCT chair state: "To properly advise the Commission, the Commission's financial advisor must not participate in the underwriting of the transition bonds". Witness Maher agrees that this PUCT finding is prudent and justified because the economic interests of underwriters are in direct conflict with the interests of ratepayers in connection with Ratepayer-Backed Bonds. For these same reasons, Witness Maher recommends that underwriters for the proposed storm recovery bonds be excluded from the proposed Bond Team.
In addition, underwriters should not be included in the Bond Team because the underwriters will conduct the transaction in their own interests as the Companies acknowledge in their response to PS DR 2-11(b). Underwriters should not have access to the private views of those representing the ratepayers' interests. The underwriters might make recommendations that benefit themselves, their investor clients and perhaps the Companies with whom the underwriters have other important business relationships. After discussion with the underwriters, these recommendations need to be considered and evaluated, but not in the presence of the underwriters.

b. No, it is not Witness Maher's testimony that any intervening party should be a member of the proposed Bond Team. It is Witness Maher's testimony that (i) each Company should be a member of the Bond Team with respect to storm recovery bonds to be issued on its behalf, because each Company is a necessary party to the Commission's proceedings with respect to the Joint Petition, and similarly (ii) the Public Staff also should be a member of each Bond Team because under North Carolina law the Public Staff is a necessary party to the Commission's proceedings with respect to the Joint Petition in representing the interests of ratepayers. Unlike other intervenors, the Public Staff is charged by N.C.G.S. § 62-15(d)(3) to "Intervene on behalf of the using and consuming public, in all Commission proceedings affecting the rates or service of any public utility". A post-Financing Order/pre-bond issuance review process, through a Bond Team, would be a continuation of this proceeding until the storm recovery bonds are issued and the Financing Order becomes irrevocable.

2-37. Witness Maher states "[t]herefore, the Commission, the Public Staff and their independent financial advisor(s) are in the primary position of having to look out for the ratepayers' best interests. It is critical that they play an active role in all aspects of the transaction. They must be willing to invest all the time necessary in the structuring and take an aggressive stance during the marketing process to capture the lowest cost of financing and the lowest storm recovery charges for the ratepayers."

a. Please provide context as to what "an aggressive stance during the marketing process" means. Please provide examples of "aggressive stances" taken by Saber Partners in prior transactions.
b. Explain why any party that does not bear any securities law liability be allowed to speak to potential investors with "an aggressive stance."

Response:

a. For examples of an active role in the structuring, marketing, and pricing of Ratepayer-Backed Bonds, see Ordering Paragraphs 41 and 51 of the Financing Order submitted as Klein Exhibit 2, the Florida Public Service Commission's 2015 Financing Order issued to DEF. For an example of an "aggressive stance" proposed by outside counsel for DEF in negotiations with Saber Partners, see pages 30 and 31 of the direct testimony of Witness Klein. While employed by ExxonMobil, Witness Maher experienced many transactions in which underwriters that were pressed to be aggressive in marketing and pricing publicly-offered ExxonMobil securities and achieved much lower credit spreads to benchmark securities for ExxonMobil than initial "price talk" had indicated.

b. Please see pages 28 through 32 of the direct testimony of Witness Fichera.

2-38. During Witness Maher's time at ExxonMobil Corporation ("ExxonMobil"):
a. Did ExxonMobil allow a third party to select its underwriters?

b. Did ExxonMobil permit a third party to speak with investors of its securities in connection with an offering of those securities?

c. Was any third party (other than an underwriter) given a role in marketing ExxonMobil's securities?

d. Was any third party (other than an underwriter) permitted to draft disclosure materials for an offering of ExxonMobil's securities?

e. Did any underwriter purchase and hold ExxonMobil securities offered by such underwriter?

f. How often did underwriters deliver to ExxonMobil the sort of certification suggested by Witness Maher on pages 22 and 23.

Response:

Witness Maher respectfully objects to this this request on the ground that it is based on a false premise that other parties at some time proposed (a) to select underwriters

for securities to be issued by ExxonMobil; (b) to speak with investors of ExxonMobil's securities in connection with an offering of those securities; (c) to be given a role in marketing ExxonMobil's securities; or (d) to draft disclosure materials for a public offering of ExxonMobil's securities. Witness Maher does not recall other parties ever to have proposed to perform any of these activities. Notwithstanding this objection, Witness Maher declares as follows:

(i) It is important to note that DEC and DEP operate regulated monopoly business enterprises. ExxonMobil does not. ExxonMobil is an investor-owned company governed by market forces. In fact, when a predecessor to ExxonMobil was found to have market power like the Companies, it was broken up.

(ii) During Witness Maher's time at ExxonMobil, it was not like the Companies which, in the absence of public regulation, could control the supply of an essential commodity – electricity - thereby influencing the rates customers pay. This is why the Companies are regulated by the Commission, and this is why North Carolina statutes require the Public Staff to intervene in rate cases "on behalf of the using and consuming public".

(iii) As an investor-owned company, regulated by market forces, ExxonMobil worked in the best interests of its shareholders to whom it had a fiduciary duty, as Witness Maher has discussed in his direct testimony in this proceeding. It is comparable to the duty the Companies have to Duke Energy and its shareholders.

(iv) However, market forces determined how ExxonMobil's prices were fixed, and competition was fierce. None of ExxonMobil's debt was paid directly from a dedicated component of charges on its customers for an essential commodity, enforced by government regulators, with no practical ability of customers to avoid the charge. The government did not pledge never to interfere with the rights of any of ExxonMobil's bondholders to be paid, and there was no government authority agreeing to raise charges on ExxonMobil's customers to whatever level needed to pay the bondholders. All of ExxonMobil's debt was a liability of ExxonMobil, ahead of ExxonMobil's distribution of dividends to shareholders to whom Exxon owed a duty to act in their best interests.

(v) In connection with Ratepayer-Backed Bonds, as Witnesses Fichera, Schoenblum and Maher point out in their direct testimony in this proceeding, similar market forces are not present, and the Commission will have no authority to take discretionary corrective action by adjusting storm recovery charges after the storm recovery bonds are issued. Ratepayers are exposed. They need to be

protected.

(vi) In N.C.G.S. §§ 62-15 and 62-172, the General Assembly set up a system to protect the ratepayer in general and in this storm securitization legislation in particular. It looks to the Commission and to the Public Staff. In this situation, Witness Maher believes having the ratepayer represented in negotiations by the Public Staff and supported by technical expertise reflects both common sense and prudent business practices. As noted in response to DR 2-29, this is a "best practice" upon which Witness Moore as a former CFO and CEO of a utility, Witness Schoenblum as a former Treasurer of a utility, Witness Klein as a former regulator of a utility, and Witness Abramson as a former equity analyst of utilities all agree. It is also a practice that Duke Energy agreed to and successfully implemented in Florida with its affiliate DEF's Ratepayer-Backed Bond offering in 2016.

e. While Witness Maher was employed by ExxonMobil, most of ExxonMobil's publicly-offered bonds were sold in competitive auction sales, conducted by ExxonMobil staff, to competing syndicates of underwriters or in some cases a single underwriter. It was common for the winning syndicate not to have immediate buyers for all of the bonds and thus for syndicate members to use their own capital to purchase and hold some bonds until they found purchasers for those bonds on the same day or at a later date.

f. In such competitive sales of bonds, the competing syndicates of underwriters do not participate in the structuring or marketing of the bonds prior to pricing, so they would not be in a position to know whether the structuring and marketing of the bonds resulted in the highest price (and lowest yield) for ExxonMobil. Consequently, to the best of Witness Maher's recollection, ExxonMobil never requested the sort of certifications from underwriters suggested by Witness Maher on pages 22 and 23 of his direct testimony.

2-39. On page 25, Witness Maher asserts, "the proposed bonds are likely to achieve a very strong "AAA" performance because they will be backed by a state regulatory guarantee to irrevocably provide for the timely payment of principal and interest from the revenues of an essential service (i.e., electricity)." Please cite the relevant provisions under North Carolina law that create a state regulatory guarantee.

Response:

Here is a link to the Prospectus used to offer the 2016 Ratepayer-Backed Bonds issued for DEF:
https://www.sec.gov/Archives/edgar/data/37637/000104746916013865/a2228973z

424b1.htm.

Page 49 of that Prospectus states:

> In the financing order, the Florida Commission determined that the broad-based nature of the FPSC-guaranteed true-up mechanism, as required to be implemented pursuant to the financing order, together with the state pledge, constitute a guarantee of regulatory action for the benefit of the nuclear asset-recovery bondholders.

The corresponding true-up mechanism in North Carolina law is found in N.C.G.S. § 62-172(b)(3)b.6. The corresponding state pledge in North Carolina law is found in N.C.G.S. § 62-172(l).

2-40. On page 26, Witness Maher suggests including the following disclosure: "The broad-based nature of the true-up mechanism and the State Pledge serve to effectively eliminate, for all practical purposes and circumstances, any credit risk to the payment of the bonds (i.e., that sufficient funds will be available and paid to discharge the principal and interest of each issue of bonds when due)." For those securitization bond offerings that included this disclosure, did they price better than, or do they or did they trade at a premium over, other securitization bonds that do not include such disclosure.

a. What evidence can the Public Staff present that this specific disclosure language was the cause of the pricing result, to the exclusion of other factors?

b. For the transactions with such disclosure language, was there a "credit spread" to the applicable benchmark, or did the tranches price at a rate equal to the benchmark?

c. Does the presence of a "credit spread" if any, indicate the market view that credit risk is not "effectively eliminated…."?

Response:

For background about the meaning of the quoted disclosure language, see the disclosure set forth on pages 100 and 101 of the prospectus for DEF's 2016 Ratepayer-Backed Bonds[1]:

> Sensitivity to Credit Risk
>
> A stress case analysis examined the maximum amount of forecast variance that could occur without causing an event of default due to insufficient funds available to pay all principal at final maturity for each WAL designation or insufficient funds available to pay interest on each payment date and expense obligations when due.

[1] https://www.sec.gov/Archives/edgar/data/37637/000104746916013865/a2228973z424b1.htm

> For an event of default to occur with respect to any such payment due under the indenture, the forecast variance for the forecast period leading up to such payment would need to be greater than minus 60%, or more than 16 standard deviations from the forecast variance mean.
>
> For there not to be enough funds available to pay principal at final maturity for each WAL designation, interest on each payment date and expense obligations when due, our stress case analysis demonstrated that there would need to be unexpected, extensive and persistent drops in electricity consumption or increases in defaults or write offs among electricity consumers that occur in each forecast period prior to the relevant payment date.
>
> We are not aware of any practical circumstance where such unexpected, extensive and persistent drops in the consumption of electricity or increases in defaults and write offs of that magnitude could occur in the DEF service territory. For comparison, during the most recent 10 years, DEF's mean annual forecast variance was minus 0.16% and the largest unfavorable annual forecast variance was minus 6.53%. See "Risk Factors", in particular "—Servicing Risks—Inaccurate forecasting of electric consumption or collections might reduce scheduled payments on the bonds", and "Cautionary Statement Regarding Forward-Looking Statements" in this prospectus.

For information about whether Ratepayer-Backed Bond offerings that included this disclosure and other "best practices" recommended by Saber Partners achieved lower credit spreads than other Ratepayer-Backed Bonds that did not include such disclosure, see Sutherland Exhibit 4, Sutherland Exhibit 5, Sutherland Exhibit 7 and Sutherland Exhibit 10.

a. Witness Maher respectfully objects to this request on the grounds that it is based on a false premise that the actions described in this specific disclosure language were the cause of the pricing result, to the exclusion of other recommended "best practices."

b. and c. Relative value – credit spreads to a benchmark security - in relation to other securities is affected by multiple factors. In some instances, one or more tranches of Ratepayer-Backed Bonds priced at no "credit spread" or at a negative "credit spread" to benchmark securities. For an example, see Fichera Exhibit 2 (Tranche A-1 and Tranche A-2).

More significantly, a positive pricing spread to benchmark securities does not necessarily reflect a "credit spread." For example, unlike benchmark securities, while they generally are assigned an AAA-level of risk that principal will not be paid on time by the legal maturity date, Ratepayer-Backed Bonds generally have some non-AAA-level of risk that principal will not be paid on the scheduled maturity

date. This can result in a positive pricing spread to benchmark securities that does not reflect a "credit spread." Another example is that the interest on benchmark U.S. Treasury debt is exempt from state income tax, whereas interest on most Ratepayer-Backed Bonds is subject to state income tax. If U.S. Treasury debt is used as the benchmark security, this can give rise to a pricing spread that does not reflect a "credit spread."

Public Staff Response to
Duke Energy Carolinas, LLC's & Duke Energy Progress, LLC's Data Request
Data Request Nos. 2-41 to 2-47

Docket No. E-2, Sub 1262
Docket No. E-7, Sub 1243

Date of Request: **December 28, 2020**
Date of Response: **January 4, 2021**

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Confidential Responses (if any) are provided pursuant to Confidentiality Agreement

The attached response was prepared by or under the supervision of Public Staff witness Hyman Schoenblum, Senior Advisor, Saber Partners, LLC, and provided to William E. H. Creech, Staff Attorney, Public Staff – North Carolina Utilities Commission.

Docket No. E-2, Sub 1262
Docket No. E-7, Sub 1243
Data Request No. 2-41 to 2-47

2-41. Witness Schoenblum states "[a]n actively involved and independent financial advisor to the Commission or to Public Staff, who has an implicit fiduciary relationship with the Commission, will add tremendously to the Commission's ability to reach this goal." What is meant by "implicit" fiduciary relationship? In Witness Schoenblum's opinion, is it a legally binding obligation?

Response:

Witness Schoenblum respectfully objects to this this request on the ground that it calls for the provision of legal conclusions. Notwithstanding this objection, Witness Schoenblum draws attention to pages 7 through 20 of the direct testimony of Witness Maher in this proceeding under the headings "Fiduciary Relationship – Best Interests of Ratepayers Missing" and "Importance of Fiduciary – Best Interests of Ratepayer Relationship." See also the response to Companies' DR 2-29.

2-42. During Witness Schoenblum's time at Consolidated Edison of New York, Inc. ("Con Ed"):

a. Did Con Ed allow the New York State Department of State Division of Consumer Protection (the "Division of Consumer Protection"), another intervenor or other third party to select its underwriters, including the utility securitization offering completed on behalf of Con Ed's affiliate in 2004?

b. Did Con Ed permit the Division of Consumer Protection, another intervenor or other third party to speak with investors of its securities in connection with an offering of those securities, including the utility securitization offering completed on behalf of Con Ed's affiliate in 2004?

c. Was the Division of Consumer Protection, another intervenor or third party (other than an underwriter) given a role in marketing its securities, including the utility securitization offering completed on behalf of Con Ed's affiliate in 2004?

d. Was the Division of Consumer Protection, another intervenor or third party (other than an underwriter) permitted to draft disclosure materials or make decisions with respect to the adequacy of such disclosure materials for an offering of Con Ed's securities, including the utility securitization offering completed on behalf of Con Ed's affiliate in 2004?

Response:

a., b., c. and d. As stated in Witness Schoenblum's direct testimony, and consistent with Witness Moore's testimony as a former CFO and CEO of another utility, the interests of Con Ed and ratepayers were aligned in connection with traditional utility debt (not Ratepayer-Backed Bonds) issued by Con Ed. Con Ed had the appropriate incentives to achieve low-cost debt issuances with ongoing regulatory review and oversight. Consequently, Witness Schoenblum does not recall the New York State Department of State Division of Consumer Protection, another intervenor or any other party ever proposing to (a) participate in the selection of underwriters for securities issued by Con Ed; (b) speak with investors in connection with any offering of securities by Con Ed; (c) be given a role in marketing any securities issued by Con Ed; or (d) be permitted to draft disclosure materials or make decisions with respect to the adequacy of such disclosure materials for any offering of securities by Con Ed.

In 2004, $46.3 million of Ratepayer-Backed Bonds were issued in a limited public offering to qualified institutional investors (under SEC Rule 144) for Rockland Electric Company (Rockland), an affiliate of Con Ed. Rockland's electric service area is located entirely in the State of New Jersey, not New York. The Ratepayer-Backed Bonds were issued under a New Jersey statute and were authorized by an order issued by the State of New Jersey Board of Public Utilities. The New York State Department of State Division of Consumer Protection had no jurisdiction over Rockland or this issue of Ratepayer-Backed Bonds. So, of course, the New York State Department of State Division of Consumer Protection did not (a) participate in the selection of underwriters for those Ratepayer-Backed Bonds issued for Rockland; (b) speak with investors in connection with those Ratepayer-Backed Bonds for Rockland; (c) be given a role in marketing those Ratepayer-Backed Bonds issued for Rockland; or (d) be permitted to draft disclosure materials or make decisions with respect to the adequacy of such disclosure materials for those Ratepayer-Backed Bonds issued for Rockland.

2-43. Witness Schoenblum suggests that the highest priority of the Companies in this transaction will be to get the issuance done quickly, with cost taking a lower priority. In connection with the issuance advice letter, each Company proposes to deliver a certificate that the structuring and pricing of the storm recovery bonds resulted in the lowest storm recovery charges consistent with market conditions at the time the storm recovery costs are priced and the terms set forth in the financing order. In light of this, please explain the basis for your suggestion.

Response:

Even though the Companies propose to deliver a certificate on the pricing of the bond issuance, Witness Schoenblum believes it is reasonable to assume that the pricing of the storm recovery bonds may be inefficient if certain "best practices" are

not adhered to, such as choosing underwriters who are committed to achieving the lowest cost and the lowest storm recovery charges for ratepayers. For a discussion of Witness Klein's experience as Chair of the PUCT as to why it is insufficient to obtain a lowest securitization charge certification solely from the utility receiving the bond proceeds, see the response to Companies' DR 2-20(a).

2-44. On page 51, Witness Schoenblum cites a financing order issued by the Wisconsin Public Service Commission, please provide the final offering documents and pricing for that transaction and how it compares with similar transactions. If none are available, please explain why.

Response:

None are available because the bonds have not been issued.

2-45. In reference to witness Schoenblum's testimony regarding avoidance of political risk on page 15 of his direct testimony, please identify each and every instance of which witness Schoenblum is aware where elected officials or appointees at a Commission have attempted to challenge the bond structure or recovery charges associated with Ratepayer-Backed Bonds on an after-the-fact basis and state whether in witness Schoenblum's opinion the law of the State of North Carolina would permit such a challenge of the bonds being considered in the pending dockets?

Response:

Witness Schoenblum respectfully objects to this this request on the ground that it calls for the provision of legal conclusions about the law of the State of North Carolina. Notwithstanding this objection, Witness Schoenblum is unaware of any instance where elected officials or Commission appointees have attempted to challenge the structure or the securitized charges pledged to pay debt service on Ratepayer-Backed Bonds. However, more than $6 billion of Ratepayer-Backed Bonds were issued in December 1997 for three California utilities – Pacific Gas and Electric Company, Southern California Edison Company and San Diego Gas & Electric Company. Shortly after those issuances, a voter initiative designated California Proposition 9 qualified for the November 1998 general election. If approved by the voters, California Proposition 9 might have prevented the continued billing and collection of the securitized charges which were pledged to repay those Ratepayer-Backed Bonds. California Proposition 9 was defeated in the November 3, 1998 general election.

2-46. With respect to witness Schoenblum's statement on page 20, ll. 20-23 that Public Staff and Commission direct involvement in all steps of the securitization process is supported by ample precedent, please provide a reference to each and every proceeding of

which witness Schoenblum is aware in which an entity comparable to the Public Staff has directly participated in all steps of the securitization process.

Response:

Witness Schoenblum respectfully objects to this request as vague as to what kind of entity is "comparable to the Public Staff" and suggesting that Witness Schoenblum conduct legal research. The composition and roles of the Commission and ratepayer advocate are different in different states. In Florida, the Commission staff offered testimony, though in North Carolina the Public Staff takes on that function. In North Carolina, the Public Staff is a statutory intervenor. N.C.G.S. § 62-15(d)(3) requires the Public Staff to "Intervene on behalf of the using and consuming public, in all Commission proceedings affecting the rates or service of any public utility". Without research, Witness Schoenblum is not aware of other states that have enacted legislation which authorize Ratepayer-Backed Bonds and also require a state agency to intervene on behalf of all classes of ratepayers in proceedings affecting electric rates. See Witness Maher's response to the Companies' DR 2-31.

2-47. With respect to witness Schoenblum's opinion on p. 32 of his testimony regarding the meaning of N.C. Gen. Stat. 62-172, please state whether witness Schoenblum is a licensed attorney authorized to practice before the NCUC and to provide "expert" legal opinions about the meaning of NC statutes.

Response:

Witness Schoenblum is not a licensed attorney. Witness Schoenblum's testimony is as a former investor-owned utility treasurer and finance executive with more than 30 years' experience as a utility finance professional, not as a lawyer.

N.C.G.S. § 62-172(b)(3)b. states: "A financing order issued by the Commission to a public utility shall include all of the following elements: . . . 12. Any other conditions not otherwise inconsistent with this section that the Commission determines are **appropriate**."

On pages 32 and 33 of his direct testimony, based on his experience as an investor-owned utility finance professional experienced in the capital markets for 30 years, Witness Schoenblum offers his views about conditions the Commission should consider to be "appropriate" to include in its financing orders in this proceeding from a financing and capital markets perspective. Witness Schoenblum did not intend to express any legal opinion about N.C.G.S. § 62-172(b)(3)b.

Public Staff Response to
Duke Energy Carolinas, LLC's & Duke Energy Progress, LLC's Data Request
Data Request Nos. 2-48 to 2-54

Docket No. E-2, Sub 1262
Docket No. E-7, Sub 1243

Date of Request: **December 28, 2020**
Date of Response: **January 4, 2021**

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Confidential Responses (if any) are provided pursuant to Confidentiality Agreement

The attached response was prepared by or under the supervision of Public Staff witness Paul Sutherland, Senior Advisor, Saber Partners, LLC, and provided to William E. H. Creech, Staff Attorney, Public Staff – North Carolina Utilities Commission.

Docket No. E-2, Sub 1262
Docket No. E-7, Sub 1243
Data Request No. 2-48 to 2-54

2-48. Witness Sutherland states "[t]he securitized storm recovery utility bonds themselves are simple and straightforward. As most commonly structured, they are carried as obligations of the consolidated entity for accounting and tax purposes, much like conventional corporate securities." Since securitization bonds "are carried as obligations of the consolidated entity for accounting and tax purposes," how are they viewed by rating agencies with respect to their ratings of the sponsoring utilities and their holding companies, including the potential impact on levels of funds from operations?

Response:

See the attached article by Moody's titled Utility Cost Recovery Through Securitization Is Credit Positive. The article states that "Utilities benefit because they receive an immediate source of cash from the securitization proceeds and are ensured recovery of large costs in a timely manner that may, otherwise be recovered over a lengthy period of time or denied recovery altogether." Regarding cash flow from operations, the article states "If the securitization is a significant component of total debt, then a utility's ratio of cash flow from operations pre-working capital to debt could be severely negatively affected." Given that this will be the first securitization by either of the Companies, Witness Sutherland does not believe the securitization will be large enough to "severely negatively affect" cash flow from operations.

Attachment
2-48_Moody's Securiti

2-49. Witness Sutherland states "[t]he biggest net present value (NPV) savings result from the fact that rating agencies generally treat utility securitization debt as off-balance sheet." Please provide supporting documentation that the three major rating agencies treat utility securitization debt as off-balance sheet.

Response:

See the attached article by Fitch titled Rating Action Commentary. Writing about a proposed $7.5 billion Ratepayer-Backed Bond transaction in California for Pacific Gas and Electric Company, the article says "Proceeds from the relatively low cost, **off-balance sheet** debt would be used to reduce debt and fund payments to wildfire victims more efficiently." (Emphasis added.)

In the article attached in Witness Sutherland's response to DR 2-48, Moody's writes

"Where the securitized debt is on balance sheet, our credit analysis also considers the significance of financial ratios that exclude securitization debt and related revenues to ensure the benefits of securitization are not ignored."

In the attached article by S&P titled Request for Comment: Ratios and Adjustments, S&P writes, under the heading Securitized debt adjustment, "For regulated utilities, we deconsolidate debt (and associated revenues and expenses) that the utility issues as part of a securitization of costs that have been segregated for specialized recovery by the government entity constitutionally authorized to mandate such recovery if the securitization structure contains a number of protective features:" going on to enumerate the standard features of utility securitizations such as an irrevocable, non-bypassable charge and periodic true-ups.

Witness Sutherland finds it odd and inconsistent with the premise of this data request 2-49 that the Companies now question the off-balance sheet treatment of utility securitization for rating agency purposes. The Companies' Witness Abernathy reflected off-balance sheet treatment in her calculation of savings by not including any cost of rebalancing equity and associated income taxes in the case where storm recovery bonds are employed. Alternatively, Witness Abernathy could have excluded the cost of equity and taxes from the case where storm recovery bonds are not employed. In that case, it would have been a pure debt-to-debt comparison. Since Witness Abernathy did neither, Witness Sutherland can only conclude that the Companies must be assuming off-balance sheet treatment of the storm recovery bonds for rating agency purposes.

Attachment 2-49_
Fitch Rating Action Co

Attachment 2-49_S&P
Ratios and Adjustmen

2-50. Witness Sutherland states "[i]n most cases the issuer has some control over both the interest rate and the structure. Also, when I refer to the issuer in this context, I am really talking about the entire Bond Team, defined as a team comprised of the sponsoring utility, the Utilities Commission, the Public Staff, their financial advisors, and others who are all, presumably, working on behalf of the ratepayers, since unlike conventional utility debt, with SRBs the ratepayer is directly responsible for repayment of the bonds."

a. Under federal securities laws, what entities are considered the "Issuer" of the storm recovery bonds?

b. Which, if any, of the members of the Public Staff's proposed Bond Team,

other than the sponsoring utility, have any securities law liability on a transaction as proposed by Witness Sutherland?

Response:

Witness Sutherland respectfully objects to this request on the ground that it calls for legal interpretations and conclusions. Witness Sutherland is not a lawyer. Notwithstanding that objection, Witness Sutherland observes that (a) the Joint Petition proposes that storm recovery bonds will be issued by special purpose entities (SPEs); (b) any securities law judgment against the SPEs would be a "financing cost" under N.C.G.S. § 62-172(a)(4)c.; and (c) the true-up mechanism appears designed to generate storm recovery charge revenues from all ratepayers within the Companies' service territories in amounts sufficient to allow the SPEs to pay any and all "financing costs."

2-51. Witness Sutherland states "[d]uring the period from 2001 through 2006, there were six utility securitizations completed in Texas with a total of 26 individual tranches with WALs from 1.9 to 13 years. Each of those transactions followed best practices as required by the PUCT. During that same period, there were 18 transactions outside of Texas which generally did not follow some or all of the best practices required in Texas. Exhibit 2 shows how all of those tranches were priced. The two regression lines demonstrate that, on average, the Texas tranches priced significantly better (i.e., 10 lower spreads to the swap benchmark and therefore lower interest rates) compared to the non-Texas tranches."

a. Please provide the issuance dates for each of the transactions reflected in Exhibit 2.

b. Please explain how transactions that price in the market in different months, quarters, or years can be considered comparable for such an illustration as show in Exhibit 2.

c. Does Witness Sutherland agree that the following illustrative example is possible? Note that in this example Transaction A priced with higher spread than Transaction B, yet Transaction A had a lower total interest rate than Transaction B.

Transaction	*Pricing Date*	*WAL (years)*	*Underlying Benchmark*	*Spread to Benchmark*	*Total Interest Rate*
A	*1/24/20X1*	*5.0*	*0.75%*	*0.25%*	*1.00%*
B	*6/15/20X2*	*5.0*	*0.90%*	*0.15%*	*1.05%*

d. Given the above example, why is it appropriate to compare multiple transactions priced at multiple points in time solely on the basis of the spread to the underlying benchmark rate as done in Exhibit 2?

e. What evidence can Witness Sutherland present that the alleged "best

practices" directly caused the specific pricing results for the cited transactions to the exclusion of other potential factors?

Response:

a. The information requested was provided in response to the Companies' first Data Request, DR 1-2.

b. Please see Sutherland Exhibit 4. While interest rates will vary over time, spreads from benchmark securities are much less variable under normal circumstances. Sutherland Exhibit 4 shows how securitization tranches with similar weighted average lives (WALs) of 9-10 years priced with similar spreads during the time in question. It was only during the last year and a half of the 6-year period that spreads decreased significantly for non-Texas deals, and it was Texas deals that led the way down.

c. Yes.

d. It is appropriate because, as Witness Sutherland explained in his direct testimony, issuers do not have any control over the underlying benchmark interest rate in the market at any particular time. But through well executed structuring, marketing, and pricing, the issuer does have the ability to obtain competitive credit spreads leading to a lowest cost result under market conditions at the time of pricing. This is the market standard for comparing the relative value of securities and the efficiency of pricing at any given point in time.

e. The evidence is shown in Sutherland Exhibit 2, Sutherland Exhibit 3, Sutherland Exhibit 4, Sutherland Exhibit 5, Sutherland Exhibit 7, and Sutherland Exhibit 10. While correlation does not necessarily mean causation, when the same result happens over and over again under various market conditions, one can reasonably conclude that it is highly likely there is cause and effect. As explained in the direct testimony of Witness Sutherland, the Saber Partners' methodology employed to evaluate pricing is very similar to that used by Citigroup, as shown in Sutherland Exhibit 3.

2-52. Witness Sutherland's analysis of the rate of return on the utility's capital contribution does not extend past 2014, what were the permitted returns transactions completed in 2015, 2016, 2018 and 2019.

Response:

Attached is a covenant study showing the data in question. The study includes the period from 1997 to present.

Attachment 2-52_RBB Covenant Study Chart

2-53. Witness Sutherland states that "[t]he second argument supporting a longer maturity with SRBs is simply that interest rates are within half a percent of the lowest they have been in the last century or more. Consequently, it is in both the ratepayers' and the utilities' interest to take full advantage of such low rates for as long as reasonably possible."

a. Is Witness Sutherland stating a position that he believes the current low interest rate environment will also exist in mid-2021 when the proposed transaction is priced?

b. If so, what is the basis of Witness Sutherland's position and how confident is he that rates will remain at the current level?

Response:

a. Yes.

b. See attached New York Times article dated 9/16/20 titled Fed Pledges Low Rates for Years, and Until Inflation Picks Up. Witness Sutherland is confident that rates will remain at historically low levels, although not necessarily "at the current level".
This level of confidence in the stability of interest rates through June 1, 2021 is even greater than what Witness Sutherland believed in 2015 when DEF and its advisor, Morgan Stanley, presented a $1.294 billion nine-month interest rate bond hedging proposal during their financing order application process, on the premise that interest rates might rise substantially above the cost of the hedge before the Ratepayer-Backed Bonds could be priced in 2016. Saber Partners recommended against hedging. (The Chairman of Saber Partners' Advisory Board since our founding is Alan Blinder, former vice chairman of the Federal Reserve Board.) The 10-year U.S. Treasury bond was at 2.25% when the proposal was made. At the time of pricing, the 10-year U.S. Treasury bond rate had dropped to 1.60%.

Attachment 2-53_Fed Pledges Low Rates fo

2-54. During the period when Witness Sutherland worked at Florida Power & Light ("FPL"):

a. Did the Florida Office of Public Counsel ("OPC") or any other intervenor have co-equal decision-making with FPL in planning and executing its financings?

b. Did FPL permit OPC or another intervenor to speak with investors of its securities in connection with an offering of those securities?

c. Was OPC or another intervenor given a role in marketing its securities?

d. Was OPC or another intervenor permitted to draft disclosure materials for an offering of FPL's securities?

Response:

Witness Sutherland respectfully objects to this request on the ground that it is irrelevant to the proposed transaction. During the period when Witness Sutherland worked at FPL, FPL did not issue any Ratepayer-Backed Bonds. In addition, FPL's traditional utility debt financings were not direct obligations of the ratepayer, as will be the case with storm recovery bonds proposed to be issued for the Companies in this proceeding. Unlike Ratepayer-Backed Bonds, traditional debt utility costs were subject to ongoing regulatory review and oversight. See also the testimony of Witnesses Fichera, Schoenblum, Moore and Klein about the distinction between the two types of bonds. Consequently, there was no reason to have OPC or another intervenor involved in the planning or execution of the financings on behalf of the ratepayer, and Witness Sutherland does not recall OPC seeking to intervene in connection with any of those FPL traditional utility debt financings.

Public Staff Response to
Duke Energy Carolinas, LLC's & Duke Energy Progress, LLC's Data Request
Data Request No. 3-1

Docket No. E-2, Sub 1262
Docket No. E-7, Sub 1243

Date of Request: **December 29, 2020**
Date of Response: **January 5, 2021**

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The attached response was prepared by MICHAEL C. MANESS, DIRECTOR – ACCOUNTING DIVISION, and MICHELLE M. BOSWELL, MANAGER – ACCOUNTING DIVISION ELECTRIC SECTION, Public Staff – North Carolina Utilities Commission, and provided to William E. H. Creech, Staff Attorney, Public Staff – North Carolina Utilities Commission.

Docket No. E-2, Sub 1262
Docket No. E-7, Sub 1243
Item No. 3-1
Page 1 of 2

Request:

3-1. Please provide a citation to the Companies' initial filing that supports the notion that "the Companies acknowledge that fees payable pursuant to their Servicing Agreements and Administration Agreements are expected to exceed the Companies' direct and incremental costs of providing those services" as stated on pages 13 and 14 of the Joint Testimony of Michael C. Maness and Michelle M. Boswell.

Response:

The sentence from which an excerpt is quoted in the question above, as set forth in the Joint Testimony of Michael C. Maness and Michelle M. Boswell, was included in its original form in error. The sentence as revised should read, in its entirety, "In addition, the fees payable to the Companies pursuant to their Servicing Agreements and Administration Agreements are likely to differ from the Companies' direct and incremental costs of providing those services." The Public Staff will be making an errata filing to reflect this revision.

Support for the sentence, as revised, is found in the following places in the Companies' initial filing. Each of these instances strongly implies that the fees received by the Companies may well differ from the actual costs incurred by the Companies to provide the servicing and administrative functions.

a. Joint Petition Exhibit B, Page 43 of 94, middle paragraph:

> However, the servicing fees collected by DEC, or any affiliate acting as the servicer under the Servicing Agreement, will be reflected in DEC's ongoing cost of service such that any amounts in excess of DEC's incremental costs of servicing the Storm Recovery Bonds shall be returned to DEC's retail customers in the Company's next rate case. The expenses incurred by DEC or such affiliate to perform obligations under the Servicing Agreement not otherwise recovered through the Storm Recovery Charges will likewise be included in DEC's cost of service.

b. Joint Petition Exhibit B, Page 45 of 94, final paragraph:

> The administration fees collected by DEC or any affiliate acting as the administrator under the Administration Agreement will be included in DEC's cost of service such that any amounts in excess of DEC's incremental costs of administering the SPE shall be returned to DEC's retail customers. The expenses incurred by DEC or such affiliate to perform obligations under the Administration Agreement not otherwise recovered through the Storm Recovery Charges will likewise be included in DEC's cost of service.

c. Joint Petition Exhibit C, Page 43 of 94, middle paragraph – The same language as quoted in [a] above, except with reference to DEP.

d. Joint Petition Exhibit C, Page 45 of 94, final paragraph – The same language as quoted in [b] above, except with reference to DEP.

Additionally, when an estimate of future expenses is used to determine a fee amount, common sense dictates that the future actual expense amount will very likely differ from the initial estimate used.

§ 62-2. Declaration of policy.

(a) Upon investigation, it has been determined that the rates, services and operations of public utilities as defined herein, are affected with the public interest and that the availability of an adequate and reliable supply of electric power and natural gas to the people, economy and government of North Carolina is a matter of public policy. It is hereby declared to be the policy of the State of North Carolina:

(1) To provide fair regulation of public utilities in the interest of the public;

(2) To promote the inherent advantage of regulated public utilities;

(3) To promote adequate, reliable and economical utility service to all of the citizens and residents of the State;

(3a) To assure that resources necessary to meet future growth through the provision of adequate, reliable utility service include use of the entire spectrum of demand-side options, including but not limited to conservation, load management and efficiency programs, as additional sources of energy supply and/or energy demand reductions. To that end, to require energy planning and fixing of rates in a manner to result in the least cost mix of generation and demand-reduction measures which is achievable, including consideration of appropriate rewards to utilities for efficiency and conservation which decrease utility bills;

(4) To provide just and reasonable rates and charges for public utility services without unjust discrimination, undue preferences or advantages, or unfair or destructive competitive practices and consistent with long-term management and conservation of energy resources by avoiding wasteful, uneconomic and inefficient uses of energy;

(4a) To assure that facilities necessary to meet future growth can be financed by the utilities operating in this State on terms which are reasonable and fair to both the customers and existing investors of such utilities; and to that end to authorize fixing of rates in such a manner as to result in lower costs of new facilities and lower rates over the operating lives of such new facilities by making provisions in the rate-making process for the investment of public utilities in plants under construction;

(5) To encourage and promote harmony between public utilities, their users and the environment;

(6) To foster the continued service of public utilities on a well-planned and coordinated basis that is consistent with the level of energy needed for the protection of public health and safety and for the promotion of the general welfare as expressed in the State energy policy;

(7) To seek to adjust the rate of growth of regulated energy supply facilities serving the State to the policy requirements of statewide development;

(8) To cooperate with other states and with the federal government in promoting and coordinating interstate and intrastate public utility service and reliability of public utility energy supply;

(9) To facilitate the construction of facilities in and the extension of natural gas service to unserved areas in order to promote the public welfare throughout the State and to that end to authorize the creation of expansion funds for natural gas local distribution companies or gas districts to be administered under the supervision of the North Carolina Utilities Commission; and

(10) To promote the development of renewable energy and energy efficiency through the implementation of a Renewable Energy and Energy Efficiency Portfolio Standard (REPS) that will do all of the following:

a. Diversify the resources used to reliably meet the energy needs of consumers in the State.
b. Provide greater energy security through the use of indigenous energy resources available within the State.
c. Encourage private investment in renewable energy and energy efficiency.
d. Provide improved air quality and other benefits to energy consumers and citizens of the State.

(b) To these ends, therefore, authority shall be vested in the North Carolina Utilities Commission to regulate public utilities generally, their rates, services and operations, and their expansion in relation to long-term energy conservation and management policies and statewide development requirements, and in the manner and in accordance with the policies set forth in this Chapter. Nothing in this Chapter shall be construed to imply any extension of Utilities Commission regulatory jurisdiction over any industry or enterprise that is not subject to the regulatory jurisdiction of said Commission.

Because of technological changes in the equipment and facilities now available and needed to provide telephone and telecommunications services, changes in regulatory policies by the federal government, and changes resulting from the court-ordered divestiture of the American Telephone and Telegraph Company, competitive offerings of certain types of telephone and telecommunications services may be in the public interest. Consequently, authority shall be vested in the North Carolina Utilities Commission to allow competitive offerings of local exchange, exchange access, and long distance services by public utilities defined in G.S. 62-3(23)a.6. and certified in accordance with the provisions of G.S. 62-110, and the Commission is further authorized after notice to affected parties and hearing to deregulate or to exempt from regulation under any or all provisions of this Chapter: (i) a service provided by any public utility as defined in G.S. 62-3(23)a.6. upon a finding that such service is competitive and that such deregulation or exemption from regulation is in the public interest; or (ii) a public utility as defined in G.S. 62-3(23)a.6., or a portion of the business of such public utility, upon a finding that the service or business of such public utility is competitive and that such deregulation or exemption from regulation is in the public interest.

Notwithstanding the provisions of G.S. 62-110(b) and G.S. 62-134(h), the following services provided by public utilities defined in G.S. 62-3(23)a.6. are sufficiently competitive and shall no longer be regulated by the Commission: (i) intraLATA long distance service; (ii) interLATA long distance service; and (iii) long distance operator services. A public utility providing such services shall be permitted, at its own election, to file and maintain tariffs for such services with the Commission up to and including September 1, 2003. Nothing in this subsection shall limit the Commission's authority regarding certification of providers of such services or its authority to hear and resolve complaints against providers of such services alleged to have made changes to the services of customers or imposed charges without appropriate authorization. For purposes of this subsection, and notwithstanding G.S. 62-110(b), "long distance services" shall not include existing or future extended area service, local measured service, or other local calling arrangements, and any future extended area service shall be implemented consistent with Commission rules governing extended area service existing as of May 1, 2003.

The North Carolina Utilities Commission may develop regulatory policies to govern the provision of telecommunications services to the public which promote efficiency, technological innovation, economic growth, and permit telecommunications utilities a reasonable opportunity to compete in an emerging competitive environment, giving due regard to consumers, stockholders, and maintenance of reasonably affordable local exchange service and long distance service.

(b1) Broadband service provided by public utilities as defined in G.S. 62-3(23)a.6. is sufficiently competitive and shall not be regulated by the Commission.

(c) The policy and authority stated in this section shall be applicable to common carriers of passengers by motor vehicle and their regulation by the North Carolina Utilities Commission only to the extent that they are consistent with the provisions of the Bus Regulatory Reform Act of 1985. (1963, c. 1165, s. 1; 1975, c. 877, s. 2; 1977, c. 691, s. 1; 1983 (Reg. Sess., 1984), c. 1043, s. 1; 1985, c. 676, s. 3; 1987, c. 354; 1989, c. 112, s. 1; 1991, c. 598, s. 1; 1995, c. 27, s. 1; 1995 (Reg. Sess., 1996), c. 742, ss. 29-32; 1998-132, s. 18; 2003-91, s. 1; 2005-95, s. 1; 2007-397, s. 1.)

§ 62-15. Office of executive director; public staff, structure and function.

(a) There is established in the Commission the office of executive director, whose salary and longevity pay shall be the same as that fixed for members of the Commission. "Service" for purposes of longevity pay means service as executive director of the public staff. The executive director shall be appointed by the Governor subject to confirmation by the General Assembly by joint resolution. The name of the executive director appointed by the Governor shall be submitted to the General Assembly on or before May 1 of the year in which the term of his office begins. The term of office for the executive director shall be six years, and the initial term shall begin July 1, 1977. The executive director may be removed from office by the Governor in the event of his incapacity to serve; and the executive director shall be removed from office by the Governor upon the affirmative recommendation of a majority of the Commission, after consultation with the Joint Legislative Oversight Committee on Agriculture and Natural and Economic Resources, the Senate Appropriations Committee on Agriculture, Natural, and Economic Resources, and the chairs of the House of Representatives Appropriations Committee on Agriculture and Natural and Economic Resources of the General Assembly. In case of a vacancy in the office of executive director for any reason prior to the expiration of his term of office, the name of his successor shall be submitted by the Governor to the General Assembly, not later than four weeks after the vacancy arises. If a vacancy arises in the office when the General Assembly is not in session, the executive director shall be appointed by the Governor to serve on an interim basis pending confirmation by the General Assembly.

(b) There is established in the Commission a public staff. The public staff shall consist of the executive director and such other professional, administrative, technical, and clerical personnel as may be necessary in order for the public staff to represent the using and consuming public, as hereinafter provided. All such personnel shall be appointed, supervised, and directed by the executive director. The public staff shall not be subject to the supervision, direction, or control of the Commission, the chairman, or members of the Commission.

(c) Except for the executive director, the salaries and compensation of all such personnel shall be fixed in the manner provided by law for fixing and regulating salaries and compensation by other State agencies.

(d) It shall be the duty and responsibility of the public staff to:

(1) Review, investigate, and make appropriate recommendations to the Commission with respect to the reasonableness of rates charged or proposed to be charged by any public utility and with respect to the consistency of such rates with the public policy of assuring an energy supply adequate to protect the public health and safety and to promote the general welfare;

(2) Review, investigate, and make appropriate recommendations to the Commission with respect to the service furnished, or proposed to be furnished by any public utility;

(3) Intervene on behalf of the using and consuming public, in all Commission proceedings affecting the rates or service of any public utility;

(4) When deemed necessary by the executive director in the interest of the using and consuming public, petition the Commission to initiate proceedings to review, investigate, and take appropriate action with respect to the rates or service of public utilities;

(5) Intervene on behalf of the using and consuming public in all certificate applications filed pursuant to the provisions of G.S. 62-110.1, and provide assistance to the Commission in making the analysis and plans required pursuant to the provisions of G.S. 62-110.1 and 62-155;

(6) Intervene on behalf of the using and consuming public in all proceedings wherein any public utility proposes to reduce or abandon service to the public;

(7) Investigate complaints affecting the using and consuming public generally which are directed to the Commission, members of the Commission, or the public staff and where appropriate make recommendations to the Commission with respect to such complaints;

(8) Make studies and recommendations to the Commission with respect to standards, regulations, practices, or service of any public utility pursuant to the provisions of G.S. 62-43; provided, however, that the public staff shall have no duty, responsibility, or authority with respect to the enforcement of natural gas pipeline safety laws, rules, or regulations;

(9) When deemed necessary by the executive director, in the interest of the using and consuming public, intervene in Commission proceedings with respect to transfers of franchises, mergers, consolidations, and combinations of public utilities pursuant to the provisions of G.S. 62-111;

(10) Investigate and make appropriate recommendations to the Commission with respect to applications for certificates by radio common carriers, pursuant to the provisions of Article 6A of this Chapter;

(11) Review, investigate, and make appropriate recommendations to the Commission with respect to contracts of public utilities with affiliates or subsidiaries, pursuant to the provisions of G.S. 62-153;

(12) When deemed necessary by the executive director, in the interest of the using and consuming public, advise the Commission with respect to securities, regulations, and transactions, pursuant to the provisions of Article 8 of this Chapter.

(e) The public staff shall have no duty, responsibility, or authority with respect to the laws, rules or regulations pertaining to the physical facilities or equipment of common, contract and exempt carriers, the registration of vehicles or of insurance coverage of vehicles of common, contract and exempt carriers; the licensing, training, or qualifications of drivers or other persons employed by common, contract and exempt carriers, or the operation of motor vehicle equipment by common, contract and exempt carriers in the State.

(f) The executive director representing the public staff shall have the same rights of appeal from Commission orders or decisions as other parties to Commission proceedings.

(g) Upon request, the executive director shall employ the resources of the public staff to furnish to the Commission, its members, or the Attorney General, such information and reports or conduct such investigations and provide such other assistance as may reasonably be required in order to supervise and control the public utilities of the State as may be necessary to carry out the laws providing for their regulation.

(h) The executive director is authorized to employ, subject to approval by the State Budget Officer, expert witnesses and such other professional expertise as the executive director may deem necessary from time to time to assist the public staff in its participation in Commission proceedings, and the compensation and expenses therefor shall be paid by the utility or utilities participating in said proceedings. Such compensation and expenses shall be treated by the Commission, for rate-making purposes, in a manner generally consistent with its treatment of similar expenditures incurred by utilities in the presentation of their cases before the Commission. An accounting of such compensation and expenses shall be reported annually to the Joint Legislative Oversight Committee on Agriculture and Natural and Economic Resources, the Senate Appropriations Committee on Agriculture, Natural, and Economic Resources, and the chairs of the House of Representatives Appropriations Committee on Agriculture and Natural and Economic Resources and to the Speaker of the House of Representatives and the President Pro Tempore of the Senate.

(i) The executive director, within established budgetary limits, and as allowed by law, shall authorize and approve travel, subsistence, and related necessary expenses of the executive director or members of the public staff, incurred while traveling on official business. (1949, c. 1009, s. 3; 1963, c. 1165, s. 1; 1977, c. 468, s. 4; 1981, c. 475; 1983, c. 717, s. 12.1; 1985, c. 499, s. 4; 1989, c. 781, s. 41.3; 1989 (Reg. Sess., 1990), c. 1024, s. 13; 1999-237, s. 28.21A; 2011-291, ss. 2.8, 2.9; 2017-57, s. 14.1(p).)

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2019

SESSION LAW 2019-244
SENATE BILL 559

A BILL TO BE ENTITLED
AN ACT TO PERMIT FINANCING FOR CERTAIN STORM RECOVERY COSTS.

The General Assembly of North Carolina enacts:

SECTION 1. Article 8 of Chapter 62 of the General Statutes is amended by adding a new section to read:

"**§ 62-172. Financing for certain storm recovery costs.**

(a) Definitions. – The following definitions apply in this section:

(1) Ancillary agreement. – A bond, insurance policy, letter of credit, reserve account, surety bond, interest rate lock or swap arrangement, hedging arrangement, liquidity or credit support arrangement, or other financial arrangement entered into in connection with storm recovery bonds.

(2) Assignee. – A legally recognized entity to which a public utility assigns, sells, or transfers, other than as security, all or a portion of its interest in or right to storm recovery property. The term includes a corporation, limited liability company, general partnership or limited partnership, public authority, trust, financing entity, or any entity to which an assignee assigns, sells, or transfers, other than as security, its interest in or right to storm recovery property.

(2a) Bondholder. – A person who holds a storm recovery bond.

(2b) Code. – The Uniform Commercial Code, Chapter 25 of the General Statutes.

(3) Commission. – The North Carolina Utilities Commission.

(4) Financing costs. – The term includes all of the following:

a. Interest and acquisition, defeasance, or redemption premiums payable on storm recovery bonds.

b. Any payment required under an ancillary agreement and any amount required to fund or replenish a reserve account or other accounts established under the terms of any indenture, ancillary agreement, or other financing documents pertaining to storm recovery bonds.

c. Any other cost related to issuing, supporting, repaying, refunding, and servicing storm recovery bonds, including, servicing fees, accounting and auditing fees, trustee fees, legal fees, consulting fees, structuring adviser fees, administrative fees, placement and underwriting fees, independent director and manager fees, capitalized interest, rating agency fees, stock exchange listing and compliance fees, security registration fees, filing fees, information technology programming costs, and any other costs necessary to otherwise ensure the timely payment of storm recovery bonds or other amounts or charges payable in connection with the bonds, including costs related to obtaining the financing order.

d. Any taxes and license fees or other fees imposed on the revenues generated from the collection of the storm recovery charge or

otherwise resulting from the collection of storm recovery charges, in any such case whether paid, payable, or accrued.

e. Any State and local taxes, franchise, gross receipts, and other taxes or similar charges, including regulatory assessment fees, whether paid, payable, or accrued.

f. Any costs incurred by the Commission or public staff for any outside consultants or counsel retained in connection with the securitization of storm recovery costs.

(5) Financing order. – An order that authorizes the issuance of storm recovery bonds; the imposition, collection, and periodic adjustments of a storm recovery charge; the creation of storm recovery property; and the sale, assignment, or transfer of storm recovery property to an assignee.

(6) Financing party. – Bondholders and trustees, collateral agents, any party under an ancillary agreement, or any other person acting for the benefit of bondholders.

(7) Financing statement. – Defined in Article 9 of the Code.

(8) Pledgee. – A financing party to which a public utility or its successors or assignees mortgages, negotiates, pledges, or creates a security interest or lien on all or any portion of its interest in or right to storm recovery property.

(9) Public utility. – A public utility, as defined in G.S. 62-3, that sells electric power to retail electric customers in the State.

(10) Storm. – Individually or collectively, a named tropical storm or hurricane, a tornado, ice storm or snow storm, flood, an earthquake, or other significant weather or natural disaster.

(11) Storm recovery activity. – An activity or activities by a public utility, its affiliates, or its contractors, directly and specifically in connection with the restoration of service and infrastructure associated with electric power outages affecting customers of a public utility as the result of a storm or storms, including activities related to mobilization, staging, and construction, reconstruction, replacement, or repair of electric generation, transmission, distribution, or general plant facilities.

(12) Storm recovery bonds. – Bonds, debentures, notes, certificates of participation, certificates of beneficial interest, certificates of ownership, or other evidences of indebtedness or ownership that are issued by a public 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 and financing costs, and that are secured by or payable from storm recovery property. If certificates of participation or ownership are issued, references in this section to principal, interest, or premium shall be construed to refer to comparable amounts under those certificates.

(13) Storm recovery charge. – The amounts authorized by the Commission to repay, finance, or refinance storm recovery costs and financing costs and that are nonbypassable charges (i) imposed on and part of all retail customer bills, (ii) collected by a public utility or its successors or assignees, or a collection agent, in full, separate and apart from the public utility's base rates, and (iii) paid by all existing or future retail customers receiving transmission or distribution service, or both, from the public utility or its successors or assignees under Commission-approved rate schedules or under special contracts, even if a customer elects to purchase electricity from an alternative electricity supplier following a fundamental change in regulation of public utilities in this State.

(14) Storm recovery costs. – All of the following:

a. All incremental costs, including capital costs, appropriate for recovery from existing and future retail customers receiving transmission or distribution service from the public utility that a public utility has incurred or expects to incur as a result of the applicable storm that are caused by, associated with, or remain as a result of undertaking storm recovery activity. Such costs include the public utility's cost of capital from the date of the applicable storm to the date the storm recovery bonds are issued calculated using the public utility's weighted average cost of capital as defined in its most recent base rate case proceeding before the Commission net of applicable income tax savings related to the interest component.

b. Storm recovery costs shall be net of applicable insurance proceeds, tax benefits and any other amounts intended to reimburse the public utility for storm recovery activities such as government grants, or aid of any kind and where determined appropriate by the Commission, and may include adjustments for capital replacement and operating costs previously considered in determining normal amounts in the public utility's most recent general rate proceeding. Storm recovery costs includes the cost to replenish and fund any storm reserves and costs of repurchasing equity or retiring any existing indebtedness relating to storm recovery activities.

c. With respect to storm recovery costs that the public utility expects to incur, any difference between costs expected to be incurred and actual, reasonable and prudent costs incurred, or any other rate-making adjustments appropriate to fairly and reasonably assign or allocate storm cost recovery to customers over time, shall be addressed in a future general rate proceeding, as may be facilitated by other orders of the Commission issued at the time or prior to such proceeding; provided, however, that the Commission's adoption of a financing order and approval of the issuance of storm recovery bonds may not be revoked or otherwise modified.

(15) Storm recovery property. – All of the following:

a. All rights and interests of a public utility or successor or assignee of the public utility under a financing order, including the right to impose, bill, charge, collect, and receive storm recovery charges authorized under the financing order and to obtain periodic adjustments to such charges as provided in the financing order.

b. All revenues, collections, claims, rights to payments, payments, money, or proceeds arising from the rights and interests specified in the financing order, 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.

(b) Financing Orders. –

(1) A public utility may petition the Commission for a financing order. The petition shall include all of the following:

a. A description of the storm recovery activities that the public utility has undertaken or proposes to undertake and the reasons for undertaking the activities, or if the public utility is subject to a settlement agreement

as contemplated by subdivision (2) of this subsection, a description of the settlement agreement.

b. The storm recovery costs and estimate of the costs of any storm recovery activities that are being undertaken but are not completed.

c. The level of the storm recovery reserve that the public utility proposes to establish or replenish and has determined would be appropriate to recover through storm recovery bonds and is seeking to so recover and such level that the public utility is funding or will seek to fund through other means, together with a description of the factors and calculations used in determining the amounts and methods of recovery.

d. An indicator of whether the public utility proposes to finance all or a portion of the storm recovery costs using storm recovery bonds. If the public utility proposes to finance a portion of the costs, the public utility must identify the specific portion in the petition. By electing not to finance a portion of such storm recovery costs using storm recovery bonds, a public utility shall not be deemed to waive its right to recover such costs pursuant to a separate proceeding with the Commission.

e. An estimate of the financing costs related to the storm recovery bonds.

f. An estimate of the storm recovery charges necessary to recover the storm recovery costs, including the storm recovery reserve amount determined appropriate by the Commission, and financing costs and the period for recovery of such costs.

g. A comparison between the net present value of the costs to customers that are estimated to result from the issuance of storm recovery bonds and the costs that would result from the application of the traditional method of financing and recovering storm recovery costs from customers. The comparison should demonstrate that the issuance of storm recovery bonds and the imposition of storm recovery charges are expected to provide quantifiable benefits to customers.

h. Direct testimony and exhibits supporting the petition.

(2) If a public utility is subject to a settlement agreement that governs the type and amount of principal costs that could be included in storm recovery costs and the public utility proposes to finance all or a portion of the principal costs using storm recovery bonds, then the public utility must file a petition with the Commission for review and approval of those costs no later than 90 days before filing a petition for a financing order pursuant to this section.

(3) Petition and order. –

a. Proceedings on a petition submitted pursuant to this subdivision begin with the petition by a public utility, filed subject to the time frame specified in subdivision (2) of this subsection, if applicable, and shall be disposed of in accordance with the requirements of this Chapter and the rules of the Commission, except as follows:

1. Within 14 days after the date the petition is filed, the Commission shall establish a procedural schedule that permits a Commission decision no later than 135 days after the date the petition is filed.

2. No later than 135 days after the date the petition is filed, the Commission shall issue a financing order or an order rejecting the petition. A party to the Commission proceeding may petition the Commission for reconsideration of the financing order within five days after the date of its issuance.

b. A financing order issued by the Commission to a public utility shall include all of the following elements:

1. Except for changes made pursuant to the formula-based mechanism authorized under this section, the amount of storm recovery costs, including the level of storm recovery reserves, to be financed using storm recovery bonds. The Commission shall describe and estimate the amount of financing costs that may be recovered through storm recovery charges and specify the period over which storm recovery costs and financing costs may be recovered.

2. A finding that the proposed issuance of storm recovery bonds and the imposition and collection of a storm recovery charge are expected to provide quantifiable benefits to customers as compared to the costs that would have been incurred absent the issuance of storm recovery bonds.

3. A finding that the structuring and pricing of the storm recovery bonds are reasonably expected to result in the lowest storm recovery charges consistent with market conditions at the time the storm recovery bonds are priced and the terms set forth in such financing order.

4. A requirement that, for so long as the storm recovery bonds are outstanding and until all financing costs have been paid in full, the imposition and collection of storm recovery charges authorized under a financing order shall be nonbypassable and paid by all existing and future retail customers receiving transmission or distribution service, or both, from the public utility or its successors or assignees under Commission-approved rate schedules or under special contracts, even if a customer elects to purchase electricity from an alternative electric supplier following a fundamental change in regulation of public utilities in this State.

5. A determination of what portion, if any, of the storm recovery reserves must be held in a funded reserve and any limitations on how the reserve may be held, accessed, or used.

6. A formula-based true-up mechanism for making, at least annually, expeditious periodic adjustments in the storm recovery charges that customers are required to pay pursuant to the financing 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 storm recovery bonds and financing costs and other required amounts and charges payable in connection with the storm recovery bonds.

7. The storm recovery property that is, or shall be, created in favor of a public utility or its successors or assignees and that shall be used to pay or secure storm recovery bonds and all financing costs.

8. The degree of flexibility to be afforded to the public utility in establishing the terms and conditions of the storm recovery bonds, including, but not limited to, repayment schedules, expected interest rates, and other financing costs.

9. How storm recovery charges will be allocated among customer classes.

10. A requirement that, after the final terms of an issuance of storm recovery bonds have been established and before the issuance of storm recovery bonds, the public utility determines the resulting initial storm recovery charge in accordance with the financing order and that such initial storm recovery charge be final and effective upon the issuance of such storm recovery bonds without further Commission action so long as the storm recovery charge is consistent with the financing order.

11. A method of tracing funds collected as storm recovery charges, or other proceeds of storm recovery property, and determine that such method shall be deemed the method of tracing such funds and determining the identifiable cash proceeds of any storm recovery property subject to a financing order under applicable law.

12. Any other conditions not otherwise inconsistent with this section that the Commission determines are appropriate.

c. A financing order issued to a public utility may provide that creation of the public utility's storm recovery property is conditioned upon, and simultaneous with, the sale or other transfer of the storm recovery property to an assignee and the pledge of the storm recovery property to secure storm recovery bonds.

d. If the Commission issues a financing order, the public utility shall file with the Commission at least annually 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 applicable adjustments. The review of the filing shall be limited to determining whether there are any mathematical or clerical errors in the application of the formula-based mechanism relating to the appropriate amount of any overcollection or undercollection of storm recovery charges and the amount of an adjustment. The 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 financing order. Within 30 days after receiving a public utility's request pursuant to this paragraph, the Commission shall either approve the request or inform the public utility of any mathematical or clerical errors in its calculation. If the Commission informs the utility of mathematical or clerical errors in its calculation, the utility may correct its error and refile its request. The time frames previously described in this paragraph shall apply to a refiled request.

e. Subsequent to the transfer of storm recovery property to an assignee or the issuance of storm recovery bonds authorized thereby, whichever is earlier, a financing order is irrevocable and, except for changes made pursuant to the formula-based mechanism authorized in this section, the Commission may not amend, modify, or terminate the financing order by any subsequent action or reduce, impair, postpone, terminate, or otherwise adjust storm recovery charges approved in the financing order. After the issuance of a financing order, the public utility retains

sole discretion regarding whether to assign, sell, or otherwise transfer storm recovery property or to cause storm recovery bonds to be issued, including the right to defer or postpone such assignment, sale, transfer, or issuance.

(4) At the request of a public utility, the Commission may commence a proceeding and issue a subsequent financing order that provides for refinancing, retiring, or refunding storm recovery bonds issued pursuant to the original financing order if the Commission finds that the subsequent financing order satisfies all of the criteria specified in this section for a financing order. Effective upon retirement of the refunded storm recovery bonds and the issuance of new storm recovery bonds, the Commission shall adjust the related storm recovery charges accordingly.

(5) Within 60 days after the Commission issues a financing order or a decision denying a request for reconsideration or, if the request for reconsideration is granted, within 30 days after the Commission issues its decision on reconsideration, an adversely affected party may petition for judicial review in the Supreme Court of North Carolina. Review on appeal shall be based solely on the record before the Commission and briefs to the court and is limited to determining whether the financing order, or the order on reconsideration, conforms to the State Constitution and State and federal law and is within the authority of the Commission under this section.

(6) Duration of financing order. –

a. A financing order remains in effect and storm recovery property under the financing order continues to exist until storm recovery bonds issued pursuant to the financing order have been paid in full or defeased and, in each case, all Commission-approved financing costs of such storm recovery bonds have been recovered in full.

b. A financing order issued to a public utility remains in effect and unabated notwithstanding the reorganization, bankruptcy or other insolvency proceedings, merger, or sale of the public utility or its successors or assignees.

(c) Exceptions to Commission Jurisdiction. –

(1) The Commission may not, in exercising its powers and carrying out its duties regarding any matter within its authority pursuant to this Chapter, consider the storm recovery bonds issued pursuant to a financing order to be the debt of the public utility other than for federal income tax purposes, consider the storm recovery charges paid under the financing order to be the revenue of the public utility for any purpose, or consider the storm recovery costs or financing costs specified in the financing order to be the costs of the public utility, nor may the Commission determine any action taken by a public utility which is consistent with the financing order to be unjust or unreasonable.

(2) The Commission may not order or otherwise directly or indirectly require a public utility to use storm recovery bonds to finance any project, addition, plant, facility, extension, capital improvement, equipment, or any other expenditure. After the issuance of a financing order, the public utility retains sole discretion regarding whether to cause the storm recovery bonds to be issued, including the right to defer or postpone such sale, assignment, transfer, or issuance. Nothing shall prevent the public utility from abandoning the issuance of storm recovery bonds under the financing order by filing with the Commission a statement of abandonment and the reasons therefor. The Commission may not refuse to allow a public utility to recover storm recovery

costs in an otherwise permissible fashion, or refuse or condition authorization or approval of the issuance and sale by a public utility of securities or the assumption by the public utility of liabilities or obligations, solely because of the potential availability of storm recovery bond financing.

(d) Public Utility Duties. – The electric bills of a public utility that has obtained a financing order and caused storm recovery bonds to be issued must comply with the provisions of this subsection; however, the failure of a public utility to comply with this subsection does not invalidate, impair, or affect any financing order, storm recovery property, storm recovery charge, or storm recovery bonds. The public utility must do the following:

(1) Explicitly reflect that a portion of the charges on such bill represents storm recovery charges approved in a financing order issued to the public utility and, if the storm recovery property has been transferred to an assignee, must include a statement to the effect that the assignee is the owner of the rights to storm recovery charges and that the public utility or other entity, if applicable, is acting as a collection agent or servicer for the assignee. The tariff applicable to customers must indicate the storm recovery charge and the ownership of the charge.

(2) Include the storm recovery charge on each customer's bill as a separate line item and include both the rate and the amount of the charge on each bill.

(e) Storm Recovery Property. –

(1) Provisions applicable to storm recovery property. –

a. All storm recovery property that is specified in a financing order constitutes an existing, present intangible property right or interest therein, notwithstanding that the imposition and collection of storm recovery charges depends on the public utility, to which the financing order is issued, performing its servicing functions relating to the collection of storm recovery charges and on future electricity consumption. The property exists (i) regardless of whether or not the revenues or proceeds arising from the property have been billed, have accrued, or have been collected and (ii) notwithstanding the fact that the value or amount of the property is dependent on the future provision of service to customers by the public utility or its successors or assignees and the future consumption of electricity by customers.

b. Storm recovery property specified in a financing order exists until storm recovery bonds issued pursuant to the financing order are paid in full and all financing costs and other costs of such storm recovery bonds have been recovered in full.

c. All or any portion of storm recovery property specified in a financing order issued to a public utility may be transferred, sold, conveyed, or assigned to a successor or assignee that is wholly owned, directly or indirectly, by the public utility and created for the limited purpose of acquiring, owning, or administering storm recovery property or issuing storm recovery bonds under the financing order. All or any portion of storm recovery property may be pledged to secure storm recovery bonds issued pursuant to the financing order, amounts payable to financing parties and to counterparties under any ancillary agreements, and other financing costs. Any transfer, sale, conveyance, assignment, grant of a security interest in or pledge of storm recovery property by a public utility, or an affiliate of the public utility, to an assignee, to the extent previously authorized in a financing order, does not require the prior consent and approval of the Commission.

d. If a public utility defaults on any required payment of charges arising from storm recovery property specified in a financing 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 storm recovery property to the financing parties or their assignees. Any such financing order remains in full force and effect notwithstanding any reorganization, bankruptcy, or other insolvency proceedings with respect to the public utility or its successors or assignees.

e. The interest of a transferee, purchaser, acquirer, assignee, or pledgee in storm recovery property specified in a financing order issued to a public utility, and in the revenue and collections arising from that property, is not subject to setoff, counterclaim, surcharge, or defense by the public utility or any other person or in connection with the reorganization, bankruptcy, or other insolvency of the public utility or any other entity.

f. Any successor to a public utility, 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 public utility restructuring or otherwise, must perform and satisfy all obligations of, and have the same rights under a financing order as, the public utility under the financing order in the same manner and to the same extent as the public utility, including collecting and paying to the person entitled to receive the revenues, collections, payments, or proceeds of the storm recovery property. Nothing in this sub-subdivision is intended to limit or impair any authority of the Commission concerning the transfer or succession of interests of public utilities.

g. Storm recovery bonds shall be nonrecourse to the credit or any assets of the public utility other than the storm recovery property as specified in the financing order and any rights under any ancillary agreement.

(2) Provisions applicable to security interests. –

a. The creation, perfection, and enforcement of any security interest in storm recovery property to secure the repayment of the principal and interest and other amounts payable in respect of storm recovery bonds; amounts payable under any ancillary agreement and other financing costs are governed by this subsection and not by the provisions of the Code.

b. A security interest in storm recovery property is created, valid, and binding and perfected at the later of the time: (i) the financing order is issued, (ii) a security agreement is executed and delivered by the debtor granting such security interest, (iii) the debtor has rights in such storm recovery property or the power to transfer rights in such storm recovery property, or (iv) value is received for the storm recovery property. The description of storm recovery property in a security agreement is sufficient if the description refers to this section and the financing order creating the storm recovery property.

c. A security interest shall attach without any physical delivery of collateral or other act, and, upon the filing of a financing statement with the office of the Secretary of State, the lien of the security interest

shall be valid, binding, and perfected against all parties having claims of any kind in tort, contract, or otherwise against the person granting the security interest, regardless of whether the parties have notice of the lien. Also upon this filing, a transfer of an interest in the storm recovery property shall be perfected against all parties having claims of any kind, including any judicial lien or other lien creditors or any claims of the seller or creditors of the seller, and shall have priority over all competing claims other than any prior security interest, ownership interest, or assignment in the property previously perfected in accordance with this section.

d. The Secretary of State shall maintain any financing statement filed to perfect any security interest under this section in the same manner that the Secretary maintains financing statements filed by transmitting utilities under the Code. The filing of a financing statement under this section shall be governed by the provisions regarding the filing of financing statements in the Code.

e. The priority of a security interest in storm recovery property is not affected by the commingling of storm recovery charges with other amounts. Any pledgee or secured party shall have a perfected security interest in the amount of all storm recovery charges that are deposited in any cash or deposit account of the qualifying utility in which storm recovery charges have been commingled with other funds and any other security interest that may apply to those funds shall be terminated when they are transferred to a segregated account for the assignee or a financing party.

f. No application of the formula-based adjustment mechanism as provided in this section will affect the validity, perfection, or priority of a security interest in or transfer of storm recovery property.

g. If a default or termination occurs under the storm recovery bonds, the financing parties or their representatives may foreclose on or otherwise enforce their lien and security interest in any storm recovery property as if they were secured parties with a perfected and prior lien under the Code, and the Commission may order amounts arising from storm recovery charges be transferred to a separate account for the financing parties' benefit, to which their lien and security interest shall apply. On application by or on behalf of the financing parties, the Superior Court of Wake County shall order the sequestration and payment to them of revenues arising from the storm recovery charges.

(3) Provisions applicable to the sale, assignment, or transfer of storm recovery property. –

a. Any sale, assignment, or other transfer of storm recovery property shall be an absolute transfer and true sale of, and not a pledge of or secured transaction relating to, the seller's right, title, and interest in, to, and under the storm recovery property if the documents governing the transaction expressly state that the transaction is a sale or other absolute transfer other than for federal and State income tax purposes. For all purposes other than federal and State income tax purposes, the parties' characterization of a transaction as a sale of an interest in storm recovery property shall be conclusive that the transaction is a true sale and that ownership has passed to the party characterized as the purchaser, regardless of whether the purchaser has possession of any

documents evidencing or pertaining to the interest. A transfer of an interest in storm recovery property may be created only when all of the following have occurred: (i) the financing order creating the storm recovery property has become effective, (ii) the documents evidencing the transfer of storm recovery property have been executed by the assignor and delivered to the assignee, and (iii) value is received for the storm recovery property. After such a transaction, the storm recovery property is not subject to any claims of the transferor or the transferor's creditors, other than creditors holding a prior security interest in the storm recovery property perfected in accordance with subdivision (2) of subsection (e) of this section.

b. The characterization of the sale, assignment, or other transfer as an absolute transfer and true sale and the corresponding characterization of the property interest of the purchaser, shall not be affected or impaired by the occurrence of any of the following factors:

1. Commingling of storm recovery charges with other amounts.
2. The retention by the seller of (i) a partial or residual interest, including an equity interest, in the storm recovery property, whether direct or indirect, or whether subordinate or otherwise, or (ii) the right to recover costs associated with taxes, franchise fees, or license fees imposed on the collection of storm recovery charges.
3. Any recourse that the purchaser may have against the seller.
4. Any indemnification rights, obligations, or repurchase rights made or provided by the seller.
5. The obligation of the seller to collect storm recovery charges on behalf of an assignee.
6. The transferor acting as the servicer of the storm recovery charges or the existence of any contract that authorizes or requires the public utility, to the extent that any interest in storm recovery property is sold or assigned, to contract with the assignee or any financing party that it will continue to operate its system to provide service to its customers, will collect amounts in respect of the storm recovery charges for the benefit and account of such assignee or financing party, and will account for and remit such amounts to or for the account of such assignee or financing party.
7. The treatment of the sale, conveyance, assignment, or other transfer for tax, financial reporting, or other purposes.
8. The granting or providing to bondholders a preferred right to the storm recovery property or credit enhancement by the public utility or its affiliates with respect to such storm recovery bonds.
9. Any application of the formula-based adjustment mechanism as provided in this section.

c. Any right that a public utility has in the storm recovery property before its pledge, sale, or transfer or any other right created under this section or created in the financing order and assignable under this section or assignable pursuant to a financing order is property in the form of a contract right or a chose in action. Transfer of an interest in storm recovery property to an assignee is enforceable only upon the later of

(i) the issuance of a financing order, (ii) the assignor having rights in such storm recovery property or the power to transfer rights in such storm recovery property to an assignee, (iii) the execution and delivery by the assignor of transfer documents in connection with the issuance of storm recovery bonds, and (iv) the receipt of value for the storm recovery property. An enforceable transfer of an interest in storm recovery property to an assignee is perfected against all third parties, including subsequent judicial or other lien creditors, when a notice of that transfer has been given by the filing of a financing statement in accordance with sub-subdivision c. of subdivision (2) of this subsection. The transfer is perfected against third parties as of the date of filing.

d. The Secretary of State shall maintain any financing statement filed to perfect any sale, assignment, or transfer of storm recovery property under this section in the same manner that the Secretary maintains financing statements filed by transmitting utilities under the Code. The filing of any financing statement under this section shall be governed by the provisions regarding the filing of financing statements in the Code. The filing of such a financing statement is the only method of perfecting a transfer of storm recovery property.

e. The priority of a transfer perfected under this section is not impaired by any later modification of the financing order or storm recovery property or by the commingling of funds arising from storm recovery property with other funds. Any other security interest that may apply to those funds, other than a security interest perfected under subdivision (2) of this subsection, is terminated when they are transferred to a segregated account for the assignee or a financing party. If storm recovery property has been transferred to an assignee or financing party, any proceeds of that property must be held in trust for the assignee or financing party.

f. The priority of the conflicting interests of assignees in the same interest or rights in any storm recovery property is determined as follows:

1. Conflicting perfected interests or rights of assignees rank according to priority in time of perfection. Priority dates from the time a filing covering the transfer is made in accordance with sub-subdivision c. of subdivision (2) of this subsection.
2. A perfected interest or right of an assignee has priority over a conflicting unperfected interest or right of an assignee.
3. A perfected interest or right of an assignee has priority over a person who becomes a lien creditor after the perfection of such assignee's interest or right.

(f) Description or Indication of Property. – The description of storm recovery property being transferred to an assignee in any sale agreement, purchase agreement, or other transfer agreement, granted or pledged to a pledgee in any security agreement, pledge agreement, or other security document, or indicated in any financing statement is only sufficient if such description or indication refers to the financing order that created the storm recovery property and states that the agreement or financing statement covers all or part of the property described in the financing order. This section applies to all purported transfers of, and all purported grants or liens or security interests in, storm recovery property, regardless of whether the related sale agreement,

purchase agreement, other transfer agreement, security agreement, pledge agreement, or other security document was entered into, or any financing statement was filed.

(g) Financing Statements. – All financing statements referenced in this section are subject to Part 5 of Article 9 of the Code, except that the requirement as to continuation statements does not apply.

(h) Choice of Law. – The law governing the validity, enforceability, attachment, perfection, priority, and exercise of remedies with respect to the transfer of an interest or right or the pledge or creation of a security interest in any storm recovery property shall be the laws of this State.

(i) Storm Recovery Bonds Not Public Debt. – Neither the State nor its political subdivisions are liable on any storm recovery bonds, and the bonds are not a debt or a general obligation of the State or any of its political subdivisions, agencies, or instrumentalities, nor are they special obligations or indebtedness of the State or any agency or political subdivision. An issue 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. All storm recovery bonds must contain on the face thereof a statement to the following effect: "Neither the full faith and credit nor the taxing power of the State of North Carolina is pledged to the payment of the principal of, or interest on, this bond."

(j) Legal Investment. – All of the following entities may legally invest any sinking funds, moneys, or other funds in storm recovery bonds:

(1) Subject to applicable statutory restrictions on State or local investment authority, the State, units of local government, political subdivisions, public bodies, and public officers, except for members of the Commission.

(2) Banks and bankers, savings and loan associations, credit unions, trust companies, savings banks and institutions, investment companies, insurance companies, insurance associations, and other persons carrying on a banking or insurance business.

(3) Personal representatives, guardians, trustees, and other fiduciaries.

(4) All other persons authorized to invest in bonds or other obligations of a similar nature.

(k) Obligation of Nonimpairment. –

(1) The State and its agencies, including the Commission, pledge and agree with bondholders, the owners of the storm recovery property, and other financing parties that the State and its agencies will not take any action listed in this subdivision. This paragraph does not preclude limitation or alteration if full compensation is made by law for the full protection of the storm recovery charges collected pursuant to a financing order and of the bondholders and any assignee or financing party entering into a contract with the public utility. The prohibited actions are as follows:

a. Alter the provisions of this section, which authorize the Commission to create an irrevocable contract right or chose in action by the issuance of a financing order, to create storm recovery property, and make the storm recovery charges imposed by a financing order irrevocable, binding, or nonbypassable charges.

b. Take or permit any action that impairs or would impair the value of storm recovery property or the security for the storm recovery bonds or revises the storm recovery costs for which recovery is authorized.

c. In any way impair the rights and remedies of the bondholders, assignees, and other financing parties.

d. Except for changes made pursuant to the formula-based adjustment mechanism authorized under this section, reduce, alter, or impair storm recovery charges that are to be imposed, billed, charged, collected, and remitted for the benefit of the bondholders, any assignee, and any 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.

(2) Any person or entity that issues storm recovery bonds may include the language specified in this subsection in the storm recovery bonds and related documentation.

(*l*) Not a Public Utility. – An assignee or financing party is not a public utility or person providing electric service by virtue of engaging in the transactions described in this section.

(m) Conflicts. – If there is a conflict between this section and any other law regarding the attachment, assignment, or perfection, or the effect of perfection, or priority of, assignment or transfer of, or security interest in storm recovery property, this section shall govern.

(n) Consultation. – In making determinations under this section, the Commission or public staff or both may engage an outside consultant and counsel.

(o) Effect of Invalidity. – If any provision of this section is held invalid or is invalidated, superseded, replaced, repealed, or expires for any reason, that occurrence does not affect the validity of any action allowed under this section which is taken by a public utility, an assignee, a financing party, a collection agent, or a party to an ancillary agreement; and any such action remains in full force and effect with respect to all storm recovery bonds issued or authorized in a financing order issued under this section before the date that such provision is held invalid or is invalidated, superseded, replaced, or repealed, or expires for any reason."

SECTION 2. G.S. 25-9-109(d) reads as rewritten:

"(d) Inapplicability of Article. – This Article does not apply to:

…

(13) An assignment of a deposit account in a consumer transaction, but G.S. 25-9-315 and G.S. 25-9-322 apply with respect to proceeds and priorities in proceeds; ~~or~~

(14) The creation, perfection, priority, or enforcement of any lien on, assignment of, pledge of, or security in, any revenues, rights, funds, or other tangible or intangible assets created, made, or granted by this State or a governmental unit in this State, including the assignment of rights as secured party in security interests granted by any party subject to the provisions of this Article to this State or a governmental unit in this State, to secure, directly or indirectly, any bond, note, other evidence of indebtedness, or other payment obligations for borrowed money issued by, or in connection with, installment or lease purchase financings by, this State or a governmental unit in this State. However, notwithstanding this subdivision, this Article does apply to the creation, perfection, priority, and enforcement of security interests created by this State or a governmental unit in this State in equipment or ~~fixtures.~~fixtures; or

(15) The creation, perfection, priority, or enforcement of any sale, assignment of, pledge of, security interest in, or other transfer of, any interest or right or portion of any interest or right in any storm recovery property as defined G.S. 62-172."

SECTION 3. This act is effective when it becomes law.

In the General Assembly read three times and ratified this the 31st day of October, 2019.

s/ Philip E. Berger
President Pro Tempore of the Senate

s/ Tim Moore
Speaker of the House of Representatives

s/ Roy Cooper
Governor

Approved 2:18 p.m. this 6th day of November, 2019

NUCLEAR ASSET-RECOVERY PROPERTY SERVICING AGREEMENT

by and between

DUKE ENERGY FLORIDA PROJECT FINANCE, LLC,

Issuer

and

DUKE ENERGY FLORIDA, LLC,

Servicer

Acknowledged and Accepted by

THE BANK OF NEW YORK MELLON
TRUST COMPANY, NATIONAL ASSOCIATION, as Indenture Trustee

Dated as of June 22, 2016

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APPENDIX

Appendix A	Definitions and Rules of Construction

This NUCLEAR ASSET-RECOVERY PROPERTY SERVICING AGREEMENT, dated as of June 22, 2016, is by and between DUKE ENERGY FLORIDA PROJECT FINANCE, LLC, a Delaware limited liability company, as Issuer, and DUKE ENERGY FLORIDA, LLC, a Florida limited liability company, as servicer, and acknowledged and accepted by THE BANK OF NEW YORK MELLON TRUST COMPANY, NATIONAL ASSOCIATION, a national banking association, as Indenture Trustee.

RECITALS

WHEREAS, pursuant to the Nuclear Asset-Recovery Law and the Financing Order, Duke Energy Florida, in its capacity as seller, and the Issuer are concurrently entering into the Sale Agreement pursuant to which the Seller is selling and the Issuer is purchasing certain Property created pursuant to the Nuclear Asset-Recovery Law and the Financing Order described therein;

WHEREAS, in connection with its ownership of the Series Property relating to the Series A Bonds and in order to collect the associated Series Charges, the Issuer desires to engage the Servicer to carry out the functions described herein and the Servicer desires to be so engaged;

WHEREAS, the Issuer desires to engage the Servicer to act on its behalf in obtaining True-Up Adjustments from the Commission and the Servicer desires to be so engaged;

WHEREAS, the Nuclear Asset-Recovery Charge Collections for the Series A Bonds may be commingled with other funds collected by the Servicer; and

WHEREAS, certain parties may have an interest in such commingled collections, and such parties will have entered into the Intercreditor Agreement, which allows Duke Energy Florida to allocate the collected, commingled funds according to each party's interest;

WHEREAS, the Commission or its attorney will enforce this Servicing Agreement for the benefit of the Customers.

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the parties hereto agree as follows:

ARTICLE I
DEFINITIONS AND RULES OF CONSTRUCTION

Section 1.01. Definitions and Rules of Construction. Capitalized terms used but not otherwise defined in this Servicing Agreement shall have the respective meanings given to such terms in Appendix A, which is hereby incorporated by reference into this Servicing Agreement as if set forth fully in this Servicing Agreement. Not all terms defined in Appendix A are used in this Servicing Agreement. The rules of construction set forth in Appendix A shall apply to this Servicing Agreement and are hereby incorporated by reference into this Servicing Agreement as if set forth fully in this Servicing Agreement, however for purposes of this

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Servicing Agreement, unless otherwise indicated herein, the terms Series Charges, Series Closing Date, Series Collateral and Series Property mean the Series Charges, Series Closing Date, Series Collateral and Series Property for the Series A Bonds..

ARTICLE II
APPOINTMENT AND AUTHORIZATION

Section 2.01. Appointment of Servicer; Acceptance of Appointment. The Issuer hereby appoints the Servicer, and the Servicer hereby accepts such appointment, to perform the Servicer's obligations pursuant to this Servicing Agreement on behalf of and for the benefit of the Issuer or any assignee thereof in accordance with the terms of this Servicing Agreement and applicable law as it applies to the Servicer in its capacity as servicer hereunder. This appointment and the Servicer's acceptance thereof may not be revoked except in accordance with the express terms of this Servicing Agreement.

Section 2.02. Authorization. With respect to all or any portion of the Series Property, the Servicer shall be, and hereby is, authorized and empowered by the Issuer to (a) execute and deliver, on behalf of itself and/or the Issuer, as the case may be, any and all instruments, documents or notices, and (b) on behalf of itself and/or the Issuer, as the case may be, make any filing and participate in proceedings of any kind with any Governmental Authority, including with the Commission. The Issuer shall execute and deliver to the Servicer such documents as have been prepared by the Servicer for execution by the Issuer and shall furnish the Servicer with such other documents as may be in the Issuer's possession, in each case as the Servicer may determine to be necessary or

appropriate to enable it to carry out its servicing and administrative duties hereunder. Upon the Servicer's written request, the Issuer shall furnish the Servicer with any powers of attorney or other documents necessary or appropriate to enable the Servicer to carry out its duties hereunder.

Section 2.03. Dominion and Control Over the Series Property. Notwithstanding any other provision herein, the Issuer shall have dominion and control over the Series Property, and the Servicer, in accordance with the terms hereof, is acting solely as the servicing agent and custodian for the Issuer with respect to the Series Property and the Nuclear Asset-Recovery Property Records for the Series A Bonds. The Servicer shall not take any action that is not authorized by this Servicing Agreement, that would contravene the Commission Regulations or the Financing Order, that is not consistent with its customary procedures and practices or that shall impair the rights of the Issuer or the Indenture Trustee (on behalf of the Holders) in the Series Property, in each case unless such action is required by applicable law or court or regulatory order.

ARTICLE III
ROLE OF SERVICER

Section 3.01. Duties of Servicer. The Servicer, as agent for the Issuer, shall have the following duties:

(a) Duties of Servicer Generally.

(i) The Servicer's duties in general shall include: management, servicing and administration of the Series Property; calculating consumption, billing the Series Charges, collecting the Series Charges from Customers and posting all collections, responding to inquiries by Customers, the Commission or any other Governmental Authority with respect to the Series Property or Series Charges; investigating and handling delinquencies (and furnishing reports with respect to such delinquencies to the Issuer), processing and depositing collections and making periodic remittances; furnishing periodic and current reports to the Issuer, the Commission, the Indenture Trustee and the Rating Agencies; making all filings with the Commission and taking such other action as may be necessary to perfect the Issuer's ownership interests in and the Indenture Trustee's first priority Lien on the Series Property; making all filings and taking such other action as may be necessary to perfect and maintain the perfection and priority of the Indenture Trustee's Lien on all Series Collateral; selling as the agent for the Issuer, as its interests may appear, defaulted or written off accounts in accordance with the Servicer's usual and customary practices; taking all necessary action in connection with True-Up Adjustments as set forth herein; and performing such other duties as may be specified under the Financing Order to be performed by it. Anything to the contrary notwithstanding, the duties of the Servicer set forth in this Servicing Agreement shall be qualified in their entirety by any Commission Regulations, the Financing Order and the U.S. federal securities laws and the rules and regulations promulgated thereunder, including Regulation AB, as in effect at the time such duties are to be performed. Without limiting the generality of this Section 3.01(a)(i), in furtherance of the foregoing, the Servicer hereby agrees that it shall also have, and shall comply with, the duties and responsibilities relating to data acquisition, consumption and bill calculation, billing, customer service functions, collections, posting, payment processing and remittance set forth in Exhibit A. Any processing and depositing of collections, making of periodic remittances and furnishing of periodic reports set forth in this Section 3.01(a)(i) shall be subject to the provisions of the Intercreditor Agreement.

(ii) Commission Regulations Control. Notwithstanding anything to the contrary in this Servicing Agreement, the duties of the Servicer set forth in this Servicing Agreement shall be

qualified and limited in their entirety by the Nuclear Asset-Recovery Law, the Financing Order and any Commission Regulations as in effect at the time such duties are to be performed.

(b) Reporting Functions.

(i) Monthly Servicer's Certificate. On or before the last Servicer Business Day of each month, the Servicer shall prepare and deliver to the Issuer, the Indenture Trustee, the Commission and the Rating Agencies a written report substantially in the form of Exhibit B (a "Monthly Servicer's Certificate") setting forth certain information relating to Nuclear Asset-Recovery Charge Payments in connection with the Series Charges received by the Servicer during the Collection Period preceding such date; provided, however, that, for any month in which the

Servicer is required to deliver a Semi-Annual Servicer's Certificate pursuant to Section 4.01(c)(ii), the Servicer shall prepare and deliver the Monthly Servicer's Certificate no later than the date of delivery of such Semi-Annual Servicer's Certificate.

(ii) Notification of Laws and Regulations. The Servicer shall immediately notify the Issuer, the Indenture Trustee, and the Rating Agencies in writing of any Requirement of Law or Commission Regulations hereafter promulgated that have a material adverse effect on the Servicer's ability to perform its duties under this Servicing Agreement.

(iii) Other Information. Upon the reasonable request of the Issuer, the Indenture Trustee, the Commission or any Rating Agency, the Servicer shall provide to the Issuer, the Indenture Trustee, the Commission or such Rating Agency, as the case may be, any public financial information in respect of the Servicer, or any material information regarding the Series Property to the extent it is reasonably available to the Servicer, as may be reasonably necessary and permitted by law to enable the Issuer, the Indenture Trustee, the Commission or the Rating Agencies to monitor the performance by the Servicer hereunder. In addition, so long as any of the Series A Bonds are outstanding, the Servicer shall provide the Issuer, the Commission and the Indenture Trustee, within a reasonable time after written request therefor, any information available to the Servicer or reasonably obtainable by it that is necessary to calculate the Series Charges applicable to each Nuclear Asset-Recovery Rate Class.

(iv) Preparation of Reports. The Servicer shall prepare and deliver such additional reports as required under this Servicing Agreement, including a copy of each Semi-Annual Servicer's Certificate described in Section 4.01(c)(ii), the annual statements of compliance, attestation reports and other certificates described in Section 3.03 and the Annual Accountant's Report described in Section 3.04. In addition, the Servicer shall prepare, procure, deliver and/or file, or cause to be prepared, procured, delivered or filed, any reports, attestations, exhibits, certificates or other documents required to be delivered or filed with the SEC (and/or any other Governmental Authority) by the Issuer or the Sponsor under the U.S. federal securities or other applicable laws or in accordance with the Basic Documents, including filing with the SEC, if applicable and required by applicable law, a copy or copies of (A) the Monthly Servicer's Certificates described in Section 3.01(b)(i) (under Form 10-D or any other applicable form), (B) the Semi-Annual Servicer's Certificates described in Section 4.01(c)(ii) (under Form 10-D or any other applicable form), (C) the annual statements of compliance, attestation reports and other certificates described in Section 3.03 and (D) the Annual Accountant's Report (and any attestation required under Regulation AB) described in Section 3.04. In addition, the appropriate officer or officers of the Servicer shall (in its separate capacity as Servicer) sign the Sponsor's annual report

on Form 10-K (and any other applicable SEC or other reports, attestations, certifications and other documents), to the extent that the

Servicer's signature is required by, and consistent with, the U.S. federal securities laws and/or any other applicable law.

(c) Opinions of Counsel. The Servicer shall obtain on behalf of the Issuer and deliver to the Issuer, the Commission and the Indenture Trustee:

(i) promptly after the execution and delivery of this Servicing Agreement and of each amendment hereto, an Opinion of Counsel from external counsel of the Issuer either (A) to the effect that, in the opinion of such counsel, all filings, including filings with the Florida Secured Transactions Registry and the Secretary of State of the State of Delaware, that are necessary under the UCC and the Nuclear Asset-Recovery Law to fully preserve, protect and perfect the Liens of the Indenture Trustee in the Series Property have been authorized, executed and filed, and reciting the details of such filings or referring to prior Opinions of Counsel in which such details are given, or (B) to the effect that, in the opinion of such counsel, no such action shall be necessary to preserve, protect and perfect such Liens; and

(ii) within 90 days after the beginning of each calendar year beginning with the first calendar year beginning more than three months after the date hereof, an Opinion of Counsel, which counsel may be an employee of or counsel to the Issuer or the Servicer and which shall be reasonably satisfactory to the Indenture Trustee, or, in the Indenture Trustee's sole judgment, external counsel of the Issuer, dated as of a date during such 90-day period, either (A) to the effect that, in the opinion of such counsel, all filings, including filings with the Florida Secured Transactions Registry and the Secretary of State of the State of Delaware, have been authorized, executed and filed that are necessary under the UCC and the Nuclear Asset-Recovery Law to fully preserve, protect and perfect the Liens of the Indenture Trustee in the Series Property, and reciting the details of such filings or referring to prior Opinions of Counsel in which such details are given, or (B) to the effect that, in the opinion of such counsel, no such action shall be necessary to preserve, protect and perfect such Liens.

Each Opinion of Counsel referred to in Section 3.01(c)(i) or Section 3.01(c)(ii) above shall specify any action necessary (as of the date of such opinion) to be taken in the following year to preserve, protect and perfect such interest or Lien.

Section 3.02. Servicing and Maintenance Standards. The Servicer will monitor payments and impose collection policies on Customers, as permitted under the Financing Order and the rules of the Commission. On behalf of the Issuer, the Servicer shall: (a) manage, service, administer, bill, collect, receive and post collections in respect of the Series Property with reasonable care and in material compliance with each applicable Requirement of Law, including all applicable Commission Regulations and guidelines, using the same degree of care and diligence that the Servicer exercises with respect to similar assets for its own account and, if applicable, for others; (b) follow standards, policies and procedures in performing its duties as Servicer that are customary in the electric distribution industry; (c) use all reasonable efforts, consistent with its customary servicing procedures, to enforce, and maintain rights in

respect of, the Series Property and to bill, collect, receive and post the Series Charges; (d) comply with each Requirement of Law, including all applicable Commission Regulations and guidelines, applicable to and binding on it relating to the Series Property; (e) file all reports with the Commission required by the Financing Order; (f) file and maintain the effectiveness of UCC financing statements filed with the Florida Secured Transaction Registry with respect to the property transferred under the Sale Agreement; and (g) take such other action on behalf of the Issuer to ensure that the Lien of the Indenture Trustee on the Series Collateral remains perfected and of first priority. The Servicer shall follow such customary and usual practices and procedures as it shall deem necessary or advisable in its servicing of all or any portion of the Series Property, which, in the Servicer's judgment, may include the taking of legal action, at the Issuer's expense but subject to the priority of payments set forth in Section 8.02(e) of the Indenture.

Section 3.03. Annual Reports on Compliance with Regulation AB.

(a) The Servicer shall deliver to the Issuer, the Indenture Trustee, the Commission and the Rating Agencies, on or before the earlier of (a) March 31 of each year or (b) with respect to each calendar year during which the Issuer's annual report on Form 10-K is required to be filed in accordance with the Exchange Act and the rules and regulations thereunder, the date on which such annual report on Form 10-K is required to be filed in accordance with the Exchange Act and the rules and regulations thereunder, certificates from a Responsible Officer of the Servicer (i) containing, and certifying as to, the statements of compliance required by Item 1123 of Regulation AB, as then in effect, and (ii) containing, and certifying as to, the statements and assessment of compliance required by Item 1122(a) of Regulation AB, as then in effect. These certificates may be in the form of, or shall include the forms attached as Exhibit D and Exhibit E, with, in the case of Exhibit D, such changes as may be required to conform to the applicable securities law.

(b) The Servicer shall use commercially reasonable efforts to obtain, from each other party participating in the servicing function, any additional certifications as to the statements and assessment required under Item 1122 or Item 1123 of Regulation AB to the extent required in connection with the filing of the annual report on Form 10-K; provided, however, that a failure to obtain such certifications shall not be a breach of the Servicer's duties hereunder. The parties acknowledge that the Indenture Trustee's certifications shall be limited to the Item 1122 certifications described in Exhibit C of the Indenture.

(c) The initial Servicer, in its capacity as Sponsor, shall post on its or its parent company's website and cause the Issuer to file with or furnish to the SEC, in periodic reports and other reports as are required from time to time under Section 13 or Section 15(d) of the Exchange Act, the information described in Section 3.07(g) of the Indenture to the extent such information is reasonably available to the Sponsor.

(d) Except to the extent permitted by applicable law, the Issuer shall not voluntarily suspend or terminate its filing obligations as issuing entity with the SEC as described in Section 3.03(c).

Section 3.04. Annual Report by Independent Registered Public Accountants.

(a) The Servicer shall cause a firm of Independent registered public accountants (which may provide other services to the Servicer or the Seller) to prepare annually, and the Servicer shall deliver annually to the Issuer, the Indenture Trustee, the Commission and the Rating Agencies on or before the earlier of (i) March 31 of each year, beginning March 31, 2017, or (ii) with respect to each calendar year during which the Issuer's annual report on Form 10-K is required to be filed in accordance with the Exchange Act and the rules and regulations thereunder, the date on which such annual report on Form 10-K is required to be filed in accordance with the Exchange Act and the rules and regulations thereunder, a report (the "Annual Accountant's Report") that attests to, and reports on, the assessment of compliance made by the Servicer and delivered pursuant to Section 3.03. Such

attestation shall be in accordance with Rules 1-02(a)(3) and 2-02(g) of Regulation S-X under the Securities Act and the Exchange Act.

(b) The Annual Accountant's Report delivered pursuant to Section 3.04(a) shall also indicate that the accounting firm providing such report is independent of the Servicer in accordance with the rules of the Public Company Accounting Oversight Board and shall include any attestation report required under Item 1122(b) of Regulation AB, as then in effect. The costs of the Annual Accountant's Report shall be reimbursable as an Operating Expense under the Indenture.

ARTICLE IV
SERVICES RELATED TO TRUE-UP ADJUSTMENTS

Section 4.01. True-Up Adjustments. From time to time, until the Collection in Full of the Charges for the Series A Bonds, the Servicer shall identify the need for Semi-Annual True-Up Adjustments, Optional Interim True-Up Adjustments and Non-standard True-Up Adjustments and shall take all reasonable action to obtain and implement such True-Up Adjustments, all in accordance with the following:

(a) Expected Sinking Fund Schedule. The Expected Sinking Fund Schedule for the Series A Bonds is attached hereto as Exhibit F. If the Expected Sinking Fund Schedule is revised, the Servicer shall send a copy of such revised Expected Sinking Fund Schedule to the Issuer, the Indenture Trustee, the Commission and the Rating Agencies promptly thereafter.

(b) True-Up Adjustments.

(i) Semi-Annual True-Up Adjustments and Filings. At the beginning of Duke Energy Florida's billing cycle that is at least three months but no longer than six months following Duke Energy Florida's first complete billing cycle after the Series Closing Date, and for Duke Energy Florida's billing cycle every six months thereafter, and at least every three months after the Scheduled Final Payment Date for the latest maturing WAL, the Servicer shall: (A) update the data and assumptions underlying the calculation of the Series Charges, including projected electricity consumption during the next Remittance Period for each Nuclear Asset-Recovery Rate Class and including Periodic Principal, interest and estimated expenses and fees of the Issuer to be paid during such period, the Weighted Average Days Outstanding and write-offs; (B) determine the Periodic

Payment Requirements and Periodic Billing Requirement for the next Remittance Period based on such updated data and assumptions; (C) determine the Series Charges to be allocated to each Nuclear Asset-Recovery Rate Class during the next Remittance Period based on such Periodic Billing Requirement and the terms of the Financing Order, the Tariff and any other tariffs filed pursuant thereto; (D) make all required public notices and other filings with the Commission to reflect the revised Series Charges, including any Amendatory Schedule; and (E) take all reasonable actions and make all reasonable efforts to effect such Semi-Annual True-Up Adjustment and to enforce the provisions of the Nuclear Asset-Recovery Law and the Financing Order; provided, that, in the case of any Semi-Annual True-Up Adjustment following the Scheduled Final Payment Date for the latest maturing WAL of the Series A Bonds, the Semi-Annual True-Up Adjustment will be calculated to ensure that the Series Charges are sufficient to pay the Series A Bonds in full on the next Payment Date. The Servicer shall implement the revised Series Charges, if any, resulting from such Semi-Annual True-Up Adjustment as of the Semi-Annual True-Up Adjustment Date.

(ii) Optional Interim True-Up Adjustments and Filings. No later than 60 days prior to the first day of the applicable monthly billing cycle, the Servicer shall: (A) update the data and assumptions underlying the calculation of the Series Charges, including projected electricity consumption during the next Remittance Period for each Nuclear Asset-Recovery Rate Class and including Periodic Principal, interest and estimated expenses and fees of the Issuer to be paid during such period, the rate of delinquencies and write-offs; (B) determine the Periodic Payment Requirement and Periodic Billing Requirement for the next Remittance Period based on such updated data and assumptions; and (C) based upon such updated data and requirements, project whether existing and projected Nuclear Asset-Recovery Charge Collections together with available fund balances in the Excess Funds Subaccount, will be sufficient (x) to make on a timely basis all scheduled payments of Periodic Principal and interest in respect of each Outstanding WAL of Series A Bonds during such Remittance Period, (y) to pay other Ongoing Financing Costs on a timely basis and (z) to maintain the Capital Subaccount at the Required Capital Level. If the Servicer determines that Series Charges will not be sufficient for such purposes, the Servicer shall, no later than the date described in the first sentence of this Section 4.01(b)(ii): (1) determine the Series Charges to be allocated to each Nuclear Asset-Recovery Rate Class during the next Remittance Period based on such Periodic Billing Requirement and the terms of the Financing Order, the Tariff and other tariffs filed pursuant thereto; (2) make all required public notices and other filings with the Commission to reflect the revised Series Charges, including any Amendatory Schedule; and (3) take all reasonable actions and make all reasonable efforts to effect such Optional Interim True-Up Adjustment and to enforce the provisions of the Nuclear Asset-Recovery Law and the Financing Order.

(iii) Non-standard True-Up Adjustments and Filings. In the event that the Servicer determines that a Non-standard True-Up Adjustment is required at

anytime to be effective simultaneously with a base rate change that includes any change in the cost allocation among customers used in determining the Series Charges, such True-Up Adjustment to go into effect simultaneously with any changes to Duke Energy Florida's other base rates the Servicer shall promptly (A) recalculate the Series Charges to reallocate the Series Charges among customers in accordance with the procedures for Non-standard True-Up Adjustments set forth in the Financing Order; (B) initiate a proceeding with the Commission to determine new allocation factors and make all required public notices and other filings with the Commission to implement the revised Series Charges in a timely manner, including the filing of any revised Amendatory Rider necessary to begin the billing of such revised Series Charges; and (C) take all reasonable actions and make all reasonable efforts to effect such Non-standard True-Up Adjustment and to enforce the provisions of the Nuclear Asset-Recovery Law and the Financing Order. The Servicer shall implement the revised Series Charges, if any, resulting from such Non-standard True-Up Adjustment on the Non-standard True-Up Adjustment date. For the avoidance of doubt, no Semi-Annual True-Up Adjustment or Optional Interim True-Up Adjustment shall be considered a Non-standard True-Up Adjustment solely because Series Charges are allocated under such Semi-Annual True-Up Adjustment or Optional Interim True-Up Adjustment in the same manner as in a preceding Non-standard True-Up Adjustment.

(c) Reports.

(i) Notification of Amendatory Schedule Filings and True-Up Adjustments. Whenever the Servicer files an Amendatory Schedule with the Commission or implements revised Series Charges with notice to the Commission without filing an Amendatory Schedule if permitted by the Financing Order, the Servicer shall send a copy of such filing or

notice (together with a copy of all notices and documents that, in the Servicer's reasonable judgment, are material to the adjustments effected by such Amendatory Schedule or notice) to the Issuer, the Indenture Trustee and the Rating Agencies concurrently therewith. If, for any reason any revised Series Charges are not implemented and effective on the applicable date set forth herein, the Servicer shall notify the Issuer, the Indenture Trustee and each Rating Agency by the end of the second Servicer Business Day after such applicable date.

(ii) Semi-Annual Servicer's Certificate. Not later than five Servicer Business Days prior to each Payment Date or Special Payment Date, the Servicer shall deliver a written report substantially in the form of Exhibit C (the "Semi-Annual Servicer's Certificate") to the Issuer, the Indenture Trustee, the Commission and the Rating Agencies, which shall include all of the following information (to the extent applicable and including any other information so specified in the Series Supplement) as to the Series A Bonds with respect to such Payment Date or Special Payment Date or the period since the previous Payment Date, as applicable:

(A) the amount of the payment to Holders allocable to principal, if any;

(B) the amount of the payment to Holders allocable to interest;

(C) the aggregate Outstanding Amount of the Series A Bonds, before and after giving effect to any payments allocated to principal reported under Section 4.01(c)(ii)(A);

(D) the difference, if any, between the amount specified in Section 4.01(c)(ii)(C) and the Outstanding Amount specified in the Expected Sinking Fund Schedule;

(E) any other transfers and payments to be made on such Payment Date or Special Payment Date, including amounts paid to the Indenture Trustee and to the Servicer; and

(F) the amounts on deposit in the Capital Subaccount and the Excess Funds Subaccount, after giving effect to the foregoing payments.

(iii) Reports to Customers.

(A) After each revised Series Charge has gone into effect pursuant to a True-Up Adjustment, the Servicer shall, to the extent and in the manner and time frame required by any applicable Commission Regulations, cause to be prepared and delivered to Customers any required notices announcing such revised Series Charges.

(B) The Servicer shall comply with the requirements of the Financing Order with respect to the filing of the Nuclear Asset-Recovery Rate Schedule to ensure that the Series Charges are separate and apart from the Servicer's other charges and appear as a separate line item on the Bills sent to Customers.

Section 4.02. Limitation of Liability.

(a) The Issuer and the Servicer expressly agree and acknowledge that:

(i) In connection with any True-Up Adjustment, the Servicer is acting solely in its capacity as the servicing agent hereunder.

(ii) None of the Servicer, the Issuer or the Indenture Trustee is responsible in any manner for, and shall have no liability whatsoever as a result of, any action, decision, ruling or other determination made or not made, or any delay (other than any delay resulting from the Servicer's failure to make any filings required by Section 4.01 in a timely and correct manner or any breach by the Servicer of its duties under this Servicing Agreement that adversely affects the Series Property or the True-Up Adjustments), by the Commission in any way

related to the Series Property or in connection with any True-Up Adjustment, the subject of any filings under Section 4.01, any proposed True-Up Adjustment or the approval of any revised Series Charges and the scheduled adjustments thereto.

(iii) Except to the extent that the Servicer is liable under Section 6.02, the Servicer shall have no liability whatsoever relating to the calculation of any revised Series Charges and the scheduled adjustments thereto, including as a result of any inaccuracy of any of the assumptions made in such calculation regarding expected energy consumption volume and the Weighted Average Days Outstanding, write-offs and estimated expenses and fees of the Issuer, so long as the Servicer has acted in good faith and has not acted in a negligent manner in connection therewith, nor shall the Servicer have any liability whatsoever as a result of any Person, including the Holders, not receiving any payment, amount or return anticipated or expected or in respect of any Series A Bond.

(b) Notwithstanding the foregoing, this Section 4.02 shall not relieve the Servicer of liability for any misrepresentation by the Servicer under Section 6.01 or for any breach by the Servicer of its other obligations under this Servicing Agreement.

ARTICLE V
THE NUCLEAR ASSET-RECOVERY PROPERTY

Section 5.01. Custody of Nuclear Asset-Recovery Property Records. To assure uniform quality in servicing the Series Property and to reduce administrative costs, the Issuer hereby revocably appoints the Servicer, and the Servicer hereby accepts such appointment, to act as the agent of the Issuer as custodian of any and all documents and records that the Seller shall keep on file, in accordance with its customary procedures, relating to the Series Property, including copies of the Financing Order and Amendatory Schedules relating thereto and all documents filed with the Commission in connection with any True-Up Adjustment and computational records relating thereto (collectively for the Series A Bonds, the "Nuclear Asset-Recovery Property Records"), which are hereby constructively delivered to the Indenture Trustee, as pledgee of the Issuer with respect to all Series Property.

Section 5.02. Duties of Servicer as Custodian.

(a) Safekeeping. The Servicer shall hold the Nuclear Asset-Recovery Property Records on behalf of the Issuer and the Indenture Trustee and maintain such accurate and complete accounts, records and computer systems pertaining to the Nuclear Asset-Recovery Property Records as shall enable the Issuer and the Indenture Trustee, as applicable, to comply with this Servicing Agreement, the Sale Agreement and the Indenture. In performing its duties as custodian, the Servicer shall act with reasonable care, using that degree of care and diligence that the Servicer exercises with respect to comparable assets that the Servicer services for itself or, if applicable, for others. The Servicer shall promptly report to the Issuer, the Indenture Trustee, the Commission and the Rating Agencies any failure on its part to hold the Nuclear Asset-Recovery Property Records and maintain

its accounts, records and computer systems as herein provided and promptly take appropriate action to remedy any such failure. Nothing herein shall be deemed to require an initial review or any periodic review by the Issuer or the

Indenture Trustee of the Nuclear Asset-Recovery Property Records. The Servicer's duties to hold the Nuclear Asset-Recovery Property Records set forth in this Section 5.02, to the extent the Nuclear Asset-Recovery Property Records have not been previously transferred to a successor Servicer pursuant to ARTICLE VII, shall terminate one year and one day after the earlier of (i) the date on which the Servicer is succeeded by a successor Servicer in accordance with ARTICLE VII and (ii) the first date on which no Series A Bonds are Outstanding.

(b) Maintenance of and Access to Records. The Servicer shall maintain the Nuclear Asset-Recovery Property Records at 550 South Tryon Street, Charlotte, North Carolina 28202 or at its facility located at Iron Mountain, 3125 Parkside Drive, Charlotte, North Carolina 28208 and Iron Mountain, 4758 Oak Fair Boulevard, Tampa, Florida 33610, or at such other office as shall be specified to the Issuer, the Commission and the Indenture Trustee by written notice at least 30 days prior to any change in location. The Servicer shall make available for inspection, audit and copying to the Issuer, the Commission and the Indenture Trustee or their respective duly authorized representatives, attorneys or auditors the Nuclear Asset-Recovery Property Records at such times during normal business hours as the Issuer, the Commission or the Indenture Trustee shall reasonably request and that do not unreasonably interfere with the Servicer's normal operations. Nothing in this Section 5.02(b) shall affect the obligation of the Servicer to observe any applicable law (including any Commission Regulation) prohibiting disclosure of information regarding Customers, and the failure of the Servicer to provide access to such information as a result of such obligation shall not constitute a breach of this Section 5.02(b).

(c) Release of Documents. Upon instruction from the Indenture Trustee in accordance with the Indenture, the Servicer shall release any Nuclear Asset-Recovery Property Records to the Indenture Trustee, the Indenture Trustee's agent or the Indenture Trustee's designee, as the case may be, at such place or places as the Indenture Trustee may designate, as soon as practicable. Nothing in this Section 5.02(c) shall affect the obligation of the Servicer to observe any applicable law (including any Commission Regulation) prohibiting disclosure of information regarding Customers, and the failure of the Servicer to provide access to such information as a result of such obligation shall not constitute a breach of this Section 5.02(c).

(d) Defending Series Property Against Claims. To the extent not undertaken by the Seller pursuant to Section 4.08 of the Sale Agreement, the Servicer shall negotiate for the retention of legal counsel and such other experts as may be needed to institute and maintain any action or proceeding, on behalf of and in the name of the Issuer, necessary to compel performance by the Commission or the State of Florida of any of their obligations or duties under the Nuclear Asset-Recovery Law and the Financing Order, and the Servicer agrees to assist the Issuer and its legal counsel in taking such legal or administrative actions, including defending against or instituting and pursuing legal actions and appearing or testifying at hearings or similar proceedings, as may be reasonably necessary to attempt to block or overturn any attempts to cause a repeal of, modification of or supplement to the Nuclear Asset-Recovery Law or the Financing Order, or the rights of holders of Series Property by legislative enactment, constitutional amendment or other means that would be adverse to Holders or any series of additional Nuclear Asset-Recovery Bonds. In any proceedings related to the exercise of the power of eminent domain by any municipality to acquire a portion of Duke Energy Florida's

electric distribution facilities, the Servicer will assert that that the court ordering such condemnation must treat such municipality as a successor to Duke Energy Florida under the Nuclear Asset-Recovery Law and the Financing

Order. The costs of any such action shall be payable as an Operating Expense in accordance with the priorities set forth in Section 8.02(d) of the Indenture and any additional indenture. The Servicer's obligations pursuant to this Section 5.02 shall survive and continue notwithstanding the fact that the payment of Operating Expenses pursuant to Section 8.02 of the Indenture and any supplemental indenture may be delayed; provided, that, the Servicer is obligated to institute and maintain such action or proceedings only if it is being reimbursed on a current basis for its costs and expenses in taking such actions in accordance with Section 8.02 of the Indenture and any additional indenture, and is not required to advance its own funds to satisfy these obligations.

Section 5.03. Custodian's Indemnification. The Servicer as custodian shall indemnify the Issuer, any Independent Manager and the Indenture Trustee (for itself and for the benefit of the Holders) and each of their respective officers, directors, employees and agents for, and defend and hold harmless each such Person from and against, any and all liabilities, obligations, losses, damages, payments and claims, and reasonable costs or expenses, of any kind whatsoever (collectively, "Indemnified Losses") that may be imposed on, incurred by or asserted against each such Person as the result of any negligent act or omission in any way relating to the maintenance and custody by the Servicer, as custodian, of the Nuclear Asset-Recovery Property Records; provided, however, that the Servicer shall not be liable for any portion of any such amount resulting from the willful misconduct, bad faith or gross negligence of the Issuer, any Independent Manager or the Indenture Trustee, as the case may be.

Indemnification under this Section 5.03 shall survive resignation or removal of the Indenture Trustee or any Independent Manager and shall include reasonable out-of-pocket fees and expenses of investigation and litigation (including reasonable attorneys' fees and expenses).

Section 5.04. Effective Period and Termination. The Servicer's appointment as custodian shall become effective as of the Series Closing Date and shall continue in full force and effect until terminated pursuant to this Section 5.04. If the Servicer shall resign as Servicer in accordance with the provisions of this Servicing Agreement or if all of the rights and obligations of the Servicer shall have been terminated under Section 7.01, the appointment of the Servicer as custodian shall be terminated effective as of the date on which the termination or resignation of the Servicer is effective. Additionally, if not sooner terminated as provided above, the Servicer's obligations as custodian shall terminate one year and one day after the date on which no Series A Bonds are Outstanding. Duke Energy Florida shall not resign as Servicer if such resignation does not satisfy the Rating Agency Condition or without consent of the Commission.

Section 5.05. Alternative Energy Suppliers. So long as any of the Series A Bonds are Outstanding, the Servicer shall take reasonable efforts to assure that no AES bills or collects Series Charges on behalf of the Issuer unless required by applicable law or regulation and, to the extent permitted by applicable law or regulation, the Rating Agency Condition is satisfied. If an AES does bill or collect Series Charges on behalf of the Issuer, upon the reasonable request of the Issuer, the Commission, the Indenture Trustee, or any Rating Agency,

the Servicer shall take reasonable steps to assure that such an AES provides to the Issuer, the Commission, the Indenture Trustee or the Rating Agencies, as the case may be, any public financial information in respect of such AES, or any material information regarding the Series Property to the extent it is reasonably available to such AES, as may be reasonably necessary and permitted by law for the Issuer, the Commission, the Indenture Trustee or the Rating Agencies to monitor such AES' performance hereunder. In addition, so long as any of the Series A Bonds are Outstanding, Servicer will use commercially reasonable efforts to ensure that such AES provide to the Issuer and to the Indenture Trustee, within a reasonable time after written request therefor, any information available to the AES or reasonably obtainable by it that is necessary to calculate the Series Charges.

ARTICLE VI
THE SERVICER

Section 6.01. Representations and Warranties of Servicer. The Servicer makes the following representations and warranties, as of the Series Closing Date, and as of such other dates as expressly provided in this Section 6.01, on which the Issuer, the Indenture Trustee and the Commission (for the benefit of the Customers) are deemed to have relied in entering into this Servicing Agreement relating to the servicing of the Series Property. The representations and warranties shall survive the execution and delivery of this Servicing Agreement, the sale of the Series Property and the pledge thereof to the Indenture Trustee pursuant to the Indenture.

(a) Organization and Good Standing. The Servicer is duly organized, validly existing and is in good standing under the laws of the state of its organization, with requisite power and authority to own its properties, to conduct its business as such properties are currently owned and such business is presently conducted by it, to service the Series Property and hold the records related to the Series Property, and to execute, deliver and carry out the terms of this Servicing Agreement and the Intercreditor Agreement.

(b) Due Qualification. The Servicer is duly qualified to do business, is in good standing and has obtained all necessary licenses and approvals in all jurisdictions in which the ownership or lease of property or the conduct of its business (including the servicing of the Series Property as required under this Servicing Agreement) requires such qualifications, licenses or approvals (except where a failure to qualify would not be reasonably likely to have a material adverse effect on the Servicer's business, operations, assets, revenues or properties or to its servicing of the Series Property).

(c) Power and Authority. The execution, delivery and performance of the terms of this Servicing Agreement and the Intercreditor Agreement have been duly authorized by all necessary action on the part of the Servicer under its organizational or governing documents and laws.

(d) Binding Obligation. Each of this Servicing Agreement and the Intercreditor Agreement constitutes a legal, valid and binding obligation of the Servicer enforceable against the Servicer in accordance with its respective terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer and other laws relating to or affecting creditors' rights generally from time to time in effect and to general principles of

equity (including concepts of materiality, reasonableness, good faith and fair dealing), regardless of whether considered in a proceeding in equity or at law.

(e) No Violation. The consummation of the transactions contemplated by the Servicing Agreement and the Intercreditor Agreement do not conflict with, result in any breach of or constitute (with or without notice or lapse of time) a default under the Servicer's organizational documents or any indenture or other agreement or instrument to which the Servicer is a party or by which it or any of its property is bound, result in the creation or imposition of any Lien upon the Servicer's properties pursuant to the terms of any such indenture or agreement or other instrument (other than any Lien that may be granted in favor of the Indenture Trustee for the benefit of Holders under the Basic Documents) or violate any existing law or any existing order, rule or regulation applicable to the Servicer of any Governmental Authority having jurisdiction over the Servicer or its properties.

(f) No Proceedings. To the Servicer's knowledge, there are no proceedings or investigations pending or, to the Servicer's knowledge, threatened against the Servicer before any court, federal or state regulatory body, administrative agency or other governmental instrumentality having jurisdiction over the Servicer or its properties: (i) seeking to prevent issuance of the Series A Bonds or the consummation of the transactions contemplated by this Servicing Agreement or any of the other Basic Documents, or, if applicable, any supplement to the Indenture or amendment to the Sale Agreement; (ii) seeking any determination or ruling that might materially and adversely affect the performance by the Servicer of its obligations under, or the validity or enforceability against

the Servicer of, this Servicing Agreement or any of the other Basic Documents or, if applicable, any supplement to the Indenture or amendment to the Sale Agreement; or (iii) relating to the Servicer and which might materially and adversely affect the treatment of the Series A Bonds for federal or state income, gross receipts or franchise tax purposes;

(g) Approvals. No governmental approvals, authorizations, consents, orders or other actions or filings with any Governmental Authority are required for the Servicer to execute, deliver and perform its obligations under the Servicing Agreement except those that have previously been obtained or made, those that are required to be made by the Servicer in the future pursuant to Article IV or the Intercreditor Agreement and those that the Servicer may need to file in the future to continue the effectiveness of any financing statements; and

(h) Reports and Certificates. Each report and certificate delivered in connection with any filing made to the Commission by the Servicer on behalf of the Issuer with respect to the Series Charges or True-Up Adjustments will constitute a representation and warranty by the Servicer that each such report or certificate, as the case may be, is true and correct in all material respects; provided, however, that, to the extent any such report or certificate is based in part upon or contains assumptions, forecasts or other predictions of future events, the representation and warranty of the Servicer with respect thereto will be limited to the representation and warranty that such assumptions, forecasts or other predictions of future events are reasonable based upon historical performance (and facts known to the Servicer on the date such report or certificate is delivered).

The Servicer, the Indenture Trustee and the Issuer are not responsible as a result of any action, decision, ruling or other determination made or not made, or any delay (other than any delay resulting from the Servicer's failure to make any filings with the Florida Commission required by this Servicing Agreement in a timely and correct manner or any breach by the Servicer of its duties under the Servicing Agreement that adversely affects the Series Property or the True-Up Adjustments), by the Florida Commission in any way related to the Series Property or in connection with any True-Up Adjustment, the subject of any such filings, any proposed True-Up Adjustment or the approval of any revised Series Charges and the scheduled adjustments thereto. Except to the extent that the Servicer otherwise is liable under the provisions of this Servicing Agreement, the Servicer shall have no liability whatsoever relating to the calculation of any revised nuclear asset-recovery charges and the scheduled adjustments thereto, including as a result of any inaccuracy of any of the assumptions made in such calculations, so long as the Servicer has acted in good faith and has not acted in a negligent manner in connection therewith, nor shall the Servicer have any liability whatsoever as a result of any person or entity, including the Holders, not receiving any payment, amount or return anticipated or expected or in respect of any Nuclear Asset-Recovery Bond generally.

Section 6.02. Indemnities of Servicer; Release of Claims. The Servicer shall be liable in accordance herewith only to the extent of the obligations specifically undertaken by the Servicer under this Servicing Agreement.

(a) The Servicer shall indemnify the Issuer, the Indenture Trustee (for itself and for the benefit of the Holders) and the Independent Manager and each of their respective trustees, officers, directors, employees and agents (each, an "Indemnified Party"), for, and defend and hold harmless each such Person from and against, any and all Indemnified Losses imposed on, incurred by or asserted against any such Person as a result of (i) the Servicer's willful misconduct, bad faith or negligence in the performance of, or reckless disregard of, its duties or observance of its covenants under the Servicing Agreement and the Intercreditor Agreement, (ii) the Servicer's material breach of any of its representations or warranties that results in a Servicer Default under this Servicing Agreement or a default under the Intercreditor Agreement; and (iii) litigation and related expenses relating to the Servicer's status and obligations as Servicer (other than any proceeding the Servicer is required to institute under this Servicing Agreement), except to the extent of Indemnified Losses either resulting from the willful misconduct, bad faith or gross negligence of such Person seeking indemnification hereunder or resulting from a breach of a

representation or warranty made by such Person seeking indemnification hereunder in any of the Basic Documents that gives rise to the Servicer's breach.

(b) For purposes of Section 6.02(a), in the event of the termination of the rights and obligations of Duke Energy Florida (or any successor thereto pursuant to Section 6.03) as Servicer pursuant to Section 7.01, or a resignation by such Servicer pursuant to this Servicing Agreement, such Servicer shall be deemed to be the Servicer pending appointment of a successor Servicer pursuant to Section 7.02.

(c) Indemnification under this Section 6.02 shall survive any repeal of, modification of, or supplement to, or judicial invalidation of, the Nuclear Asset-Recovery Law or

the Financing Order and shall survive the resignation or removal of the Indenture Trustee or any Independent Manager or the termination of this Servicing Agreement and shall include reasonable out-of-pocket fees and expenses of investigation and litigation (including reasonable attorneys' fees and expenses).

(d) Except to the extent expressly provided in this Servicing Agreement or the other Basic Documents (including the Servicer's claims with respect to the Servicing Fee and the payment of the purchase price of Series Property), the Servicer hereby releases and discharges the Issuer, any Independent Manager and the Indenture Trustee, and each of their respective officers, directors and agents (collectively, the "Released Parties"), from any and all actions, claims and demands whatsoever, whenever arising, which the Servicer, in its capacity as Servicer or otherwise, shall or may have against any such Person relating to the Series Property or the Servicer's activities with respect thereto, other than any actions, claims and demands arising out of the willful misconduct, bad faith or gross negligence of the Released Parties.

(e) The Servicer shall indemnify the Commission, on behalf of the Customers, to the extent Customers incur Losses associated with higher servicing fees payable to a Successor Servicer as a result of the Servicer's negligence, recklessness or willful misconduct or termination of this Servicing Agreement for cause. Further, if the Servicer remains an entity subject to the Commission's regulatory authority as a public utility (or otherwise for ratemaking purposes), the Servicer hereby acknowledges and agrees that the Commission, subject to the outcome of an appropriate Commission proceeding, may take such action as the Commission deems necessary or appropriate under its regulatory authority to require the Servicer to make Customers whole for any Losses they incur in connection with the failure of any material representation, or warranty by the Servicer under this Agreement, or by reason of the Servicer's negligence, recklessness or willful misconduct or termination of this Servicing Agreement for cause, including without limitation Losses attributable to higher Series Charges imposed on Customers by reason of additional Operating Expenses. The Servicer hereby acknowledges and agrees that such action by the Commission may include, but is not limited to, adjustments to the Servicer's other regulated rates and charges or credits to Customers. If the Servicer does not remain, or is not, subject to the Commission's regulatory authority as a public utility (or otherwise for ratemaking purposes), such Servicer shall indemnify the Commission, on behalf of the Customers, for any Losses incurred by Customers by reason of the Servicer's negligence, recklessness or willful misconduct or termination of this Servicing Agreement for cause, including without limitation Losses attributable to higher Series Charges imposed on Customers by reason of additional Operating Expenses. The Servicer's indemnification under this Section 6.02(e) shall survive the termination of this Agreement, and any amounts paid with respect thereto shall be remitted and deposited with the Indenture Trustee for deposit in the Collection Account, unless otherwise directed by the Commission. Notwithstanding anything to the contrary in this Servicing Agreement or in any other Basic Document, so long as any Series A Bonds are Outstanding, any indemnity payments to the Commission (for the benefit of Customers) pursuant to this Section 6.02(e) shall be promptly remitted to the Indenture Trustee for deposit in the applicable Collection Account.

(f) The Servicer shall not be required to indemnify an Indemnified Party for any amount paid or payable by such Indemnified Party in the settlement of any action,

proceeding or investigation without the written consent of the Servicer, which consent shall not be unreasonably withheld. Promptly after receipt by an Indemnified Party of notice (or, in the case of the Indenture Trustee, receipt of notice by a Responsible Officer only) of the commencement of any action, proceeding or investigation, such Indemnified Party shall, if a claim in respect thereof is to be made against the Servicer under this Section 6.02, notify the Servicer in writing of the commencement thereof. Failure by an Indemnified Party to so notify the Servicer shall relieve the Servicer from the obligation to indemnify and hold harmless such Indemnified Party under this Section 6.02 only to the extent that the Servicer suffers actual prejudice as a result of such failure. With respect to any action, proceeding or investigation brought by a third party for which indemnification may be sought under this Section 6.02, the Servicer shall be entitled to conduct and control, at its expense and with counsel of its choosing that is reasonably satisfactory to such Indemnified Party, the defense of any such action, proceeding or investigation (in which case the Servicer shall not thereafter be responsible for the fees and expenses of any separate counsel retained by the Indemnified Party except as set forth below); provided, that the Indemnified Party shall have the right to participate in such action, proceeding or investigation through counsel chosen by it and at its own expense. Notwithstanding the Servicer's election to assume the defense of any action, proceeding or investigation, the Indemnified Party shall have the right to employ separate counsel (including local counsel), and the Servicer shall bear the reasonable fees, costs and expenses of such separate counsel, if (i) the defendants in any such action include both the Indemnified Party and the Servicer and the Indemnified Party shall have reasonably concluded that there may be legal defenses available to it that are different from or additional to those available to the Servicer, (ii) the Servicer shall not have employed counsel reasonably satisfactory to the Indemnified Party to represent the Indemnified Party within a reasonable time after notice of the institution of such action, (iii) the Servicer shall authorize the Indemnified Party to employ separate counsel at the expense of the Servicer or (iv) in the case of the Indenture Trustee, such action exposes the Indenture Trustee to a material risk of criminal liability or forfeiture or a Servicer Default has occurred and is continuing. Notwithstanding the foregoing, the Servicer shall not be obligated to pay for the fees, costs and expenses of more than one separate counsel for the Indemnified Parties other than one local counsel, if appropriate. The Servicer will not, without the prior written consent of the Indemnified Party, settle or compromise or consent to the entry of any judgment with respect to any pending or threatened claim, action, suit or proceeding in respect of which indemnification may be sought under this Section 6.02 (whether or not the Indemnified Party is an actual or potential party to such claim or action) unless such settlement, compromise or consent includes an unconditional release of the Indemnified Party from all liability arising out of such claim, action, suit or proceeding.

Section 6.03. Binding Effect of Servicing Obligations. The obligations to continue to provide service and to collect and account for Series Charges will be binding upon the Servicer, any Successor and any other entity that provides distribution services to a Person that is a Florida customer of Duke Energy Florida or any Successor so long as the Series Charges have not been fully collected and posted. Any Person (a) into which the Servicer may be merged, converted or consolidated and that is a Permitted Successor, (b) that may result from any merger, conversion or consolidation to which the Servicer shall be a party and that is a Permitted Successor, (c) that may succeed to the properties and assets of the Servicer substantially as a whole and that is a Permitted Successor or (d) that otherwise is a Permitted

Successor, which Person in any of the foregoing cases executes an agreement of assumption to perform all of the obligations of the Servicer hereunder, shall be the successor to the Servicer under this Servicing Agreement without further act on the part of any of the parties to this Servicing Agreement; provided, however, that (i) immediately after giving effect to such transaction, no representation or warranty made pursuant to Section 6.01 shall have been

breached and no Servicer Default and no event that, after notice or lapse of time, or both, would become a Servicer Default shall have occurred and be continuing, (ii) the Servicer shall have delivered to the Issuer, the Commission and the Indenture Trustee an Officer's Certificate and an Opinion of Counsel from external counsel stating that such consolidation, conversion, merger or succession and such agreement of assumption complies with this Section 6.03 and that all conditions precedent, if any, provided for in this Servicing Agreement relating to such transaction have been complied with, (iii) the Servicer shall have delivered to the Issuer, the Indenture Trustee, the Commission and the Rating Agencies an Opinion of Counsel from external counsel of the Servicer either (A) stating that, in the opinion of such counsel, all filings to be made by the Servicer, including filings with the Commission pursuant to the Nuclear Asset-Recovery Law and the UCC, have been executed and filed and are in full force and effect that are necessary to fully preserve, perfect and maintain the priority of the interests of the Issuer and the Liens of the Indenture Trustee in the Series Property and reciting the details of such filings or (B) stating that, in the opinion of such counsel, no such action shall be necessary to preserve and protect such interests, (iv) the Servicer shall have delivered to the Issuer, the Indenture Trustee, the Commission and the Rating Agencies an Opinion of Counsel from independent tax counsel stating that, for U.S. federal income tax purposes, such consolidation, conversion, merger or succession and such agreement of assumption will not result in a material adverse U.S. federal income tax consequence to the Issuer or the Holders of Series A Bonds, (v) the Servicer shall have given the Rating Agencies prior written notice of such transaction and (vi) any applicable requirements of the Intercreditor Agreement have been satisfied. When any Person (or more than one Person) acquires the properties and assets of the Servicer substantially as a whole or otherwise becomes the successor, by merger, conversion, consolidation, sale, transfer, lease or otherwise, to all or substantially all the assets of the Servicer in accordance with the terms of this Section 6.03, then, upon satisfaction of all of the other conditions of this Section 6.03, the preceding Servicer shall automatically and without further notice be released from all its obligations hereunder (except for responsibilities for its actions prior to such release).

Section 6.04. Limitation on Liability of Servicer and Others.

(a) Except as otherwise provided under this Servicing Agreement, neither the Servicer nor any of the directors, officers, employees or agents of the Servicer shall be liable to the Issuer or any other Person for any action taken or for refraining from the taking of any action pursuant to this Servicing Agreement or for good faith errors in judgment; provided, however, that this provision shall not protect the Servicer or any such Person against any liability that would otherwise be imposed by reason of negligence, recklessness or willful misconduct in the performance of duties or by reason of reckless disregard of obligations and duties under this Servicing Agreement. The Servicer and any director, officer, employee or agent of the Servicer may rely in good faith on the advice of counsel or on any document of any kind, prima facie properly executed and submitted by any Person, respecting any matters arising under this Servicing Agreement.

(b) The Servicer acknowledges that the Commission, acting on its own behalf, has authority to enforce all provisions of this Servicing Agreement for the benefit of Customers, including without limitation the enforcement of Section 6.02(e).

(c) Except as provided in this Servicing Agreement, including Section 5.02(d), the Servicer shall not be under any obligation to appear in, prosecute or defend any legal action relating to the Series Property that is not directly related to one of the Servicer's enumerated duties in this Servicing Agreement or related to its obligation to pay indemnification, and that in its reasonable opinion may cause it to incur any expense or liability; provided, however, that the Servicer may, in respect of any Proceeding, undertake any action that it is not specifically identified in this Servicing Agreement as a duty of the Servicer but that the Servicer reasonably determines is necessary or desirable in order to protect the rights and duties of the Issuer or the Indenture Trustee under this Servicing Agreement and the interests of the Holders and Customers under this Servicing Agreement.

Section 6.05. Duke Energy Florida Not to Resign as Servicer. Subject to the provisions of Section 6.03, Duke Energy Florida shall not resign from the obligations and duties imposed on it as Servicer under this Servicing Agreement except upon a determination that the performance of its duties under this Servicing Agreement shall no longer be permissible under applicable Requirements of Law. Notice of any such determination permitting the resignation of Duke Energy Florida shall be communicated to the Issuer, the Commission, the Indenture Trustee and each Rating Agency at the earliest practicable time (and, if such communication is not in writing, shall be confirmed in writing at the earliest practicable time), and any such determination shall be evidenced by an Opinion of Counsel to such effect delivered to the Issuer, the Commission and each Indenture Trustee concurrently with or promptly after such notice. No such resignation shall become effective until a Successor Servicer has been approved by the Commission and has assumed the servicing obligations and duties hereunder of the Servicer in accordance with Section 7.02.

Section 6.06. Servicing Compensation.

(a) In consideration for its services hereunder, until the Collection in Full of the Charges, the Servicer shall receive an annual fee (the "Servicing Fee") in an amount equal to (i) 0.05% of the aggregate initial principal amount of all Series A Bonds for so long as Duke Energy Florida or an Affiliate of Duke Energy Florida is the Servicer or (ii) if Duke Energy Florida or any of its Affiliates is not the Servicer, an amount agreed upon by the Successor Servicer and the Indenture Trustee, provided, that the annual Servicing Fee shall not exceed 0.6% of the aggregate initial principal amount of all Series A Bonds, unless the Commission has approved the appointment of the Successor Servicer or the Commission does not act to either approve or disapprove such appointment on or before the date which is 45 days after notice of the proposed appointment of the Successor Servicer is provided to the Commission in the same manner substantially as provided in Section 8.01(c). The Servicing Fee owing shall be calculated based on the initial principal amount of the Series A Bonds and shall be paid semi-annually, with half of the Servicing Fee being paid on each Payment Date, except for the amount of the Servicing Fee to be paid on the first Payment Date in which the Servicing Fee then due will be calculated based on the number of days that this Servicing Agreement has been in effect.

In addition, the Servicer shall be entitled to be reimbursed by the Issuer for filing fees and fees and expenses for attorneys, accountants, printing or other professional services retained by the Issuer and paid for by the Servicer (or procured by the Servicer on behalf of the Issuer and paid for by the Servicer) to meet the Issuer's obligations under the Basic Documents ("Reimbursable Expenses"). Except for such Reimbursable Expenses, the Servicer shall be required to pay all other costs and expenses incurred by the Servicer in performing its activities hereunder (but, for the avoidance of doubt, excluding any such costs and expenses incurred by Duke Energy Florida in its capacity as Administrator).

(b) The Servicing Fee set forth in Section 6.06(a) shall be paid to the Servicer by the Indenture Trustee, on each Payment Date in accordance with the priorities set forth in Section 8.02(e) of the Indenture, by wire transfer of immediately available funds from the Collection Account to an account designated by the Servicer. Any portion of the Servicing Fee not paid on any such date shall be added to the Servicing Fee payable on the subsequent Payment Date. In no event shall the Indenture Trustee be liable for the payment of any Servicing Fee or other amounts specified in this Section 6.06; provided, that this Section 6.06 does not relieve the Indenture Trustee of any duties it has to allocate funds for payment for such fees under Section 8.02 of the Indenture.

(c) The Servicer and the Issuer acknowledge and agree that the Servicer's actual collections of Series Charges on some days might exceed the Servicer's deemed collections, and that the Servicer's actual collections of Series Charges on other days might be less than the Servicer's deemed collections. The Servicer and the Issuer further acknowledge and agree that the amount of these variances are likely to be small and are not likely to be biased in favor of over-remittances or under-remittances. Consequently, so long as the Servicer faithfully makes all daily remittances based on weighted average days sales outstanding, as provided for herein, the Servicer

and the Issuer agree that no actual or deemed investment earnings shall be payable in respect of such over-remittances or under-remittances. However, the Servicer shall remit at least annually to the Indenture Trustee, for the benefit of the Issuer, any late charges received from Customers in respect of Series Charges.

(d) The foregoing Servicing Fee constitutes a fair and reasonable compensation for the obligations to be performed by the Servicer. Such Servicing Fee shall be determined without regard to the income of the Issuer, shall not be deemed to constitute distributions to the recipient of any profit, loss or capital of the Issuer and shall be considered a fixed Operating Expense of the Issuer subject to the limitations on such expenses set forth in the Financing Order.

(e) Any services required for or contemplated by the performance of the above-referenced services by the Servicer to be provided by unaffiliated third parties may, if provided for or otherwise contemplated by the Financing Order and if the Issuer deems it necessary or desirable, be arranged by the Issuer or by the Servicer at the direction (which may be general or specific) of the Issuer. Costs and expenses associated with the contracting for such third-party professional services may be paid directly by the Issuer or paid by the Servicer and reimbursed by the Issuer in accordance with Section 6.06(a), or otherwise as the Servicer and the Issuer may mutually arrange.

Section 6.07. Compliance with Applicable Law. The Servicer covenants and agrees, in servicing the Series Property, to comply in all material respects with all laws applicable to, and binding upon, the Servicer and relating to the Series Property, the noncompliance with which would have a material adverse effect on the value of the Series Property; provided, however, that the foregoing is not intended to, and shall not, impose any liability on the Servicer for noncompliance with any Requirement of Law that the Servicer is contesting in good faith in accordance with its customary standards and procedures. It is expressly acknowledged that the payment of fees to the Rating Agencies shall be at the expense of the Issuer and that, if the Servicer advances such payments to the Rating Agencies, the Issuer shall reimburse the Servicer for any such advances.

Section 6.08. Access to Certain Records and Information Regarding Series Property. The Servicer shall provide to the Indenture Trustee access to the Nuclear Asset-Recovery Property Records for the Series A Bonds as is reasonably required for the Indenture Trustee to perform its duties and obligations under the Indenture and the other Basic Documents and shall provide access to such records to the Holders as required by applicable law. Access shall be afforded without charge, but only upon reasonable request and during normal business hours at the offices of the Servicer. Nothing in this Section 6.08 shall affect the obligation of the Servicer to observe any applicable law (including any Commission Regulation) prohibiting disclosure of information regarding Customers, and the failure of the Servicer to provide access to such information as a result of such obligation shall not constitute a breach of this Section 6.08.

Section 6.09. Appointments. The Servicer may at any time appoint any Person to perform all or any portion of its obligations as Servicer hereunder, including a collection agent acting pursuant to the Intercreditor Agreement; provided, however, that, unless such Person is an Affiliate of Duke Energy Florida, the Rating Agency Condition shall have been satisfied in connection therewith; provided, further, that the Servicer shall remain obligated and be liable under this Servicing Agreement for the servicing and administering of the Series Property in accordance with the provisions hereof without diminution of such obligation and liability by virtue of the appointment of such Person and to the same extent and under the same terms and conditions as if the Servicer alone were servicing and administering the Series Property. The fees and expenses of any such Person shall be as agreed between the Servicer and such Person from time to time, and none of the Issuer, the Indenture Trustee, the Holders or any other Person shall have any responsibility therefor or right or claim thereto. Any such appointment shall not constitute a Servicer resignation under Section 6.05.

Section 6.10. No Servicer Advances. The Servicer shall not make any advances of interest on or principal of the Series A Bonds.

Section 6.11. Remittances.

(a) The Nuclear Asset-Recovery Charge Collections on any Servicer Business Day (the "Daily Remittance") shall be calculated according to the procedures set forth in Exhibit A and remitted by the Servicer as soon as reasonably practicable to the General Subaccount of the Collection Account but in no event later than two Servicer Business Days following such Servicer Business Day. Prior to each remittance to the General Subaccount of the Collection

Account pursuant to this Section 6.11, the Servicer shall provide written notice (which may be via electronic means, including electronic mail) to the Indenture Trustee and, upon request, to the Issuer of each such remittance (including the exact dollar amount to be remitted). The Servicer shall also, promptly upon receipt, remit to the Collection Account any other proceeds of the Series Collateral that it may receive from time to time. Reconciliations of bank statements shall be as set forth in Exhibit A.

(b) The Servicer agrees and acknowledges that it holds all Nuclear Asset-Recovery Charge Payments collected by it and any other proceeds for the Series Collateral received by it for the benefit of the Indenture Trustee and the Holders and that all such amounts will be remitted by the Servicer in accordance with this Section 6.11 without any surcharge, fee, offset, charge or other deduction except for and interest earnings permitted by Section 6.06. The Servicer further agrees not to make any claim to reduce its obligation to remit all Nuclear Asset-Recovery Charge Payments collected by it in accordance with this Servicing Agreement.

(c) Unless otherwise directed to do so by the Issuer, the Servicer shall be responsible for selecting Eligible Investments in which the funds in the Collection Account shall be invested pursuant to Section 8.03 of the Indenture.

Section 6.12. Maintenance of Operations. Subject to Section 6.03, Duke Energy Florida agrees to continue, unless prevented by circumstances beyond its control, to operate its electric distribution system to provide service so long as it is acting as the Servicer under this Servicing Agreement.

ARTICLE VII
DEFAULT

Section 7.01. Servicer Default. If any one or more of the following events (a "Servicer Default") shall occur and be continuing:

(a) any failure by the Servicer to remit to the Collection Account on behalf of the Issuer any required remittance that shall continue unremedied for a period of five Business Days after written notice of such failure is received by the Servicer and the Commission from the Issuer or the Indenture Trustee or after discovery of such failure by a Responsible Officer of the Servicer;

(b) any failure on the part of the Servicer or, so long as the Servicer is Duke Energy Florida or an Affiliate thereof, any failure on the part of Duke Energy Florida, as the case may be, duly to observe or to perform in any material respect any covenants or agreements of the Servicer or Duke Energy Florida, as the case may be, set forth in this Servicing Agreement (other than as provided in Section 7.01(a) or Section 7.01(c)) or any other Basic Document to which it is a party, which failure shall (i) materially and adversely affect the rights of the Holders and (ii) continue unremedied for a period of 60 days after the date on which (A) written notice of such failure, requiring the same to be remedied, shall have been given to the Servicer or Duke Energy Florida, as the case may be, by the Issuer, the Commission (with a copy to the Indenture Trustee) or to the Servicer or Duke Energy

Florida, as the case may be, by the Indenture Trustee or (B) such failure is discovered by a Responsible Officer of the Servicer;

(c) any failure by the Servicer duly to perform its obligations under Section 4.01(b) in the time and manner set forth therein, which failure continues unremedied for a period of five Business Days;

(d) any representation or warranty made by the Servicer in this Servicing Agreement or any other Basic Document shall prove to have been incorrect in a material respect when made, which has a material adverse effect on the Holders and which material adverse effect continues unremedied for a period of 60 days after the date on which (i) written notice thereof, requiring the same to be remedied, shall have been delivered to the Servicer (with a copy to the Indenture Trustee) by the Issuer, the Commission or the Indenture Trustee or (ii) such failure is discovered by a Responsible Officer of the Servicer; or

(e) an Insolvency Event occurs with respect to the Servicer or Duke Energy Florida;

then, and in each and every case, so long as the Servicer Default shall not have been remedied, either the Indenture Trustee shall, upon the instruction of Holders evidencing a majority of the Outstanding Amount of the Series A Bonds or by the Commission, subject to the terms of the Intercreditor Agreement, by notice then given in writing to the Servicer (and to the Indenture Trustee if given by the Holders) (a "Termination Notice"), terminate all the rights and obligations (other than the obligations set forth in Section 6.02 and the obligation under Section 7.02 to continue performing its functions as Servicer until a successor Servicer is appointed) of the Servicer under this Servicing Agreement and under the Intercreditor Agreement; *provided*, *however* the Indenture Trustee shall not give a Termination Notice upon instruction of the Commission unless the Rating Agency Condition is satisfied. In addition, upon a Servicer Default described in Section 7.01(a), the Holders and the Indenture Trustee as financing parties under the Nuclear Asset-Recovery Law (or any of their representatives) shall be entitled to apply to the Commission or a court of appropriate jurisdiction for an order for sequestration and payment of revenues arising with respect to the Series Property. On or after the receipt by the Servicer of a Termination Notice, all authority and power of the Servicer under this Servicing Agreement, whether with respect to the Series A Bonds, the Series Property, the Series Charges or otherwise, shall, without further action, pass to and be vested in such successor Servicer as may be appointed under Section 7.02; and, without limitation, the Indenture Trustee is hereby authorized and empowered to execute and deliver, on behalf of the predecessor Servicer, as attorney-in-fact or otherwise, any and all documents and other instruments, and to do or accomplish all other acts or things necessary or appropriate to effect the purposes of such Termination Notice, whether to complete the transfer of the Nuclear Asset-Recovery Property Records and related documents, or otherwise. The predecessor Servicer shall cooperate with the successor Servicer, the Issuer and the Indenture Trustee in effecting the termination of the responsibilities and rights of the predecessor Servicer under this Servicing Agreement, including the transfer to the successor Servicer for administration by it of all Nuclear Asset-Recovery Property Records and all cash amounts that shall at the time be held by the predecessor Servicer for remittance, or shall thereafter be received by it with respect to the Series Property or the Series Charges. As soon as practicable

after receipt by the Servicer of such Termination Notice, the Servicer shall deliver the Nuclear Asset-Recovery Property Records to the successor Servicer. In case a successor Servicer is appointed as a result of a Servicer Default, all reasonable costs and expenses (including reasonable attorneys' fees and expenses)

incurred in connection with transferring the Nuclear Asset-Recovery Property Records to the successor Servicer and amending this Servicing Agreement and the Intercreditor Agreement to reflect such succession as Servicer pursuant to this Section 7.01 shall be paid by the predecessor Servicer upon presentation of reasonable documentation of such costs and expenses. Termination of Duke Energy Florida as Servicer shall not terminate Duke Energy Florida's rights or obligations under the Sale Agreement (except rights thereunder deriving from its rights as the Servicer hereunder).

Section 7.02. Appointment of Successor.

(a) Upon the Servicer's receipt of a Termination Notice pursuant to Section 7.01 or the Servicer's resignation or removal in accordance with the terms of this Servicing Agreement, the predecessor Servicer shall continue to perform its functions as Servicer under this Servicing Agreement and shall be entitled to receive the requisite portion of the Servicing Fee, until a successor Servicer shall have assumed in writing the obligations of the Servicer hereunder as described below. In the event of the Servicer's removal or resignation hereunder, the Indenture Trustee may, at the written direction and with the consent of the Holders of a majority of the Outstanding Amount of the Series A Bonds or of the Commission shall, but subject to the provisions of the Intercreditor Agreement, appoint a successor Servicer with the Issuer's prior written consent thereto (which consent shall not be unreasonably withheld), and the successor Servicer shall accept its appointment by a written assumption in form reasonably acceptable to the Issuer and the Indenture Trustee and provide prompt written notice of such assumption to the Issuer, the Commission and the Rating Agencies. If, within 30 days after the delivery of the Termination Notice, a new Servicer shall not have been appointed, the Indenture Trustee may, at the direction of the Holders of a majority of the Series A Bonds, petition the Commission or a court of competent jurisdiction to appoint a successor Servicer under this Servicing Agreement. A Person shall qualify as a successor Servicer only if (i) such Person is permitted under Commission Regulations to perform the duties of the Servicer, (ii) the Rating Agency Condition shall have been satisfied, (iii) such Person enters into a servicing agreement with the Issuer having substantially the same provisions as this Servicing Agreement and (iv) such Person agrees to perform the obligations of the Servicer under the Intercreditor Agreement. In no event shall the Indenture Trustee be liable for its appointment of a successor Servicer. The Indenture Trustee's expenses incurred under this Section 7.02(a) shall be at the sole expense of the Issuer and payable from the Collection Account as provided in Section 8.02 of the Indenture.

(b) Upon appointment, the successor Servicer shall be the successor in all respects to the predecessor Servicer and shall be subject to all the responsibilities, duties and liabilities arising thereafter placed on the predecessor Servicer and shall be entitled to the Servicing Fee and all the rights granted to the predecessor Servicer by the terms and provisions of this Servicing Agreement.

Section 7.03. Waiver of Past Defaults. The Indenture Trustee, with the written consent of the Commission and the consent of the Holders evidencing a majority of the Outstanding Amount of the Series A Bonds, may waive in writing any default by the Servicer in the performance of its obligations hereunder and its consequences, except a default in making any required deposits to the Collection Account in accordance with this Servicing Agreement. Upon any such waiver of a past default, such default shall cease to exist, and any Servicer Default arising therefrom shall be deemed to have been remedied for every purpose of this Servicing Agreement. No such waiver shall extend to any subsequent or other default or impair any right consequent thereto. Promptly after the execution of any such waiver, the Servicer shall furnish copies of such waiver to each of the Rating Agencies.

Section 7.04. Notice of Servicer Default. The Servicer shall deliver to the Issuer, the Indenture Trustee, the Commission and the Rating Agencies, promptly after having obtained knowledge thereof, but in no event later than five Business Days thereafter, written notice of any event that, with the giving of notice or lapse of time, or both, would become a Servicer Default under Section 7.01.

Section 7.05. Cooperation with Successor. The Servicer covenants and agrees with the Issuer that it will, on an ongoing basis, cooperate with the successor Servicer and provide whatever information is, and take whatever actions are, reasonably necessary to assist the successor Servicer in performing its obligations hereunder.

ARTICLE VIII
MISCELLANEOUS PROVISIONS

Section 8.01. Amendment.

(a) Subject to Section 8.01(c), this Servicing Agreement may be amended in writing by the Servicer and the Issuer with the prior written consent of the Indenture Trustee and the satisfaction of the Rating Agency Condition; provided, that any such amendment may not adversely affect the interest of any Holder in any material respect without the consent of the Holders of a majority of the Outstanding Amount. Promptly after the execution of any such amendment or consent, the Issuer shall furnish copies of such amendment or consent to each of the Rating Agencies and the Commission.

(b) Prior to the execution of any amendment to this Servicing Agreement, the Issuer and the Indenture Trustee shall be entitled to receive and conclusively rely upon an Opinion of Counsel of external counsel stating that such amendment is authorized and permitted by this Servicing Agreement and all conditions precedent, if any, provided for in this Servicing Agreement relating to such amendment have been satisfied and upon the Opinion of Counsel from external counsel referred to in Section 3.01(c)(i). The Issuer and the Indenture Trustee may, but shall not be obligated to, enter into any such amendment that affects their own rights, duties, indemnities or immunities under this Servicing Agreement or otherwise.

(c) Notwithstanding anything to the contrary in this Section 8.01, no amendment or modification of this Servicing Agreement, nor any waiver required by Section

7.03 hereof, shall be effective except upon satisfaction of the conditions precedent in this paragraph (c).

(i) At least 15 days prior to the effectiveness of any such amendment or modification and after obtaining the other necessary approvals set forth in Section 8.01(a) (except that the consent of the Indenture Trustee may be subject to the consent of the Holders if such consent is required or sought by the Indenture Trustee in connection with such amendment or modification) or prior to the effectiveness of any waiver of a default approved by the Holders of a majority of the Outstanding Amount of the Series A Bonds, the Servicer shall have delivered to the Commission's executive director and general counsel written notification of any proposed amendment, which notification shall contain:

(A) a reference to Docket Nos. 150171-EI;

(B) an Officer's Certificate stating that the proposed amendment or modification has been approved by all parties to this Servicing Agreement or alternatively, the waiver of default has been approved by the Holders of a majority of the Outstanding Amount of Series A Bonds; and

(C) a statement identifying the person to whom the Commission is to address any response to the proposed amendment or to request additional time.

(ii) If the Commission or an authorized representative of the Commission, within 15 days (subject to extension as provided in clause (iii)) of receiving a notification complying with subparagraph (i), shall have delivered to the office of the person specified in clause (i)(C) a written statement that the Commission might object to the proposed amendment or modification, or to the waiver of default, then, subject to clause (iv) below, such proposed amendment or modification, or the waiver of default, shall not be effective unless and until the Commission subsequently delivers a written statement that it does not object to such proposed amendment or modification.

(iii) If the Commission or an authorized representative of the Commission, within 15 days of receiving a notification complying with subparagraph (i), shall have delivered to the office of the person specified in clause (i)(C) a written statement requesting an additional amount of time not to exceed thirty days (or, in the case of a waiver of default, 15 days) in which to consider such proposed amendment or modification, then such proposed amendment or modification shall not be effective if, within such extended period, the Commission shall have delivered to the office of the person specified in clause (i)(C) a written statement as described in subparagraph (ii), unless and until the Commission subsequently delivers a written statement that it does not object to such proposed amendment or modification.

(iv) If (A) the Commission or an authorized representative of the Commission, shall not have delivered written notice that the Commission might object to such proposed amendment or modification, or the waiver of default, within the time periods described in subparagraphs (ii) or (iii), whichever is applicable, or (B) the Commission or authorized representative of the Commission, has delivered such written notice but does not within 60 days of the delivery of the notification in (a) above, provide subsequent written notice confirming that it does in fact object and the reasons therefore or advise that it has initiated a proceeding to determine what action it might take with respect to the matter, then the Commission shall be conclusively deemed not to have any objection to the proposed amendment or modification or waiver of default, as the case may be, and such amendment or modification or waiver of default, as the case may be, may subsequently become effective upon satisfaction of the other conditions specified in Section 8.01(a).

(v) Following the delivery of a statement from the Commission or an authorized representative of the Commission to the Servicer under subparagraph (ii), the Servicer and the Issuer shall have the right at any time to withdraw from the Commission further consideration of any proposed amendment, modification or waiver of default.

(d) For the purpose of this Section 8.01(a), an "authorized representative of the Commission" means any person authorized to act on behalf of the Commission, as evidenced by an Opinion of Counsel (which may be the general counsel) to the Commission.

Section 8.02. Maintenance of Accounts and Records.

(a) The Servicer shall maintain accounts and records as to the Series Property accurately and in accordance with its standard accounting procedures and in sufficient detail to permit reconciliation between Nuclear Asset-Recovery Charge Payments received by the Servicer and Nuclear Asset-Recovery Charge Collections from time to time deposited in the Collection Account.

(b) The Servicer shall permit the Indenture Trustee and its agents at any time during normal business hours, upon reasonable notice to the Servicer and to the extent it does not unreasonably interfere with the Servicer's normal operations, to inspect, audit and make copies of and abstracts from the Servicer's records

regarding the Series Property and the Series Charges. Nothing in this Section 8.02(b) shall affect the obligation of the Servicer to observe any applicable law (including any Commission Regulation) prohibiting disclosure of information regarding Customers, and the failure of the Servicer to provide access to such information as a result of such obligation shall not constitute a breach of this Section 8.02(b).

Section 8.03. Notices. Any notice, report or other communication given hereunder shall be in writing and shall be effective (i) upon receipt when sent through the mails, registered or certified mail, return receipt requested, postage prepaid, with such receipt to be effective the date of delivery indicated on the return receipt, (ii) upon receipt when sent by an overnight courier, (iii) on the date personally delivered to an authorized officer of the party to

which sent or (iv) on the date transmitted by facsimile or other electronic transmission with a confirmation of receipt in all cases, addressed as follows:

(a) in the case of the Servicer, to Duke Energy Florida, LLC, at (i) 299 First Avenue North, St. Petersburg, Florida 33701, Attention: Director, Rates and Regulatory Strategy, Telephone: 727-820-4560 and (ii) 550 South Tryon Street, Charlotte, North Carolina 28202, Attention: Treasurer, Telephone: 704-382-3853 c/o Assistant Treasurer;

(b) in the case of the Issuer, to Duke Energy Florida Project Finance, LLC, at 299 First Avenue North, St. Petersburg, Florida 33701, Attention: Managers, Telephone: (980) 373-8659;

(c) in the case of the Indenture Trustee, to the Corporate Trust Office;

(d) in the case of Fitch, to Fitch Ratings, 33 Whitehall Street, New York, New York 10004, Attention: ABS Surveillance, Telephone: (212) 908-0500, Facsimile: (212) 908-0355;

(e) in the case of S&P, to Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business, Structured Credit Surveillance, 55 Water Street, New York, New York 10041, Telephone: (212) 438-8991, Email: servicer_reports@standardandpoors.com (all such notices to be delivered to S&P in writing by email); and

(f) in the case of the Commission, Florida Public Services Commission, 2450 Shumard Oak Blvd., Tallahassee, Florida, 32399-0850, Attention: Staff Director of Accounting & Finance.

Each party hereto may, by notice given in accordance herewith to the other party or parties hereto, designate any further or different address to which subsequent notices, reports and other communications shall be sent.

Section 8.04. Assignment. Notwithstanding anything to the contrary contained herein, except as provided in Section 6.03 and as provided in the provisions of this Servicing Agreement concerning the resignation of the Servicer, this Servicing Agreement may not be assigned by the Servicer. Any assignment of this Servicing Agreement is subject to satisfaction of any conditions set forth in the Intercreditor Agreement.

Section 8.05. Limitations on Rights of Others. The provisions of this Servicing Agreement are solely for the benefit of the Servicer, the Issuer, the Commission, on behalf of itself and Customers, and, to the extent provided herein or in the other Basic Documents, the Indenture Trustee and the Holders, and the other Persons expressly referred to herein, and such Persons shall have the right to enforce the relevant provisions of this Servicing Agreement. Nothing in this Servicing Agreement, whether express or implied, shall be construed to give to any other Person any legal or equitable right, remedy or claim in the Series Property or Series Collateral or

under or in respect of this Servicing Agreement or any covenants, conditions or provisions contained herein. Notwithstanding anything to the contrary

contained herein, for the avoidance of doubt, any right, remedy or claim to which any Customer may be entitled pursuant to the Financing Order and to this Servicing Agreement may be asserted or exercised only by the Commission (or by its counsel in the name of the Commission) for the benefit of such Customer.

Section 8.06. Severability. Any provision of this Servicing Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remainder of such provision (if any) or the remaining provisions hereof (unless such a construction shall be unreasonable), and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

Section 8.07. Separate Counterparts. This Servicing Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

Section 8.08. Governing Law. This Servicing Agreement shall be governed by and construed in accordance with the laws of the State of Florida, without reference to its conflict of law provisions, and the obligations, rights and remedies of the parties hereunder shall be determined in accordance with such laws.

Section 8.09. Assignment to Indenture Trustee. The Servicer hereby acknowledges and consents to the assignment by the Issuer to the Indenture Trustee of any or all of the Issuer's rights hereunder. In no event shall the Indenture Trustee have any liability for the representations, warranties, covenants, agreements or other obligations of the Issuer hereunder or in any of the certificates delivered pursuant hereto, as to all of which any recourse shall be had solely to the assets of the Issuer subject to the availability of funds therefor under Section 8.02 of the Indenture.

Section 8.10. Nonpetition Covenants. Notwithstanding any prior termination of this Servicing Agreement or the Indenture, the Servicer shall not, prior to the date that is one year and one day after the satisfaction and discharge of the Indenture, acquiesce, petition or otherwise invoke or cause the Issuer to invoke or join with any Person in provoking the process of any Governmental Authority for the purpose of commencing or sustaining an involuntary case against the Issuer under any U.S. federal or state bankruptcy, insolvency or similar law or appointing a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official of the Issuer for any substantial part of the property of the Issuer or ordering the dissolution, winding up or liquidation of the affairs of the Issuer.

Section 8.11. Limitation of Liability. It is expressly understood and agreed by the parties hereto that this Servicing Agreement is executed and delivered by the Indenture Trustee, not individually or personally but solely as Indenture Trustee in the exercise of the powers and authority conferred and vested in it, and that the Indenture Trustee, in acting hereunder, is entitled to all rights, benefits, protections, immunities and indemnities accorded to it under the Indenture.

Section 8.12. Rule 17g-5 Compliance. The Servicer agrees that any notice, report, request for satisfaction of the Rating Agency Condition, document or other information provided by the Servicer to

any Rating Agency under this Servicing Agreement or any other Basic Document to which it is a party for the purpose of determining the initial credit rating of the Series A Bonds or undertaking credit rating surveillance of the Series A Bonds with any Rating Agency, or satisfy the Rating Agency Condition, shall be substantially concurrently posted by the Servicer on the 17g-5 Website.

Section 8.13. Indenture Trustee Actions. In acting hereunder, the Indenture Trustee shall have the rights, protections and immunities granted to it under the Indenture.

{SIGNATURE PAGE FOLLOWS}

IN WITNESS WHEREOF, the parties hereto have caused this Servicing Agreement to be duly executed by their respective officers as of the day and year first above written.

DUKE ENERGY FLORIDA PROJECT FINANCE, LLC,
as Issuer

By: _____
Name:
Title:

DUKE ENERGY FLORIDA, LLC,
as Servicer

By: _____
Name:
Title:

ACKNOWLEDGED AND ACCEPTED:

THE BANK OF NEW YORK MELLON
TRUST COMPANY, NATIONAL ASSOCIATION,
as Indenture Trustee

By: _____
Name:
Title:

EXHIBIT A

SERVICING PROCEDURES

The Servicer agrees to comply with the following servicing procedures:

SECTION 1. **Definitions.**

Capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed to such terms in the Servicing Agreement (the "Agreement").

SECTION 2. **Data Acquisition**.

(a) Installation and Maintenance of Meters. The Servicer shall cause to be installed, replaced and maintained meters in accordance with the Servicer Policies and Practices.

(b) Meter Reading. In accordance with the Servicer Policies and Practices, the Servicer shall obtain consumption measurements for each Customer or determine any Customer's consumption on the basis of estimates in accordance with Commission Regulations.

(c) Cost of Metering. The Issuer shall not be obligated to pay any costs associated with the metering duties set forth in this Section 2, including the costs of installing, replacing and maintaining meters, nor shall the Issuer be entitled to any credit against the Servicing Fee for any cost savings realized by the Servicer as a result of new metering and/or billing technologies.

SECTION 3. **Consumption and Bill Calculation**.

The Servicer shall obtain a calculation of each Customer's consumption (which may be based on data obtained from such Customer's meter read or on consumption estimates determined in accordance with Commission Regulations) in accordance with the Servicer Policies and Practices and shall determine therefrom Billed Nuclear Asset-Recovery Charges for the Series A Bonds.

SECTION 4. **Billing**.

(a) Commencement of Billing. The Servicer shall implement the Series Charges as of the date following Series Closing Date for the Series A Bonds and shall thereafter bill each Customer for each Customer's Billed Nuclear Asset-Recovery Charges for the Series A Bonds in accordance with the provisions of this Section 4.

(b) Frequency of Bills; Billing Practices. In accordance with the Servicer Policies and Practices, the Servicer shall generate and issue a Bill to each Customer. In the event that the Servicer makes any material modification to the Servicer Policies and Practices, it shall notify

the Issuer, the Indenture Trustee and the Rating Agencies as soon as practicable, and in no event later than 60 Servicer Business Days after such modification goes into effect, but the Servicer may not make any modification that will materially adversely affect the Holders.

(c) Format.

(i) The Customer's Bill will contain a separate line item identifying the monthly charge representing the Series Property. The Customer's Bill shall contain in text or in a footnote, text substantially to the effect that the monthly charge representing Series Property has been approved by the

Financing Order, and that a portion of the monthly charge is being collected by the Servicer, as servicer, on behalf of the Issuer as owner of the Series Property.

(ii) The Servicer shall conform to such requirements in respect of the format, structure and text of Bills delivered to Customers as Commission Regulations shall from time to time prescribe. To the extent that Bill format, structure and text are not prescribed by applicable law or by Commission Regulations, the Servicer shall, subject to clause (i) of this subsection (c), determine the format, structure and text of all Bills in accordance with its reasonable business judgment, the Servicer Policies and Practices and historical practice.

(d) Delivery. Except as provided in the next sentence, the Servicer shall deliver all Bills to Customers (i) by United States mail in such class or classes as are consistent with the Servicer Policies and Practices or (ii) by any other means, whether electronic or otherwise, that the Servicer may from time to time use in accordance with the Servicer Policies and Practices. The Servicer shall pay from its own funds all costs of issuance and delivery of all Bills that it renders, including printing and postage costs as the same may increase or decrease from time to time.

SECTION 5. **Customer Service Functions**.

The Servicer shall handle all Customer inquiries and other Customer service matters according to the Servicer Policies and Practices.

SECTION 6. **Collections; Payment Processing; Remittance**.

(a) Collection Efforts, Policies, Procedures.

(i) The Servicer shall collect Billed Nuclear Asset-Recovery Charges for the Series A Bonds (including late charges in respect of Series Charges) from Customers as and when the same become due in accordance with such collection procedures as it follows with respect to comparable assets that it services for itself or others including, in accordance with Commission Regulations and the Servicer Policies and Practices, that:

(A) The Servicer shall prepare and deliver overdue notices to Customers.

(B) The Servicer shall deliver past-due and shut-off notices.

(C) The Servicer may employ the assistance of collection agents.

(D) The Servicer shall apply Customer deposits to the payment of delinquent accounts.

(ii) The Servicer shall not waive any late payment charge or any other fee or charge relating to delinquent payments, if any, or waive, vary or modify any terms of payment of any amounts payable by a Customer, in each case unless such waiver or action: (A) would be in accordance with the Servicer Policies and Practices and (B) would comply in all material respects with applicable law.

(iii) The Servicer shall accept payment from Customers in respect of Billed Nuclear Asset-Recovery Charges for the Series A Bonds in such forms and methods and at such times and places in accordance with the Servicer Policies and Practices.

(b) Payment Processing; Allocation; Priority of Payments. The Servicer shall post all payments received to Customer accounts as promptly as practicable, and, in any event, substantially all payments shall be posted no later than two Servicer Business Days after receipt.

(c) Investment of Estimated Nuclear Asset-Recovery Charge Payments Received. Prior to remittance on the applicable remittance date, the Servicer may invest estimated Nuclear Asset-Recovery Charges Payments at its own risk and for its own benefit, and such investments and funds shall not be required to be segregated from the other investments and funds of the Servicer.

(d) Calculation of Daily Remittance.

(i) The Servicer will remit Series Charges directly to the Indenture Trustee pursuant to Section 6.11 of the Servicing Agreement. The Servicer will remit Series Charges based on estimated collections using a weighted average balance of days outstanding ("ADO") on Duke Energy Florida's retail bills. Nuclear Asset-Recovery Charge Collections for the Series A Bonds remitted will represent the charges estimated to be received for any period based upon the ADO and an estimated system-wide write-off percentage.

(ii) The Nuclear Asset-Recovery Charge Collections for the Series A Bonds will be remitted by the Servicer to the Indenture Trustee as soon as reasonably practicable to the General Subaccount of the Collection Account on each Servicer Business Day, but in no event later than two Servicer Business Days following such Servicer Business Day. Estimated daily Nuclear Asset-Recovery Charge Collections for the Series A Bonds will be remitted to the Indenture Trustee on each Servicer Business Day based upon the ADO and estimated write-offs. Each day on which those remittances are made is referred to as a daily remittance date.

(iii) No less often than annually, the Servicer and the Indenture Trustee will reconcile remittances of estimated Nuclear Asset-Recovery Charge Collections for the Series A Bonds with actual Nuclear Asset-Recovery Charge Payments for the Series A

Bonds received by the Servicer to more accurately reflect the amount of Billed Nuclear Asset-Recovery Charges for the Series A Bonds that should have been remitted, based on ADO and the actual system-wide write-off percentage. To the extent the remittances of estimated payments arising from the Series Charges exceed the amounts that should have been remitted based on actual system-wide write-offs, the Servicer will be entitled to withhold the excess amount from any subsequent remittance to the Indenture Trustee until the balance of such excess is reduced to zero. To the extent the remittances of estimated payments arising from the Series Charges are less than the amount that should have been remitted based on actual system wide write-offs, the Servicer will remit the amount of the shortfall to the Indenture Trustee within two Servicer Business Days. Although the Servicer will remit estimated Nuclear Asset-Recovery Charge Collections for the Series A Bonds to the Indenture Trustee, the Servicer will not be obligated to make any payments on the Series A Bonds.

(iv) At least annually, the Servicer also will remit to the Indenture Trustee, for the benefit of the Issuer, any late charges received from Customers with respect to the Series Charges.

(v) The Servicer agrees and acknowledges that it holds all Nuclear Asset-Recovery Charge Collections for the Series A Bonds received by it and any other proceeds for the Series Collateral received by it for the benefit of the Indenture Trustee and the Holders and that all such amounts will be remitted by the Servicer without any surcharge, fee, offset, charge or other deduction. The Servicer further agrees not

to make any claim to reduce its obligation to remit all Nuclear Asset-Recovery Charge Payments for the Series A Bonds collected by it in accordance with the Servicing Agreement.

(e) Partial Collections. Upon a partial payment of amounts billed, including amounts billed under special contracts, such partial payments shall be allocated ratably among the Series Charges and the Seller's other billed amounts (including any accrued interest and late fees) based on the ratio of each component of the bill to the total bill. If more than one Series of Nuclear Asset-Recovery Bonds are Outstanding, partial payments allocable to Series Charges shall be allocated pro rata based upon the amount of Nuclear Asset-Recovery Charges owing with respect to each series.

(f) No Advances. The Servicer shall not be obligated to advance any of its own funds to the Issuer.

EXHIBIT B

FORM OF MONTHLY SERVICER'S CERTIFICATE

See Attached

MONTHLY SERVICER'S CERTIFICATE

DUKE ENERGY FLORIDA PROJECT FINANCE, LLC
$1,294,290,000 Series A Senior Secured Nuclear Asset-Recovery Bonds

Pursuant to Section 3.01(b) of the Nuclear Asset-Recovery Property Servicing Agreement dated as of June 22, 2016 by and between **Duke Energy Florida, LLC**, as Servicer, and **Duke Energy Florida Project Finance, LLC**, as Issuer (the "Servicing Agreement"), the Servicer does hereby certify as follows:

Capitalized terms used but not defined in this Monthly Servicer's Certificate have their respective meanings as set forth in the Servicing Agreement. References herein to certain sections and subsections are references to the respective sections or subsections of the Servicing Agreement.

Current BILLING MONTH: { }

Current BILLING MONTH: { / /20 } - { / /20 }

Standard Billing for prior BILLING MONTH

Residential Total Billed	${ }		
Residential NUCLEAR ASSET-RECOVERY CHARGE ("NARC") Billed	${ }	{ . }	%
General Service Non-Demand Total Billed	${ }		
General Service Non-Demand NARC Billed	${ }	{ . }	%

General Service Billed	${ }	
General Service NARC Billed	${ }	{ . }%
General Service Demand Total Billed	${ }	
General Service Demand NARC Billed	${ }	{ . }%
Curtailable Total Billed	${ }	
Curtailable NARC Billed	${ }	{ . }%
Interruptible Total Billed	${ }	
Interruptible NARC Billed	${ }	{ . }%
Lighting Total Billed	${ }	
Lighting NARC Billed	${ }	{ . }%
YTD Net Write-offs as a % of Billed Revenue		
Non-Residential Class Customer Write-offs	{ . }%	
Residential Class Customer Write-offs	{ . }%	
Total Write-offs	{ . }%	

Aggregate NARC Collections

Total NARC Remitted for BILLING MONTH	
Residential NARC Collected	${ }
General Service Non-Demand NARC Collected	${ }
General Service NARC Collected	${ }
General Service Demand NARC Collected	${ }
Curtailable NARC Collected	${ }
Interruptible NARC Collected	${ }
Lighting NARC Collected	${ }
Sub-Total of NARC Collected	${ }
Total NARC Collected and Remitted	${ }
Aggregate NARC Remittances for { 20 } BILLING MONTH	${ }
Aggregate NARC Remittances for { 20 } BILLING MONTH	${ }
Aggregate NARC Remittances for { 20 } BILLING MONTH	${ }
Total Current NARC Remittances	${ }

Current BILLING MONTH: { / /20 } - { / /20 }

Executed as of this { } day of { } 20{ }.

DUKE ENERGY FLORIDA, LLC,
as Servicer

By: _____
Name:

Title:

CC: DUKE ENERGY FLORIDA PROJECT FINANCE, LLC

EXHIBIT C

FORM OF SEMI-ANNUAL SERVICER'S CERTIFICATE

See attached

SEMI-ANNUAL SERVICER'S CERTIFICATE

Pursuant to Section 4.01(c)(ii) of the Nuclear Asset-Recovery Property Servicing Agreement, dated as of June 22, 2016 (the "Servicing Agreement"), by and between **DUKE ENERGY FLORIDA, LLC**, as servicer (the "Servicer"), and **Duke Energy Florida Project Finance, LLC**, the Servicer does hereby certify, for the { }, 20{ } Payment Date (the "Current Payment Date"), as follows:

Capitalized terms used but not defined herein have their respective meanings as set forth in the Servicing Agreement. References herein to certain sections and subsections are references to the respective sections of the Servicing Agreement or the Indenture, as the context indicates.

Collection Periods: { } to { }

Payment Date: { }, 20{ }

1. Collections Allocable and Aggregate Amounts Available for the Current Payment Date:

i.	Remittances for the { } Collection Period	$ { }
ii.	Remittances for the { } Collection Period	$ { }
iii.	Remittances for the { } Collection Period	$ { }
iv.	Remittances for the { } Collection Period	$ { }
v.	Remittances for the { } Collection Period	$ { }
vi.	Remittances for the { } Collection Period	$ { }
vii.	Investment Earnings on Capital Subaccount	$ { }
viii.	Investment Earnings on Excess Funds Subaccount	$ { }
ix.	Investment Earnings on General Subaccount	$ { }
x.	**General Subaccount Balance (sum of i through ix above)**	$ { }
xi.	Excess Funds Subaccount Balance as of prior Payment Date	$ { }
xii.	Capital Subaccount Balance as of prior Payment Date	$ { }
xiii.	**Collection Account Balance (sum of xi through xii above)**	$ { }

2. Outstanding Amounts of as of prior Payment Date:

i.	Series A 2018 { } Outstanding Amount	$ { }
ii.	Series A 2021 { } Outstanding Amount	$ { }
iii.	Series A 2026 { } Outstanding Amount	$ { }
iv.	Series A 2033 { } Outstanding Amount	$ { }
v.	**Aggregate Outstanding Amount of all Series A Bonds**	$ { }

3. Required Funding/Payments as of Current Payment Date:

	Principal	Principal Due
i.	Series A 2018 { }	$ { }
ii.	Series A 2021 { }	$ { }
iii.	Series A 2026 { }	$ { }
iv.	Series A 2033 { }	$ { }
v.	**All Series A Bonds**	$ { }

Interest

WAL	Interest Rate	Days in Interest Period(1)	Principal Balance	Interest Due
v. Series A 2018 { }	{ }%	{ }	$ { }	$ { }
vi. Series A 2021 { }	{ }%	{ }	$ { }	$ { }
vii. Series A 2026 { }	{ }%	{ }	$ { }	$ { }
viii. Series A 2033 { }	{ }%	{ }	$ { }	$ { }

ix.	**All Series A Bonds**	$ { }

		Required Level	Funding Required
x.	Capital Subaccount	$ { }	$ { }

4. Allocation of Remittances as of Current Payment Date Pursuant to 8.02(e) of Indenture:

i. Trustee Fees and Expenses; Indemnity Amounts	$ { }
ii. Servicing Fee	$ { }
iii. Administration Fee	$ { }
iv. Operating Expenses	$ { }

Series A Bonds	Aggregate	Per $1,000 of Original Principal Amount
v. Semi-Annual Interest (including any past-due for prior periods)		$ { }
1. Series A 2018 { }Interest Payment	$ { }	$ { }
2. Series A 2021 { } Interest Payment	$ { }	$ { }
3. Series A 2026 { } Interest Payment	$ { }	$ { }
4. Series A 2033 { } Interest Payment	$ { }	$ { }
	$ { }	
vi. Principal Due and Payable as a Result of an Event of Default or on Final Maturity Date		$ { }
1. Series A 2018 { } Interest Payment	$ { }	$ { }
2. Series A 2021 { } Interest Payment	$ { }	$ { }
3. Series A 2026 { } Interest Payment	$ { }	$ { }
4. Series A 2033 { } Interest Payment	$ { }	$ { }

		${ }			
vii. Semi-Annual Principal					${ }
1. Series A 2018 { } Interest Payment		${ }	$	{ }	
2. Series A 2021 { } Interest Payment		${ }	$	{ }	

(1)On 30/360 day basis for initial payment date; otherwise use one-half of annual rate.

3. Series A 2026 { } Interest Payment		${ }	$	{ }	
4. Series A 2033 { } Interest Payment		${ }	$	{ }	
		${ }			
viii. Other unpaid Operating Expenses					${ }
ix. Funding of Capital Subaccount (to required level)					${ }
x. Capital Subaccount Return to Duke Energy Florida					${ }
xi. Deposit to Excess Funds Subaccount					${ }
xii. Released to Issuer upon Retirement of all Series A Bonds					${ }
xiii. Aggregate Remittances as of Current Payment Date					${ }

5. Outstanding Amount and Collection Account Balance as of Current Payment Date (after giving effect to payments to be made on such Payment Date):

i.	Series A 2018 { }	${ }
ii.	Series A 2021 { }	${ }
iii.	Series A 2026 { }	${ }
iv.	Series A 2033 { }	${ }
iv.	Aggregate Outstanding Amount of all Series A Bonds	${ }
v.	Excess Funds Subaccount Balance	${ }
vi.	Capital Subaccount Balance	${ }
vii.	Aggregate Collection Account Balance	${ }

6. Subaccount Withdrawals as of Current Payment Date (if applicable, pursuant to Section 8.02(e) of Indenture):

i.	Excess Funds Subaccount	${ }
ii.	Capital Subaccount	${ }
iii.	Total Withdrawals	${ }

7. Shortfalls in Interest and Principal Payments as of Current Payment Date:

i.	Semi-annual Interest	
	Series A 2018 { } Interest Payment	$ { }
	Series A 2021 { } Interest Payment	$ { }
	Series A 2026 { } Interest Payment	$ { }
	Series A 2033 { } Interest Payment	$ { }
	Total	$ { }
ii.	Semi-annual Principal	
	Series A 2018 { } Interest Payment	$ { }
	Series A 2021 { } Principal Payment	$ { }

Series A 2026 { } Principal Payment	$ {	}
Series A 2033 { } Principal Payment	$ {	}
Total	$ {	}

8. Shortfalls in Payment of Return on Invested Capital as of Current Payment Date:

i. Return on Invested Capital	${	}

9. Shortfalls in Required Subaccount Levels as of Current Payment Date:

i. Capital Subaccount	${	}

IN WITNESS WHEREOF, the undersigned has duly executed and delivered this Semi-Annual Servicer's Certificate this { } day of { }, 20{ }.

DUKE ENERGY FLORIDA, INC.,
as Servicer

By: _____
Name:
Title:

EXHIBIT D

FORM OF SERVICER CERTIFICATE

See attached

SERVICER CERTIFICATE

The undersigned hereby certifies that the undersigned is the duly elected and acting { } of **DUKE ENERGY FLORIDA, LLC**, as servicer (the "Servicer") under the Nuclear Asset-Recovery Property Servicing Agreement dated as of June 22, 2016 (the "Servicing Agreement") by and between the Servicer and **DUKE ENERGY FLORIDA PROJECT FINANCE, LLC**, and further certifies that:

1. The undersigned is responsible for assessing the Servicer's compliance with the servicing criteria set forth in Item 1122(d) of Regulation AB (the "Servicing Criteria").

2. With respect to each of the Servicing Criteria, the undersigned has made the following assessment of the Servicing Criteria in accordance with Item 1122(d) of Regulation AB, with such discussion regarding the performance of such Servicing Criteria during the fiscal year covered by the Sponsor's annual report on Form 10-K:

Regulation AB Reference	Servicing Criteria	Assessment
	General Servicing Considerations	
1122(d)(1)(i)	Policies and procedures are instituted to monitor any performance or other triggers and events of default in accordance with the transaction agreements.	Applicable; assessment below.
1122(d)(1)(ii)	If any material servicing activities are outsourced to third parties, policies and procedures are instituted to monitor the third party's performance and compliance with such servicing activities.	Not applicable; no servicing activities were outsourced.
1122(d)(1)(iii)	Any requirements in the transaction agreements to maintain a back-up servicer for pool assets are maintained.	Not applicable; transaction agreements do not provide for a back-up servicer.
1122(d)(1)(iv)	A fidelity bond and errors and omissions policy is in effect on the party participating in the servicing function throughout the reporting period in the amount of coverage required by and otherwise in accordance with the terms of the transaction agreements.	Not applicable; transaction agreements do not require a fidelity bond or errors and omissions policy.
1122(d)(1)(v)	Aggregation of information, as applicable, is mathematically accurate and the information conveyed accurately reflects the information.	Applicable
	Cash Collection and Administration	
1122(d)(2)(i)	Payments on pool assets are deposited into the appropriate custodial bank accounts and related bank clearing accounts no more than two business days following receipt, or such other number of days specified in the transaction agreements.	Applicable.
1122(d)(2)(ii)	Disbursements made via wire transfer on behalf of an obligor or to an investor are made only by authorized personnel.	Applicable.

Regulation AB Reference	Servicing Criteria	Assessment
1122(d)(2)(iii)	Advances of funds or guarantees regarding collections, cash flows or distributions, and any interest or other fees charged for such advances, are	Applicable; no advances by the Servicer are permitted under the transaction agreements, except

	made, reviewed and approved as specified in the transaction agreements.	for payments of certain indemnities.
1122(d)(2)(iv)	The related accounts for the transaction, such as cash reserve accounts or accounts established as a form of overcollateralization, are separately maintained (e.g., with respect to commingling of cash) as set forth in the transaction agreements.	Applicable, but no current assessment is required since the related accounts are maintained by the Indenture Trustee.
1122(d)(2)(v)	Each custodial account is maintained at a federally insured depository institution as set forth in the transaction agreements. For purposes of this criterion, "federally insured depository institution" with respect to a foreign financial institution means a foreign financial institution that meets the requirements of Rule 13k-1(b)(1) under the Exchange Act.	Applicable, but no current assessment required; all "custodial accounts" are maintained by the Indenture Trustee.
1122(d)(2)(vi)	Unissued checks are safeguarded so as to prevent unauthorized access.	Not applicable; all payments made by wire transfer.
1122(d)(2)(vii)	Reconciliations are prepared on a monthly basis for all asset-backed securities related bank accounts, including custodial accounts and related bank clearing accounts. These reconciliations are: (A) mathematically accurate; (B) prepared within 30 calendar days after the bank statement cutoff date, or such other number of days specified in the transaction agreements; (C) reviewed and approved by someone other than the person who prepared the reconciliation; and (D) contain explanations for reconciling items. These reconciling items are resolved within 90 calendar days of their original identification, or such other number of days specified in the transaction agreements.	Applicable; assessment below.
	Investor Remittances and Reporting	
1122(d)(3)(i)	Reports to investors, including those to be filed with the SEC, are maintained in accordance with the transaction agreements and applicable SEC requirements. Specifically, such reports: (A) are prepared in accordance with timeframes and other terms set forth in the transaction agreements; (B) provide information calculated in accordance with the terms specified in the transaction agreements; (C) are filed with the SEC as required by its rules and regulations; and (D) agree with investors' or the trustee's records as to the total unpaid principal balance and number of pool assets serviced by the servicer.	Applicable; assessment below.

Regulation AB Reference	Servicing Criteria	Assessment
1122(d)(3)(ii)	Amounts due to investors are allocated and remitted in accordance with timeframes, distribution priority	Not applicable; investor records maintained by the Indenture Trustee.

	and other terms set forth in the transaction agreements.	
1122(d)(3)(iii)	Disbursements made to an investor are posted within two business days to the servicer's investor records, or such other number of days specified in the transaction agreements.	Applicable.
1122(d)(3)(iv)	Amounts remitted to investors per the investor reports agree with cancelled checks, or other form of payment, or custodial bank statements.	Applicable; assessment below.
	Pool Asset Administration	
1122(d)(4)(i)	Collateral or security on pool assets is maintained as required by the transaction agreements or related pool asset documents.	Applicable; assessment below.
1122(d)(4)(ii)	Pool assets and related documents are safeguarded as required by the transaction agreements.	Applicable; assessment below.
1122(d)(4)(iii)	Any additions, removals or substitutions to the asset pool are made, reviewed and approved in accordance with any conditions or requirements in the transaction agreements.	Not applicable; no removals or substitutions of Nuclear Asset-Recovery Property are contemplated or allowed under the transaction documents.
1122(d)(4)(iv)	Payments on pool assets, including any payoffs, made in accordance with the related pool asset documents are posted to the servicer's obligor records maintained no more than two business days after receipt, or such other number of days specified in the transaction agreements, and allocated to principal, interest or other items (e.g., escrow) in accordance with the related pool asset agreements.	Applicable; assessment below.
1122(d)(4)(v)	The servicer's records regarding the pool assets agree with the servicer's records with respect to an obligor's unpaid principal balance.	Not applicable; because underlying obligation (Nuclear Asset-Recovery Charge) is not an interest-bearing instrument.
1122(d)(4)(vi)	Changes with respect to the terms or status of an obligor's pool assets (e.g., loan modifications or re-agings) are made, reviewed and approved by authorized personnel in accordance with the transaction agreements and related pool asset documents.	Applicable; assessment below.
1122(d)(4)(vii)	Loss mitigation or recovery actions (e.g., forbearance plans, modifications and deeds in lieu of foreclosure, foreclosures and repossessions, as applicable) are initiated, conducted and concluded in accordance with the timeframes or other requirements established by the transaction agreements.	Applicable; limited assessment below. Servicer actions governed by Commission regulations.

Regulation AB Reference	Servicing Criteria	Assessment
1122(d)(4)(viii)	Records documenting collection efforts are maintained during the period a pool asset is delinquent in accordance with the transaction	Applicable, but does not require assessment since no explicit documentation requirement with

	agreements. Such records are maintained on at least a monthly basis, or such other period specified in the transaction agreements, and describe the entity's activities in monitoring delinquent pool assets, including, for example, phone calls, letters and payment rescheduling plans in cases where delinquency is deemed temporary (e.g., illness or unemployment).	respect to delinquent accounts are imposed under the transaction agreements due to availability of "true-up" mechanism; and any such documentation is maintained in accordance with applicable Florida commission rules and regulations..
1122(d)(4)(ix)	Adjustments to interest rates or rates of return for pool assets with variable rates are computed based on the related pool asset documents.	Not applicable; Nuclear Asset-Recovery Charges are not interest-bearing instruments.
1122(d)(4)(x)	Regarding any funds held in trust for an obligor (such as escrow accounts): (A) such funds are analyzed, in accordance with the obligor's pool asset documents, on at least an annual basis, or such other period specified in the transaction agreements; (B) interest on such funds is paid, or credited, to obligors in accordance with applicable pool asset documents and state laws; and (C) such funds are returned to the obligor within 30 calendar days of full repayment of the related pool assets, or such other number of days specified in the transaction agreements.	Not applicable.
1122(d)(4)(xi)	Payments made on behalf of an obligor (such as tax or insurance payments) are made on or before the related penalty or expiration dates, as indicated on the appropriate bills or notices for such payments, provided that such support has been received by the servicer at least 30 calendar days prior to these dates, or such other number of days specified in the transaction agreements.	Not applicable; Servicer does not make payments on behalf of obligors.
1122(d)(4)(xii)	Any late payment penalties in connection with any payment to be made on behalf of an obligor are paid from the servicer's funds and not charged to the obligor, unless the late payment was due to the obligor's error or omission.	Not applicable; Servicer cannot make advances of its own funds on behalf of customers under the transaction agreements.
1122(d)(4)(xiii)	Disbursements made on behalf of an obligor are posted within two business days to the obligor's records maintained by the servicer, or such other number of days specified in the transaction agreements.	Not applicable; Servicer cannot make advances of its own funds on behalf of customers to pay principal or interest on the bonds.

Regulation AB Reference	Servicing Criteria	Assessment
1122(d)(4)(xiv)	Delinquencies, charge-offs and uncollectible accounts are recognized and recorded in accordance with the transaction agreements.	Applicable; assessment below.
1122(d)(4)(xv)	Any external enhancement or other support, identified in Item 1114(a)(1) through (3) or Item	Not applicable; no external enhancement is required under the transaction agreements.

1115 of Regulation AB, is maintained as set forth in the transaction agreements.

3. To the best of the undersigned's knowledge, based on such review, the Servicer is in compliance in all material respects with the applicable servicing criteria set forth above as of and for the period ended the end of the fiscal year covered by the Issuer's annual report on Form 10-K. {If not true, include description of any material instance of noncompliance.}

4. {[ ], an independent registered public accounting firm, has issued an attestation report on the Servicer's assessment of compliance with the applicable servicing criteria as of and for the period ended the end of the fiscal year covered by the Issuer's annual report on Form 10-K.}

5. Capitalized terms used but not defined herein have their respective meanings as set forth in the Servicing Agreement.

Executed as of this { } day of { }, 20{ }.

DUKE ENERGY FLORIDA, LLC,
as Servicer

By: _____
Name:
Title:

EXHIBIT E

FORM OF CERTIFICATE OF COMPLIANCE

See attached

CERTIFICATE OF COMPLIANCE

The undersigned hereby certifies that the undersigned is the duly elected and acting { } of **DUKE ENERGY FLORIDA, LLC**, as servicer (the "Servicer") under the Nuclear Asset-Recovery Property Servicing Agreement dated as of June 22, 2016 (the "Servicing Agreement") by and between the Servicer and **DUKE ENERGY FLORIDA PROJECT FINANCE, LLC**, and further certifies that:

1. A review of the activities of the Servicer and of its performance under the Servicing Agreement during the twelve months ended { }, 20{ } has been made under the supervision of the undersigned pursuant to Section 3.03 of the Servicing Agreement.

2. To the undersigned's knowledge, based on such review, the Servicer has fulfilled all of its obligations in all material respects under the Servicing Agreement throughout the twelve months ended { }, 20{ }, except as set forth on EXHIBIT A hereto.

Executed as of this { } day of { }, 20{ }.

DUKE ENERGY FLORIDA, LLC,
as Servicer

By: _____
Name:
Title:

EXHIBIT A
TO
CERTIFICATE OF COMPLIANCE

LIST OF SERVICER DEFAULTS

The following Servicer Defaults, or events that with the giving of notice, the lapse of time, or both, would become Servicer Defaults, known to the undersigned occurred during the twelve months ended { }, 20{ }:

Nature of Default	Status
{ }	{ }

EXHIBIT F

EXPECTED SINKING FUND SCHEDULE

See Attached

EXPECTED SINKING FUND SCHEDULE

Outstanding Principal Balance Per Series A Bond

Semi-Annual Payment Date	Series A 2018	Series A 2021	Series A 2026	Series A 2032	Series A 2035
Series Closing Date	$ 183,000,000	$ 150,000,000	$ 436,000,000	$ 250,000,000	$ 275,290,000
March 1, 2017	$ 147,300,00	$ 150,000,000	$ 436,000,000	$ 250,000,000	$ 275,290,000
September 1, 2017	$ 120,300,000	$ 150,000,000	$ 436,000,000	$ 250,000,000	$ 275,290,000
March 1, 2018	$ 91,968,362	$ 150,000,000	$ 436,000,000	$ 250,000,000	$ 275,290,000
September 1, 2018	$ 66,819,301	$ 150,000,000	$ 436,000,000	$ 250,000,000	$ 275,290,000
March 1, 2019	$ 38,167,849	$ 150,000,000	$ 436,000,000	$ 250,000,000	$ 275,290,000
September 1, 2019	$ 12,697,061	$ 150,000,000	$ 436,000,000	$ 250,000,000	$ 275,290,000
March 1, 2020		$ 133,721,958	$ 436,000,000	$ 250,000,000	$ 275,290,000
September 1, 2020		$ 107,883,912	$ 436,000,000	$ 250,000,000	$ 275,290,000
March 1, 2021		$ 78,473,209	$ 436,000,000	$ 250,000,000	$ 275,290,000
September 1, 2021		$ 52,163,338	$ 436,000,000	$ 250,000,000	$ 275,290,000
March 1, 2022		$ 22,276,781	$ 436,000,000	$ 250,000,000	$ 275,290,000
September 1, 2022			$ 431,486,993	$ 250,000,000	$ 275,290,000
March 1, 2023			$ 401,419,122	$ 250,000,000	$ 275,290,000
September 1, 2023			$ 374,328,724	$ 250,000,000	$ 275,290,000
March 1, 2024			$ 343,548,495	$ 250,000,000	$ 275,290,000
September 1, 2024			$ 315,736,958	$ 250,000,000	$ 275,290,000
March 1, 2025			$ 284,226,703	$ 250,000,000	$ 275,290,000
September 1, 2025			$ 255,676,143	$ 250,000,000	$ 275,290,000
March 1, 2026			$ 223,417,756	$ 250,000,000	$ 275,290,000
September 1, 2026			$ 194,109,843	$ 250,000,000	$ 275,290,000

March 1, 2027			$ 161,084,768	$ 250,000,000	$ 275,290,000
September 1, 2027			$ 131,000,718	$ 250,000,000	$ 275,290,000
March 1, 2028			$ 97,189,941	$ 250,000,000	$ 275,290,000
September 1, 2028			$ 66,310,505	$ 250,000,000	$ 275,290,000
March 1, 2029			$ 31,694,550	$ 250,000,000	$ 275,290,000
September 1, 2029				$ 250,000,000	$ 275,290,000
March 1, 2030				$ 214,357,231	$ 275,290,000
September 1, 2030				$ 181,556,335	$ 275,290,000
March 1, 2031				$ 144,928,619	$ 275,290,000
September 1, 2031				$ 111,133,282	$ 275,290,000
March 1, 2032				$ 73,491,827	$ 275,290,000
September 1, 2032				$ 38,669,301	$ 275,290,000
March 1, 2033					$ 275,290,000
September 1, 2033					$ 239,255,018
March 1, 2034					$ 199,408,169
September 1, 2034					$ 162,192,506
March 1, 2035					$ 121,146,581
September 1, 2035					$ 82,613,161
March 1, 2036					$ 40,324,274
September 1, 2036					

APPENDIX A

DEFINITIONS AND RULES OF CONSTRUCTION

A. Defined Terms. The following terms have the following meanings:

"17g-5 Website" is defined in Section 10.18(a) of the Indenture.

"Account Records" is defined in Section 1(a)(i) of the Administration Agreement.

"Act" is defined in Section 10.03(a) of the Indenture.

"Additional Series" means issuance by the Issuer of any series of Nuclear Asset-Recovery Bonds issued after the date hereof, that will be undertaken only if (i) such issuance has been authorized by the Commission, (ii) the Rating Agency Condition has been satisfied and it is a condition of issuance for each Series of Nuclear Asset-Recovery Bonds that the new Series receive a rating or ratings as required by the Financing Order or a Subsequent Financing Order, (iii) the Issuer has delivered to the Indenture Trustee an Opinion of Counsel of a nationally recognized firm experienced in such matters to the effect that after such issuance, in the opinion of such counsel, if either or both of Duke Energy Florida or the Seller were to become a debtor in a case under the United States Bankruptcy Code (Title 11, U.S.C.), a federal court exercising bankruptcy jurisdiction and exercising reasonable judgment after full consideration of all relevant factors would not order substantive consolidation of the assets and liabilities of the Issuer with those of the bankruptcy estate of Duke Energy Florida or the Seller, subject to the customary exceptions, qualifications and assumptions contained therein.

"Administration Agreement" means the Administration Agreement, dated as of the date hereof, by and between Duke Energy Florida and the Issuer.

"Administration Fee" is defined in Section 2 of the Administration Agreement.

"Administrator" means Duke Energy Florida, as Administrator under the Administration Agreement, or any successor Administrator to the extent permitted under the Administration Agreement.

"AES" means an alternative energy supplier which is authorized by law to sell electric service to a customer using the transmission or distribution system of Duke Energy Florida.

"Affiliate" means, with respect to any specified Person, any other Person controlling or controlled by or under common control with such specified Person. For the purposes of this definition, "control" when used with respect to any specified Person means the power to direct the management and policies of such specified Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise, and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Amendatory Schedule" means a revision to service riders or any other notice filing filed with the Commission in respect of the Nuclear Asset-Recovery Rate Schedule pursuant to a True-Up Adjustment.

"Annual Accountant's Report" is defined in Section 3.04(a) of the Servicing Agreement.

"Authorized Denomination" means, with respect to any Nuclear Asset-Recovery Bond, the authorized denomination therefor specified in the Series Supplement, which shall be at least $2,000 and, except as otherwise provided in the Series Supplement, integral multiples of $1,000 in excess thereof, except for one Nuclear Asset-Recovery bond which may be of a smaller denomination.

"Bankruptcy Code" means Title 11 of the United States Code (11 U.S.C. §§ 101 et seq.).

"Basic Documents" means the Indenture, each Series Supplement, the Certificate of Formation, the LLC Agreement, the Administration Agreement, and, with respect to each Series, the applicable Sale Agreement, Bill of Sale, Servicing Agreement, Intercreditor Agreement, Letter of Representations, Underwriting Agreement and all other documents and certificates delivered in connection therewith.

"Bill of Sale" means a bill of sale substantially in the form of Exhibit A to the Sale Agreement delivered pursuant to Section 2.02(a) of the Sale Agreement.

"Billed Nuclear Asset-Recovery Charges" means the amounts of Nuclear Asset-Recovery Charges billed by the Servicer.

"Billing Period" means the period created by dividing the calendar year into 12 consecutive periods of approximately 21 Servicer Business Days.

"Bills" means each of the regular monthly bills, summary bills, opening bills and closing bills issued to Customers by Duke Energy Florida in its capacity as Servicer.

"Bond Interest Rate" means, with respect to any Series or WAL of Nuclear Asset-Recovery Bonds, the rate at which interest accrues on the Nuclear Asset-Recovery Bonds of such Series or WAL, as specified in the applicable Series Supplement.

"Book-Entry Form" means, with respect to any Nuclear Asset-Recovery Bond, that such Nuclear Asset-Recovery Bond is not certificated and the ownership and transfers thereof shall be made through book entries by a Clearing Agency as described in Section 2.11 of the Indenture and the Series Supplement pursuant to which such Nuclear Asset-Recovery Bond was issued.

"Book-Entry Nuclear Asset-Recovery Bonds" means any Nuclear Asset-Recovery Bonds issued in Book-Entry Form; provided, however, that, after the occurrence of a condition whereupon book-entry registration and transfer are no longer permitted and Definitive Nuclear Asset-Recovery Bonds are to be issued to the Holder of such Nuclear Asset-Recovery

Bonds, such Nuclear Asset-Recovery Bonds shall no longer be "Book-Entry Nuclear Asset-Recovery Bonds".

"Business Day" means any day other than a Saturday, a Sunday or a day on which banking institutions in St. Petersburg, Florida, Charlotte, North Carolina or New York, New York are, or DTC or the Corporate Trust Office is, authorized or obligated by law, regulation or executive order to be closed.

"Capital Contribution" means the amount of cash contributed to the Issuer by Duke Energy Florida as specified in the LLC Agreement.

"Capital Subaccount" is defined in Section 8.02(a) of the Indenture.

"Certificate of Compliance" means the certificate referred to in Section 3.03 of the Servicing Agreement and substantially in the form of Exhibit E to the Servicing Agreement.

"Certificate of Formation" means the Certificate of Formation filed with the Secretary of State of the State of Delaware on January 5, 2016 pursuant to which the Issuer was formed.

"Charge" means any nuclear asset-recovery charges as defined in Section 366.95(1)(j) of the Nuclear Asset-Recovery Law that are authorized by the Financing Order or any Subsequent Financing Order.

"Claim" means a "claim" as defined in Section 101(5) of the Bankruptcy Code.

"Clearing Agency" means an organization registered as a "clearing agency" pursuant to Section 17A of the Exchange Act.

"Clearing Agency Participant" means a securities broker, dealer, bank, trust company, clearing corporation or other financial institution or other Person for whom from time to time a Clearing Agency effects book entry transfers and pledges of securities deposited with such Clearing Agency.

"Code" means the Internal Revenue Code of 1986.

"Collateral" is defined in the preamble of the Indenture.

"Collection Account" is defined in Section 8.02(a) of the Indenture for such Series.

"Collection in Full of the Charges" means the day on which the aggregate amounts on deposit in the General Subaccount and the Excess Funds Subaccount are sufficient to pay in full all the Outstanding Nuclear Asset-Recovery Bonds and to replenish any shortfall in the Capital Subaccount.

"Collection Period" means any period commencing on the first Servicer Business Day of any Billing Period and ending on the last Servicer Business Day of such Billing Period.

"Commission" means the Florida Public Service Commission.

"Commission Condition" means the satisfaction of any precondition to any amendment or modification to or action under any Basic Documents through the obtaining of Commission consent or acquiescence, as described in the related Basic Document.

"Commission Regulations" means any regulations, including temporary regulations, promulgated by the Commission pursuant to Florida law.

"Company Minutes" is defined in Section 1(a)(iv) of the Administration Agreement.

"Corporate Trust Office" means the office of the Indenture Trustee at which, at any particular time, its corporate trust business shall be administered, which office as of the date hereof is located at BNY Mellon Global Corporate Trust, 10161 Centurion Parkway North, Jacksonville, Florida 32256; Telephone: 904-998-4714; Facsimile: 904-645-1930, or at such other address as the Indenture Trustee may designate from time to time by notice to the Holders of Nuclear Asset-Recovery Bonds and the Issuer, or the principal corporate trust office of any successor trustee designated by like notice.

"Covenant Defeasance Option" is defined in Section 4.01(b) of the Indenture.

"Customer" means any existing or future customer (including individuals, corporations, other businesses, and federal, state and local governmental entities) receiving transmission or distribution service from Duke Energy Florida or its successors or assignees under Commission-approved rate schedules or under special contracts, even if such customer elects to purchase electricity from an AES following a fundamental change in regulation of public utilities in Florida.

"Daily Remittance" is defined in Section 6.11(a) of the Servicing Agreement.

"Default" means any occurrence that is, or with notice or the lapse of time or both would become, an Event of Default.

"Definitive Nuclear Asset-Recovery Bonds" is defined in Section 2.11 of the Indenture.

"Delaware UCC" means the Uniform Commercial Code as in effect on the Series Closing Date in the State of Delaware.

"DTC" means The Depository Trust Company.

"Duke Energy Florida" means Duke Energy Florida, LLC, a Florida limited liability company.

"Eligible Account" means a segregated non-interest-bearing trust account with an Eligible Institution.

"Eligible Institution" means:

(a) the corporate trust department of the Indenture Trustee or a subsidiary thereof, so long as any of the securities of the Indenture Trustee has a credit rating from each Rating Agency in one of its generic rating categories that signifies investment grade; or

(b) a depository institution organized under the laws of the United States of America or any State (or any domestic branch of a foreign bank) (i) that has either (A) a long-term issuer rating of "AA-" or higher by S&P, "A2" or higher by Moody's and "AA" or higher by Fitch, if rated by Fitch, or (B) a short-term issuer rating of "A-1+" or higher by S&P, "P-1" or higher by Moody's and "F1" or higher by Fitch, if rated by Fitch, or any other long-term, short-term or certificate of deposit rating acceptable to the Rating Agencies, and (ii) whose deposits are insured by the Federal Deposit Insurance Corporation.

If so qualified under clause (b) of this definition, the Indenture Trustee may be considered an Eligible Institution for the purposes of clause (a) of this definition.

"Eligible Investments" means instruments or investment property that evidence:

(a) direct obligations of, or obligations fully and unconditionally guaranteed as to timely payment by, the United States of America;

(b) demand or time deposits of, unsecured certificates of deposit of, money market deposit accounts of, bank deposit products of or bankers' acceptances issued by, any depository institution (including, but not limited to, bank deposit products of the Indenture Trustee, acting in its commercial capacity) incorporated or organized under the laws of the United States of America or any State thereof and subject to supervision and examination by U.S. federal or state banking authorities, so long as the

commercial paper or other short-term debt obligations of such depository institution are, at the time of deposit, rated at least "A-1" and "P-1" or their equivalents by each of S&P and Moody's and, if Fitch provides ratings thereon by Fitch, or such lower rating as will not result in the downgrading or withdrawal of the ratings of the Nuclear Asset-Recovery Bonds;

(c) commercial paper (including commercial paper of the Indenture Trustee, acting in its commercial capacity, and other than commercial paper of Duke Energy Florida or any of its Affiliates), which at the time of purchase is rated at least "A-1" and "P-1" or their equivalents by each of S&P and Moody's or such lower rating as will not result in the downgrading or withdrawal of the ratings of the Nuclear Asset-Recovery Bonds;

(d) investments in money market funds having a rating in the highest investment category granted thereby (including funds for which the Indenture Trustee or any of its Affiliates is investment manager or advisor) from Moody's, S&P and Fitch, if rated by Fitch;

(e) repurchase obligations with respect to any security that is a direct obligation of, or fully guaranteed by, the United States of America or its agencies or instrumentalities, entered into with Eligible Institutions;

(f) repurchase obligations with respect to any security or whole loan entered into with an Eligible Institution or with a registered broker/dealer acting as principal and that meets the ratings criteria set forth below:

(i) a broker/dealer (acting as principal) registered as a broker or dealer under Section 15 of the Exchange Act (any such broker/dealer being referred to in this definition as a "broker/dealer"), the unsecured short-term debt obligations of which are rated at least "P-1" by Moody's, "A-1+" by S&P and, if Fitch provides a rating thereon, "F-1+" by Fitch at the time of entering into such repurchase obligation; or

(ii) an unrated broker/dealer, acting as principal, that is a wholly-owned subsidiary of a non-bank or bank holding company the unsecured short-term debt obligations of which are rated at least "P-1" by Moody's, "A-1+" by S&P and, if Fitch provides a rating thereon, "F-1+" by Fitch at the time of purchase so long as the obligations of such unrated broker/dealer are unconditionally guaranteed by such non-bank or bank holding company; and

(g) any other investment permitted by each of the Rating Agencies;

in each case maturing not later than the Business Day preceding the next Payment Date or Special Payment Date, if applicable (for the avoidance of doubt, investments in money market funds or similar instruments that are redeemable on demand shall be deemed to satisfy the foregoing requirement). Notwithstanding the foregoing: (1) no securities or investments that mature in 30 days or more shall be "Eligible Investments" unless the issuer thereof has either a short-term unsecured debt rating of at least "P-1" from Moody's or a long-term unsecured debt rating of at least "A1" from Moody's and also has a long-term unsecured debt rating of at least "A" from S&P; (2) no securities or investments described in clauses (b) through (d) above that have maturities of more than 30 days but less than or equal to 3 months shall be "Eligible Investments" unless the issuer thereof has a long-term unsecured debt rating of at least "A1" from Moody's and a short-term unsecured debt rating of at least "P-1" from Moody's; and (3) no securities or investments described in clauses (b) through (d) above that have maturities of more than 3 months shall be "Eligible Investments" unless the issuer thereof has a long-term unsecured debt rating of at least "A1" from Moody's and a short-term unsecured debt rating of at least "P-1" from Moody's.

"Event of Default" is defined in Section 5.01 of the Indenture.

"Excess Funds Subaccount" is defined in Section 8.02(a) of the Indenture.

"Exchange Act" means the Securities Exchange Act of 1934.

"Expected Sinking Fund Schedule" means, with respect to any WAL, the expected sinking fund schedule related thereto set forth in the applicable Series Supplement.

"Federal Book-Entry Regulations" means 31 C.F.R. Part 357 et seq. (Department of Treasury).

"Federal Funds Rate" means, for any period, a fluctuating interest rate per annum equal for each day during such period to the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers, as published for such day (or, if such day is not a Business Day, for the preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average of the quotations for such day on such transactions received by the Servicer from three federal funds brokers of recognized standing selected by it.

"Final" means, with respect to the Financing Order or Subsequent Financing Order, that the Financing Order has become final, that the Financing Order is not being appealed and that the time for filing an appeal thereof has expired.

"Final Maturity Date" means, with respect to each Series of WAL of Nuclear Asset-Recovery Bonds, the final maturity date therefor as specified in the applicable Series Supplement.

"Financing Costs" means all financing costs as defined in Section 366.95(1)(e) of the Nuclear Asset-Recovery Law allowed to be recovered by Duke Energy Florida under the Financing Order.

"Financing Order" means the financing order issued by the Commission to Duke Energy Florida on November 19, 2015, Docket No. 150148-EI, authorizing the creation of the Nuclear Asset-Recovery Property.

"Financing Party" means any and all of the following: the Holders, the Indenture Trustee, Duke Energy Florida, collateral agents, any party under the Basic Documents, or any other person acting for the benefit of the Holders.

"Fitch" means Fitch Ratings or any successor thereto. References to Fitch are effective so long as Fitch is a Rating Agency.

"Florida Secured Transactions Registry" means the centralized database in which all initial financing statements, amendments, assignments, and other statements of charge authorized to be filed under Chapter 679 of the Florida statutes.

"Florida UCC" means the Uniform Commercial Code as in effect on the Series Closing Date in the State of Florida.

"General Subaccount" is defined in Section 8.02(a) of the Indenture for such Series.

"Global Nuclear Asset-Recovery Bond" means a Nuclear Asset-Recovery Bond to be issued to the Holders thereof in Book-Entry Form, which Global Nuclear Asset-Recovery Bond shall be issued to the Clearing Agency, or its nominee, in accordance with Section 2.11 of the Indenture and the Series Supplement.

"Governmental Authority" means any nation or government, any U.S. federal, state, local or other political subdivision thereof and any court, administrative agency or other instrumentality or entity exercising executive, legislative, judicial, regulatory or administrative functions of government.

"Grant" means mortgage, pledge, bargain, sell, warrant, alienate, remise, release, convey, grant, transfer, create, grant a lien upon, a security interest in and right of set-off against, deposit, set over and confirm pursuant to the Indenture and the Series Supplement. A Grant of the Collateral shall include all rights, powers and options (but none of the obligations) of the granting party thereunder, including the immediate and continuing right to claim for, collect, receive and give receipt for payments in respect of the Collateral and all other moneys payable thereunder, to give and receive notices and other communications, to make waivers or other agreements, to exercise all rights and options, to bring Proceedings in the name of the granting party or otherwise and generally to do and receive anything that the granting party is or may be entitled to do or receive thereunder or with respect thereto.

"Holder" means the Person in whose name a Nuclear Asset-Recovery Bond is registered on the Nuclear Asset-Recovery Bond Register.

"Indemnified Losses" is defined in Section 5.03 of the Servicing Agreement.

"Indemnified Party" is defined in Section 6.02(a) of the Servicing Agreement.

"Indemnified Person" is defined in Section 5.01(f) of the Sale Agreement.

"Indenture" means the Indenture, dated as June 22, 2016, by and between the Issuer and The Bank of New York Mellon, a National Association, as Indenture Trustee and as Securities Intermediary.

"Indenture Trustee" means The Bank of New York Mellon Trust Company, National Association, a national banking association, as indenture trustee for the benefit of the Secured Parties, or any successor indenture trustee for the benefit of the Secured Parties, under the Indenture.

"Independent" means, when used with respect to any specified Person, that such specified Person (a) is in fact independent of the Issuer, any other obligor on the Nuclear Asset-Recovery Bonds, the Seller, the Servicer and any Affiliate of any of the foregoing Persons, (b) does not have any direct financial interest or any material indirect financial interest in the Issuer, any such other obligor, the Seller, the Servicer or any Affiliate of any of the foregoing Persons and (c) is not connected with the Issuer, any such other obligor, the Seller, the Servicer or any Affiliate of any of the foregoing Persons as an officer, employee, promoter, underwriter, trustee,

partner, director (other than as an independent director or manager) or person performing similar functions.

"Independent Certificate" means a certificate to be delivered to the Indenture Trustee under the circumstances described in, and otherwise complying with, the applicable requirements of Section 10.01 of the

Indenture, made by an Independent appraiser or other expert appointed by an Issuer Order and consented to by the Indenture Trustee, and such certificate shall state that the signer has read the definition of "Independent" in the Indenture and that the signer is Independent within the meaning thereof.

"Independent Manager" is defined in Section 4.01(a) of the LLC Agreement.

"Independent Manager Fee" is defined in Section 4.01(a) of the LLC Agreement.

"Insolvency Event" means, with respect to a specified Person: (a) the filing of a decree or order for relief by a court having jurisdiction in the premises in respect of such specified Person or any substantial part of its property in an involuntary case under any applicable U.S. federal or state bankruptcy, insolvency or other similar law in effect as of the date hereof or thereafter, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official for such specified Person or for any substantial part of its property, or ordering the winding-up or liquidation of such specified Person's affairs, and such decree or order shall remain unstayed and in effect for a period of 60 consecutive days; or (b) the commencement by such specified Person of a voluntary case under any applicable U.S. federal or state bankruptcy, insolvency or other similar law in effect as of the Series Closing Date or thereafter, or the consent by such specified Person to the entry of an order for relief in an involuntary case under any such law, or the consent by such specified Person to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official for such specified Person or for any substantial part of its property, or the making by such specified Person of any general assignment for the benefit of creditors, or the failure by such specified Person generally to pay its debts as such debts become due, or the taking of action by such specified Person in furtherance of any of the foregoing.

"Intercreditor Agreement" means the Intercreditor Agreement, dated as of the date hereof, by and among the Issuer, the Indenture Trustee, Duke Energy Florida and the parties to the accounts receivables sale program of Duke Energy Florida Receivables LLC, and any subsequent such agreement.

"Interim True-Up Adjustment" means either an Optional Interim True-Up Adjustment made in accordance with Section 4.01(b)(ii) of the Servicing Agreement or a Non-standard True-Up Adjustment made in accordance with Section 4.01(b)(iii) of the Servicing Agreement.

"Investment Company Act" means the Investment Company Act of 1940.

"Investment Earnings" means investment earnings on funds deposited in the Collection Account net of losses and investment expenses.

"Issuer" means Duke Energy Florida Project Finance, LLC, a Delaware limited liability company, named as such in the Indenture until a successor replaces it and, thereafter, means the successor and, for purposes of any provision contained herein and required by the Trust Indenture Act, each other obligor on the Nuclear Asset-Recovery Bonds.

"Issuer Documents" is defined in Section 1(a)(iv) of the Administration Agreement.

"Issuer Order" means a written order signed in the name of the Issuer by any one of its Responsible Officers and delivered to the Indenture Trustee or Paying Agent, as applicable.

"Issuer Request" means a written request signed in the name of the Issuer by any one of its Responsible Officers and delivered to the Indenture Trustee or Paying Agent, as applicable.

"Legal Defeasance Option" is defined in Section 4.01(b) of the Indenture.

"Letter of Representations" means any applicable agreement between the Issuer and the applicable Clearing Agency, with respect to such Clearing Agency's rights and obligations (in its capacity as a Clearing Agency) with respect to any Book-Entry Nuclear Asset-Recovery Bonds.

"Lien" means a security interest, lien, mortgage, charge, pledge, claim or encumbrance of any kind.

"LLC Agreement" means the Amended and Restated Limited Liability Company Agreement of Duke Energy Florida Project Finance, LLC, dated as of June 10, 2016.

"Losses" means (a) any and all amounts of principal of and interest on the Nuclear Asset-Recovery Bonds not paid when due or when scheduled to be paid in accordance with their terms and the amounts of any deposits by or to the Issuer required to have been made in accordance with the terms of the Basic Documents or the Financing Order or Subsequent that are not made when so required and (b) any and all other liabilities, obligations, losses, claims, damages, payments, costs or expenses of any kind whatsoever.

"Manager" means each manager of the Issuer under the LLC Agreement.

"Member" has the meaning specified in the first paragraph of the LLC Agreement.

"Monthly Servicer's Certificate" is defined in Section 3.01(b)(i) of the Servicing Agreement.

"Moody's" means Moody's Investors Service, Inc.. References to Moody's are effective so long as Moody's is a Rating Agency.

"Non-standard True-Up Adjustment" means any Non-standard True-Up Adjustment made pursuant to Section 4.01(b)(iii) of the Servicing Agreement.

"NRSRO" is defined in Section 10.18(b) of the Indenture.

"Nuclear Asset-Recovery Bond Register" is defined in Section 2.05 of the Indenture.

"Nuclear Asset-Recovery Bond Registrar" is defined in Section 2.05 of the Indenture.

"Nuclear Asset-Recovery Bonds" means all Series of the nuclear asset-recovery bonds issued under the Indenture.

"Nuclear Asset-Recovery Charge Collections" means Charges actually received by the Servicer to be remitted to the Collection Account.

"Nuclear Asset-Recovery Charge Payments" means the payments made by Customers based on the Charges.

"Nuclear Asset-Recovery Costs" means (i) the balance of the Crystal River Unit 3 Regulatory Asset as of December 31, 2015 as allowed under the Financing Order minus (ii) $35,894,547.00, which, pursuant to the Commission's Final Order PSC-16-0138-FOF-EI issued on April 5, 2016, shall not be included in, recovered or further trued up as part of the Crystal River Unit 3 Regulatory Asset, plus (iii) carrying charges accruing at 6.0% per annum on the balance of the Crystal River Unit 3 Regulatory Asset (adjusted as described in (ii) above) from December 31, 2015 through the date hereof.

"Nuclear Asset-Recovery Law" means the laws of the State of Florida adopted in May 2015 enacted as Section 366.95, Florida Statutes.

"Nuclear Asset-Recovery Property Records" is defined in Section 5.01 of the Servicing Agreement.

"Nuclear Asset-Recovery Rate Class" means one of the seven separate rate classes to whom Charges are allocated for ratemaking purposes in accordance with the Financing Order.

"Nuclear Asset-Recovery Rate Schedule" means the Tariff sheets to be filed with the Commission stating the amounts of the Charges, as such Tariff sheets may be amended or modified from time to time pursuant to a True-Up Adjustment.

"NY UCC" means the Uniform Commercial Code as in effect on the date hereof in the State of New York.

"Officer's Certificate" means a certificate signed by a Responsible Officer of the Issuer under the circumstances described in, and otherwise complying with, the applicable requirements of Section 10.01 of the Indenture, and delivered to the Indenture Trustee.

"Ongoing Financing Costs" means the Financing Costs described as such in the Financing Order, including Operating Expenses and any other costs identified in the Basic

Documents; provided, however, that Ongoing Financing Costs do not include the Issuer's costs of issuance of the Nuclear Asset-Recovery Bonds.

"Operating Expenses" means all unreimbursed fees, costs and out-of-pocket expenses of the Issuer, including all amounts owed by the Issuer to the Indenture Trustee (including indemnities, legal, audit fees and expenses) or any Manager, the Servicing Fee, the Administration Fee, legal and accounting fees, Rating Agency fees, any Regulatory Assessment Fees and related fees (i.e. website provider fees) and any franchise or other taxes owed by the Issuer, including on investment income in the Collection Account.

"Opinion of Counsel" means one or more written opinions of counsel, who may, except as otherwise expressly provided in the Basic Documents, be employees of or counsel to the party providing such opinion of counsel, which counsel shall be reasonably acceptable to the party receiving such opinion of counsel, and shall be in form and substance reasonably acceptable to such party.

"Optional Interim True-Up Adjustment" means any Optional Interim True-Up Adjustment made pursuant to Section 4.01(b)(ii) of the Servicing Agreement.

"Outstanding" means, as of the date of determination, all Nuclear Asset-Recovery Bonds theretofore authenticated and delivered under the Indenture, except:

(a) Nuclear Asset-Recovery Bonds theretofore canceled by the Nuclear Asset-Recovery Bond Registrar or delivered to the Nuclear Asset-Recovery Bond Registrar for cancellation;

(b) Nuclear Asset-Recovery Bonds or portions thereof the payment for which money in the necessary amount has been theretofore deposited with the Indenture Trustee or any Paying Agent in trust for the Holders of such Nuclear Asset-Recovery Bonds; and

(c) Nuclear Asset-Recovery Bonds in exchange for or in lieu of other Nuclear Asset-Recovery Bonds that have been issued pursuant to the Indenture unless proof satisfactory to the Indenture Trustee is presented that any such Nuclear Asset-Recovery Bonds are held by a Protected Purchaser;

provided, that, in determining whether the Holders of the requisite Outstanding Amount of the Nuclear Asset-Recovery Bonds or any Series or WAL thereof have given any request, demand, authorization, direction, notice, consent or waiver under any Basic Document, Nuclear Asset-Recovery Bonds owned by the Issuer, any other obligor upon the Nuclear Asset-Recovery Bonds, the Member, the Seller, the Servicer or any Affiliate of any of the foregoing Persons shall be disregarded and deemed not to be Outstanding (unless one or more such Persons owns 100% of such Nuclear Asset-Recovery Bonds), except that, in determining whether the Indenture Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Nuclear Asset-Recovery Bonds that the Indenture Trustee actually knows to be so owned shall be so disregarded. Nuclear Asset-Recovery Bonds so owned that have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Indenture Trustee the pledgee's right so to act with respect to such Nuclear Asset-Recovery Bonds and that the pledgee is not the Issuer, any other obligor upon the Nuclear

Asset-Recovery Bonds, the Member, the Seller, the Servicer or any Affiliate of any of the foregoing Persons.

"Outstanding Amount" means the aggregate principal amount of all Nuclear Asset-Recovery Bonds, or, if the context requires, all Nuclear Asset-Recovery Bonds of a Series or WAL, Outstanding at the date of determination.

"Paying Agent" means, with respect to the Indenture, the Indenture Trustee and any other Person appointed as a paying agent for the Nuclear Asset-Recovery Bonds pursuant to the Indenture.

"Payment Date" means, with respect to any Series or WAL of Nuclear Asset-Recovery Bonds, the dates specified in the applicable Series Supplement; provided, that if any such date is not a Business Day, the Payment Date shall be the Business Day succeeding such date.

"Periodic Billing Requirement" means, for any Remittance Period, the aggregate amount of Charges calculated by the Servicer as necessary to be billed during such period in order to collect the Periodic Payment Requirement on a timely basis.

"Periodic Interest" means, with respect to any Payment Date, the periodic interest for such Payment Date as specified in the Series Supplement.

"Periodic Payment Requirement" for any Remittance Period means the total dollar amount of Nuclear Asset-Recovery Charge Collections reasonably calculated by the Servicer in accordance with Section 4.01 of the Servicing Agreement as necessary to be received during such Remittance Period (after giving effect to the allocation and distribution of amounts on deposit in the Excess Funds Subaccount at the time of calculation and that are projected to be available for payments on the Nuclear Asset-Recovery Bonds at the end of such Remittance Period and including any shortfalls in Periodic Payment Requirements for any prior Remittance Period) in order to ensure that, as of the last Payment Date occurring in such Remittance Period, (a) all accrued and unpaid principal of and interest on the Nuclear Asset-Recovery Bonds then due shall have been paid in full on a timely basis, (b) the Outstanding Amount of the Nuclear Asset-Recovery Bonds is equal to the Projected Unpaid Balance on each Payment Date during such Remittance Period, (c) the balance on deposit in the Capital Subaccount equals the Required Capital Level and (d) all other fees and expenses due and owing and required or allowed to be paid under Section 8.02 of the Indenture as of such date shall have been paid in full; provided, that, with respect to any Semi-Annual True-Up Adjustment or Interim True-Up Adjustment occurring after the date that is one year prior to the last

Scheduled Final Payment Date for the Nuclear Asset-Recovery Bonds, the Periodic Payment Requirements shall be calculated to ensure that sufficient Nuclear Asset-Recovery Charges will be collected to retire the Nuclear Asset-Recovery Bonds in full as of the next Payment Date.

"Periodic Principal" means, with respect to any Payment Date, the excess, if any, of the Outstanding Amount of Nuclear Asset-Recovery Bonds over the outstanding principal balance specified for such Payment Date on the Expected Sinking Fund Schedule.

"Permitted Lien" means the Lien created by the Indenture.

"Permitted Successor" is defined in Section 5.02 of the Sale Agreement.

"Person" means any individual, corporation, limited liability company, estate, partnership, joint venture, association, joint stock company, trust (including any beneficiary thereof), unincorporated organization or Governmental Authority.

"Predecessor Nuclear Asset-Recovery Bond" means, with respect to any particular Nuclear Asset-Recovery Bond, every previous Nuclear Asset-Recovery Bond evidencing all or a portion of the same debt as that evidenced by such particular Nuclear Asset-Recovery Bond, and, for the purpose of this definition, any Nuclear Asset-Recovery Bond authenticated and delivered under Section 2.06 of the Indenture in lieu of a mutilated, lost, destroyed or stolen Nuclear Asset-Recovery Bond shall be deemed to evidence the same debt as the mutilated, lost, destroyed or stolen Nuclear Asset-Recovery Bond.

"Premises" is defined in Section 1(g) of the Administration Agreement.

"Proceeding" means any suit in equity, action at law or other judicial or administrative proceeding.

"Projected Unpaid Balance" means, as of any Payment Date, the sum of the projected outstanding principal amount of each WAL of Nuclear Asset-Recovery Bonds for such Payment Date set forth in the Expected Sinking Fund Schedule.

"Property" means all nuclear asset-recovery property as defined in Section 366.95(1)(l) of the Nuclear Asset-Recovery Law created pursuant to the Financing Order or a Subsequent Financing Order and under the Nuclear Asset-Recovery Law, including the right to impose, bill, collect and receive the Charges authorized under the Financing Order and to obtain periodic adjustments of the Charges and all revenue, collections, claims, rights to payments, payments, money, or proceeds arising from the rights and interests specified in Section 366.95(1)(l)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.

"Protected Purchaser" has the meaning specified in Section 8-303 of the UCC.

"Rating Agency" means, with respect to any WAL of Nuclear Asset-Recovery Bonds, any of Moody's, S&P or Fitch that provides a rating with respect to the Nuclear Asset-Recovery Bonds. If no such organization (or successor) is any longer in existence, "Rating Agency" shall be a nationally recognized statistical rating organization or other comparable Person designated by the Issuer, notice of which designation shall be given to the Indenture Trustee and the Servicer.

"Rating Agency Condition" means, with respect to any action, at least ten Business Days' prior written notification to each Rating Agency of such action, and written confirmation from each of S&P and Moody's

to the Servicer, the Indenture Trustee and the Issuer that such action will not result in a suspension, reduction or withdrawal of the then current rating by such Rating Agency of any WAL of Nuclear Asset-Recovery Bonds; provided, that, if,

within such ten Business Day period, any Rating Agency (other than S&P) has neither replied to such notification nor responded in a manner that indicates that such Rating Agency is reviewing and considering the notification, then (a) the Issuer shall be required to confirm that such Rating Agency has received the Rating Agency Condition request and, if it has, promptly request the related Rating Agency Condition confirmation and (b) if the Rating Agency neither replies to such notification nor responds in a manner that indicates it is reviewing and considering the notification within five Business Days following such second request, the applicable Rating Agency Condition requirement shall not be deemed to apply to such Rating Agency. For the purposes of this definition, any confirmation, request, acknowledgment or approval that is required to be in writing may be in the form of electronic mail or a press release (which may contain a general waiver of a Rating Agency's right to review or consent).

"Record Date" means one Business Day prior to the applicable Payment Date.

"Registered Holder" means the Person in whose name a Nuclear Asset-Recovery Bond is registered on the Nuclear Asset-Recovery Bond Register.

"Regulation AB" means the rules of the SEC promulgated under Subpart 229.1100 — Asset Backed Securities (Regulation AB), 17 C.F.R. §§229.1100-229.1123.

"Regulatory Assessment Fee" means any assessment fee due to the Commission pursuant to Section 350.113, Florida Statutes.

"Reimbursable Expenses" is defined in Section 2 of the Administration Agreement and Section 6.06(a) of the Servicing Agreement.

"Released Parties" is defined in Section 6.02(d) of the Servicing Agreement.

"Remittance Period" means, with respect to any True-Up Adjustment, the period comprised of 6 consecutive Collection Periods beginning with the Collection Period in which such True-Up Adjustment would go into effect, from the Series Closing Date to the first Scheduled Payment Date, and for each subsequent period between Scheduled Payment Dates.

"Required Capital Level" means, with respect to any Series of Nuclear Asset-Recovery Bonds, the amount specified as such in the Series Supplement therefor.

"Requirement of Law" means any foreign, U.S. federal, state or local laws, statutes, regulations, rules, codes or ordinances enacted, adopted, issued or promulgated by any Governmental Authority or common law.

"Responsible Officer" means, with respect to: (a) the Issuer, any Manager or any duly authorized officer; (b) the Indenture Trustee, any officer within the Corporate Trust Office of such trustee (including the President, any Vice President, any Assistant Vice President, any Secretary, any Assistant Treasurer or any other officer of the Indenture Trustee customarily performing functions similar to those performed by persons who at the time shall be such officers, respectively, and that has direct responsibility for the administration of the Indenture and also, with respect to a particular matter, any other officer to whom such matter is referred to because of such officer's knowledge and familiarity with the particular subject); (c) any

corporation (other than the Indenture Trustee), the Chief Executive Officer, the President, any Vice President, the Chief Financial Officer, the Treasurer, any Assistant Treasurer or any other duly authorized officer of such Person who has been authorized to act in the circumstances; (d) any partnership, any general partner thereof; and (e) any other Person (other than an individual), any duly authorized officer or member of such Person, as the context may require, who is authorized to act in matters relating to such Person.

"Return on Invested Capital" means, for any Payment Date with respect to any Remittance Period, the sum of (i) rate of return, payable to Duke Energy Florida, on its Capital Contribution equal to the rate of interest payable on the longest maturing WAL of Nuclear Asset-Recovery Bonds plus (ii) any Return on Invested Capital not paid on any prior Payment Date.

"S&P" means Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business. References to S&P are effective so long as S&P is a Rating Agency.

"Sale Agreement" means the Nuclear Asset-Recovery Property Purchase and Sale Agreement, dated as of the date hereof, or any subsequent Nuclear Asset-Recovery Property Purchase and Sale Agreement relating to another Series of Nuclear Asset-Recovery Bonds by and between the Issuer and Duke Energy Florida, and acknowledged and accepted by the Indenture Trustee.

"Scheduled Final Payment Date" means, with respect to each Series of Nuclear Asset-Recovery Bonds, the date when all interest and principal is scheduled to be paid with respect to that applicable Series in accordance with the Expected Sinking Fund Schedule, as specified in the Series Supplement. For the avoidance of doubt, the Scheduled Final Payment Date with respect to any Series shall be the last Scheduled Payment Date set forth in the Expected Sinking Fund Schedule relating to such Series. The "last Scheduled Final Payment Date" means the Scheduled Final Payment Date of the latest maturing WAL of a Series of Nuclear Asset-Recovery Bonds.

"Scheduled Payment Date" means, with respect to each Series or WAL of Nuclear Asset-Recovery Bonds, each Payment Date on which principal for such Series or WAL is to be paid in accordance with the Expected Sinking Fund Schedule for such Series or WAL.

"SEC" means the Securities and Exchange Commission.

"Secured Obligations" means the payment of principal of and premium, if any, interest on, and any other amounts owing in respect of, the Nuclear Asset-Recovery Bonds and all fees, expenses, counsel fees and other amounts due and payable to the Indenture Trustee.

"Secured Parties" means the Indenture Trustee, the Holders and any credit enhancer described in a Series Supplement.

"Securities Act" means the Securities Act of 1933.

"Securities Intermediary" means The Bank of New York Mellon Trust Company, National Association, a national banking association, solely in the capacity of a "securities

intermediary" as defined in the NY UCC and Federal Book-Entry Regulations or any successor securities intermediary under the Indenture.

"Seller" is defined in the preamble to the Sale Agreement.

"Semi-Annual Servicer's Certificate" is defined in Section 4.01(c)(ii) of the Servicing Agreement.

"Semi-Annual True-Up Adjustment" means each adjustment to the Nuclear Asset-Recovery Charges made in accordance with Section 4.01(b)(i) of the Servicing Agreement.

"Semi-Annual True-Up Adjustment Date" means the first billing cycle of March and September of each year, commencing in July 1, 2016.

"Series" means any series of Nuclear Asset-Recovery Bonds.

"Series A Bonds" means the Series A Senior Secured Nuclear Asset-Recovery Bonds issued by the Issuer on June 22, 2016.

"Series Charges" means Charges for the benefit of a particular Series of Nuclear Asset-Recovery Bonds.

"Series Closing Date" means the date on which a Series of the Nuclear Asset-Recovery Bonds are originally issued in accordance with Section 2.10 of the Indenture and the respective Series Supplement.

"Series Collateral" means Collateral for the benefit of a particular Series of Nuclear Asset-Recovery Bonds.

"Series Property" means Property for the benefit of a particular Series of Nuclear Asset-Recovery Bonds.

"Series Supplement" means an indenture supplemental to the Indenture in the form attached as Exhibit B to the Indenture that authorizes the issuance of Nuclear Asset-Recovery Bonds.

"Servicer" means Duke Energy Florida, as Servicer under the Servicing Agreement.

"Servicer Business Day" means any day other than a Saturday, a Sunday or a day on which banking institutions in St. Petersburg, Florida, Charlotte, North Carolina or New York, New York are authorized or obligated by law, regulation or executive order to be closed, on which the Servicer maintains normal office hours and conducts business.

"Servicer Default" is defined in Section 7.01 of the Servicing Agreement.

"Servicer Policies and Practices" means, with respect to the Servicer's duties under Exhibit A to the Servicing Agreement, the policies and practices of the Servicer applicable to such duties that the Servicer follows with respect to comparable assets that it services for itself and, if applicable, others.

"Servicing Agreement" means the Nuclear Asset-Recovery Property Servicing Agreement, dated as of the date hereof, or any subsequent Nuclear Asset-Recovery Property Servicing Agreement relating to another Series of Nuclear Asset-Recovery Bonds by and between the Issuer and Duke Energy Florida, and acknowledged and accepted by the Indenture Trustee.

"Servicing Fee" is defined in Section 6.06(a) of the Servicing Agreement.

"Servicing Standard" means the obligation of the Servicer to calculate, apply, remit and reconcile proceeds of the Property, including Nuclear Asset-Recovery Charge Payments, and all other Collateral for the benefit of the Issuer and the Holders (a) with the same degree of care and diligence as the Servicer applies with respect to payments owed to it for its own account, (b) in accordance with all applicable procedures and requirements established by the Commission for collection of electric utility tariffs and (c) in accordance with the other terms of the Servicing Agreement.

"Special Payment Date" means the date on which, with respect to any Series or WAL of Nuclear Asset-Recovery Bonds, any payment of principal of or interest (including any interest accruing upon default) on, or any other amount in respect of, the Nuclear Asset-Recovery Bonds of such Series or WAL that is not actually paid within five days of the Payment Date applicable thereto is to be made by the Indenture Trustee to the Holders.

"Special Record Date" means, with respect to any Special Payment Date, the close of business on the fifteenth day (whether or not a Business Day) preceding such Special Payment Date.

"Sponsor" means Duke Energy Florida, in its capacity as "sponsor" of the Nuclear Asset-Recovery Bonds within the meaning of Regulation AB.

"State" means any one of the fifty states of the United States of America or the District of Columbia.

"State Pledge" means the pledge of the State of Florida as set forth in Section 366.95(11) of the Nuclear Asset-Recovery Law.

"Subaccounts" is defined in Section 8.02(a) of the Indenture.

"Subsequent Financing Order" means, a financing order of the Commission under the Nuclear Asset-Recovery Law issued to Duke Energy Florida subsequent to the Financing Order.

"Successor" means any successor to Duke Energy Florida under the Nuclear Asset-Recovery Law, whether pursuant to any bankruptcy, reorganization or other insolvency

proceeding or pursuant to any merger, conversion, acquisition, sale or transfer, by operation of law, as a result of electric utility restructuring, or otherwise.

"Successor Servicer" is defined in Section 3.07(e) of the Indenture.

"Tariff" means the most current version on file with the Commission of July 1, 2016.

"Tax Returns" is defined in Section 1(a)(iii) of the Administration Agreement.

"Temporary Nuclear Asset-Recovery Bonds" means Nuclear Asset-Recovery Bonds executed and, upon the receipt of an Issuer Order, authenticated and delivered by the Indenture Trustee pending the preparation of Definitive Nuclear Asset-Recovery Bonds pursuant to Section 2.04 of the Indenture.

"Termination Notice" is defined in Section 7.01 of the Servicing Agreement.

"True-Up Adjustment" means any Semi-Annual True-Up Adjustment or Interim True-Up Adjustment, as the case may be.

"Trust Indenture Act" means the Trust Indenture Act of 1939 as in force on the Series Closing Date, unless otherwise specifically provided.

"UCC" means the Uniform Commercial Code as in effect in the relevant jurisdiction.

"Underwriters" means the underwriters who purchase Nuclear Asset-Recovery Bonds of any Series from the Issuer and sell such Nuclear Asset-Recovery Bonds in a public offering.

"Underwriting Agreement" means the Underwriting Agreement, dated June 15, 2016, by and among Duke Energy Florida, the representatives of the several Underwriters named therein and the Issuer.

"U.S. Government Obligations" means direct obligations (or certificates representing an ownership interest in such obligations) of the United States of America (including any agency or instrumentality thereof) for the payment of which the full faith and credit of the United States of America is pledged and that are not callable at the option of the issuer thereof.

"WAL" means any one of the groupings of Nuclear Asset-Recovery Bonds of a Series differentiated by sinking fund schedule, interest rate or sinking fund schedule, as specified in the Series Supplement.

"WAL Maturity Date" means, with respect to any WAL of Nuclear Asset-Recovery Bonds, the maturity date therefor, as specified in the Series Supplement therefor.

"Weighted Average Days Outstanding" means the weighted average number of days Duke Energy Florida's monthly bills to Customers remain outstanding during the calendar year preceding the calculation thereof pursuant to Section 4.01(b)(i) of the Servicing Agreement.

B. Rules of Construction. Unless the context otherwise requires, in each Basic Document to which this Appendix A is attached:

(a) All accounting terms not specifically defined herein shall be construed in accordance with United States generally accepted accounting principles. To the extent that the definitions of accounting terms in any Basic Document are inconsistent with the meanings of such terms under generally accepted accounting principles or regulatory accounting principles, the definitions contained in such Basic Document shall control.

(b) The term "including" means "including without limitation", and other forms of the verb "include" have correlative meanings.

(c) All references to any Person shall include such Person's permitted successors and assigns, and any reference to a Person in a particular capacity excludes such Person in other capacities.

(d) Unless otherwise stated in any of the Basic Documents, in the computation of a period of time from a specified date to a later specified date, the word "from" means "from and including" and each of the words "to" and "until" means "to but excluding".

(e) The words "hereof", "herein" and "hereunder" and words of similar import when used in any Basic Document shall refer to such Basic Document as a whole and not to any particular provision of such Basic Document. References to Articles, Sections, Appendices and Exhibits in any Basic Document are references to

Articles, Sections, Appendices and Exhibits in or to such Basic Document unless otherwise specified in such Basic Document.

(f) The various captions (including the tables of contents) in each Basic Document are provided solely for convenience of reference and shall not affect the meaning or interpretation of any Basic Document.

(g) The definitions contained in this Appendix A apply equally to the singular and plural forms of such terms, and words of the masculine, feminine or neuter gender shall mean and include the correlative words of other genders.

(h) Unless otherwise specified, references to an agreement or other document include references to such agreement or document as from time to time amended, restated, reformed, supplemented or otherwise modified in accordance with the terms thereof (subject to any restrictions on such amendments, restatements, reformations, supplements or modifications set forth in such agreement or document) and include any attachments thereto.

(i) References to any law, rule, regulation or order of a Governmental Authority shall include such law, rule, regulation or order as from time to time in effect, including any amendment, modification, codification, replacement or reenactment thereof or any substitution therefor.

(j) The word "will" shall be construed to have the same meaning and effect as the word "shall".

(k) The word "or" is not exclusive.

(l) All terms defined in the relevant Basic Document to which this Appendix A is attached shall have the defined meanings when used in any certificate or other document made or delivered pursuant thereto unless otherwise defined therein.

(m) A term has the meaning assigned to it.

Joseph S. Fichera

I/A

Co-Founder and Chief Executive Officer
Saber Partners, LLC
2000-Present

Fellow
National Regulatory Research Institute
2018-2019

Senior Advisor
The Williams Capital Group, L.P.
2010-2016, 2018-2019

Adjunct Professor of Public and International Affairs
Princeton University, Woodrow Wilson School Public & International Affairs
Fall 2011, Spring 2008

Manager
Saber Capital Partners, LLC (FINRA)
2003-2009

Managing Director and Group Head
Investment Banking, Business Origination & Product Development
Prudential Securities
1997-2000

Executive Fellow
Woodrow Wilson School of Public and International Affairs
Princeton University
1995-1996

Member, Board of Directors (Audit Committee)
Czech & Slovak American Enterprise Fund by designation of President Clinton
1994-96

Managing Director-Principal
Bear, Stearns & Co., Inc.
1989-1995

Vice President
Smith Barney, Harris Upham &Co.
1984-1989

Special Assistant to the Assistant Secretary
U.S. Department of Housing & Urban Development as political appointee in President Carter's administration,
1977-1980

Member, Leadership Council
RFK Center for Human Rights
2010-Present

Member, Advisory Council to the Chairman (Ben Bernanke, Harvey Rosen)
Princeton University, Economics Department
1996-2004 (Chairman, 2003)

Member, Board of Advisors
Center for Economic Policy Studies (CEPS), Princeton University
1999-Present

Joseph S. Fichera

Member, Economic Club of New York
2007-Present

Life Member, Council on Foreign Relations

Previous Professional Licenses
FINRA/SEC Series 24: Securities Principal and Series 7: Registered Representative

Author of articles concerning the interaction between corporate finance and public policy. Published in: *The New York Times, Barron's, The Wall Street Journal, Dow Jones Library of Investment Banking, Q2 Yale Management Magazine*. Contributor on *Bloomberg View, Fox Business*.

BA, Princeton, 1976;
MBA, Yale, 1982

JOSEPH S. FICHERA PUBLISHED WORKS AND AWARDS (as of December 2020)		
Title	**Publisher**	**Date**
"Utility Securitization: An Update"	*National Regulatory Research Institute*	January 2019
Special Achievement in Finance	*National Italian American Foundation*	April 10, 2018
"The S.E.C. Should Copy the D.M.V."	*The New York Times*	November 7, 2014
"Were Detroit Swaps Unfair"	*Bloomberg View*	January 27, 2014
"Price Transparency and the ABS Market"	*Asset Securitization Report*	September, 2013
"Market Rejuvenation = National Municipal Bond Exchange"	*MuniIC newsletter*	September, 2011
"Auction Rate Securities Need Reform, Not Just Redemption"	*Saber Partners, LLC*	June, 2011
"Grid Modernization Monetization: Long-Term Ratepayer Obligation Charge Bonds May Provide Answers" (with Michael E. Ebert)	*Intelligent Utility Magazine*	March/April 2011
"Securing the Grid: Intelligent Financing Creates New Options for Grid Modernization" (with Michael E. Ebert)	*Intelligent Utility Magazine*	December 6, 2010
Comment on Municipal Service Rulemaking Board ("MSRB") Auction Rate Securities ("ARS") Transparency Proposal Submitted to SEC	*Saber Partners, LLC*	April, 2010
Comment on ARS Transparency Proposal Submitted to MSRB	*Saber Partners, LLC*	July, 2008
"Treasury Should Use New Powers to Invest in Muni ARS"	*The Bond Buyer*	October 6, 2008

Joseph S. Fichera

JOSEPH S. FICHERA PUBLISHED WORKS AND AWARDS (as of December 2020)		
Title	**Publisher**	**Date**
"Can Environmental Control Bonds Emerge in Europe"	Chapter 6: *Thomson Reuters IFR, New Frontiers in European Securitisation: Opportunities in Troubled Times*	2008
'How Can Directors Become Truly Independent"	*Directors Monthly*	June 2008
"How Can Directors Become Truly Independent"	*Q2 Yale Management Magazine*	Fall 2007
"Lowering Environmental and Capital Costs with Ratepayer-Backed Bonds"	*Natural Gas & Electricity*	February 2007
"A Rising Tide: Do Utility Securitizations Have a Future?"	*Asset Securitization Report*	February 9, 2005
"Deal of the Year"	*Asset Securitization Report*	December 1, 2003
"The State of Utility Securitization: Stranded Costs and Other Tariff-Based Financings: Opportunities, Risks and Rewards"	*Prudential Securities: A Fixed-Income Research Publication*	March 1998
"Why Is Wall Street Waiting?"	*Electrical World Business Edition*	November 1997
"Uncle Sam, Venture Capitalist"	*The Wall Street Journal*	May 2, 1996
"Street Smart: A Road Map for the Investment Banking Analyst"	*Princeton University's Business Today*	May 1996
"You Call That Debt?"	*Barron's*	February 26, 1996
"Deal of the Year"	*Institutional Investor*	1992
"Refinancing High-Coupon Tax-Exempt Debt: Understanding the Benefits and Risks of Alternative Strategies"	*Financial Analytics and Structured Transactions, Bear, Stearns & Co., Inc*	1991
"Making Matters Worse: The Danger of Dutch Auction Securities"	*Bear Stearns & Co, Inc.*	1991
"Deal of the Year"	*Institutional Investor*	1991
"Preferred Stock IV: Advantages of Remarketed Preferred Stock"	Chapter 16, *Dow–Jones Irwin, Library of Investment Banking*	1989
"Corporate Tax-Exempt Financing"	Chapter 39: *Dow–Jones Irwin, Library of Investment Banking*	1989
"Of Money and Merit: The Upside Down Effects of Wall Street's Bonus System"	*Smith Barney Harris Upham, Inc.*	1988

Order Book Status

A-1: $217MM			Whisper Talk			Price Guidance		Final Pricing		
	At Announcement	% Subscribed	Swaps -10/-8	At Price Guidance	% Subscribed	Swaps -7/-6	At Pricing - 10/5	Swaps -7	Final Allocation	% Subscribed
IOI/Orders	$85.0	39%		$128.3	59%		$261.8		$217.0	121%

A-2: $341MM			Whisper Talk			Whisper Talk		Final Pricing		
	At Announcement	% Subscribed	Swaps -6/-3	At Price Guidance	% Subscribed	Swaps -3/-2	At Pricing - 10/5	Swaps -2	Final Allocation	% Subscribed
IOI/Orders	$106.0	31%		$127.7	37%		$402.6		$341.0	118%

A-3: $250MM			Whisper Talk			Whisper Talk		Final Pricing		
	At Announcement	% Subscribed	Swaps + 0/3	At Price Guidance	% Subscribed	Swaps +2A	At Pricing - 10/5	Swaps +3	Final Allocation	% Subscribed
IOI/Orders	$97.0	39%		$180.0	72%		$280.5		$250.0	112%

A-4: $437MM			Whisper Talk			Whisper Talk		Final Pricing		
	At Announcement	% Subscribed	Swaps + 3/6	At Price Guidance	% Subscribed	Swaps + 5/6	At Pricing - 10/5	Swaps +6	Final Allocation	% Subscribed
IOI/Orders	$68.0	16%		$163.0	37%		$420.0		$437.0	96%

A-5: $494.7MM			Whisper Talk			Whisper Talk		Final Pricing		
	At Announcement	% Subscribed	Swaps + 9/13	At Price Guidance	% Subscribed	Swaps + 11/12	At Pricing - 10/5	Swaps +14.1	Final Allocation	% Subscribed
IOI/Orders	$25.0	5%		$167.0	34%		$648.0		$494.7	131%

CREDIT SUISSE

State of Florida

Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: October 13, 2015

TO: Carlotta S. Stauffer, Commission Clerk, Office of Commission Clerk

FROM: Rosanne Gervasi, Senior Attorney, Office of the General Counsel

RE: Docket No. 150171-EI - Petition for issuance of nuclear asset-recovery financing order, by Duke Energy Florida, Inc. d/b/a Duke Energy.

Please place the attached Proposed Stipulations on Financing Order Issues in the above-referenced docket file.

DOCKET NOS. 150148-EI, 150171-EI

PROPOSED STIPULATIONS ON FINANCING ORDER ISSUES*

LEGAL ISSUE A: What is the definition of "incremental bond issuance costs" as that term is used in Section 366.95(2)(c)5., Florida Statutes?

LEGAL ISSUE B: In determining whether some or all actual bond issuance costs should be disallowed pursuant to Section 366.95(2)(c)5., Florida Statutes, what should the Commission take into account?

If the parties reach stipulations on all the issues as proposed below, these legal issues do not need to be decided by the Commission.

ISSUE 14: Do the cost amounts contained in DEF's CR3 Regulatory Asset meet the definition of "nuclear asset-recovery costs" pursuant to Section 366.95(1)(k),Florida Statutes?

The cost amounts contained in DEF's CR3 Regulatory Asset meet the definition of "nuclear asset-recovery costs" pursuant to Section 366.95(1)(k), Florida Statutes.

ISSUE 15: Do the ongoing financing costs identified in DEF's Petition qualify as "financing costs" pursuant to Section 366.95(1)(e), Florida Statutes?

The types of ongoing financing costs identified in DEF's Petition qualify as "financing costs" pursuant to Section 366.95(1)(e), Florida Statutes.

ISSUE 16: Has DEF demonstrated that securitization has a significant likelihood of resulting in lower overall costs or would avoid or significantly mitigate rate impacts compared to the traditional method of cost recovery pursuant to Section 366.95(2)(a)6., Florida Statutes?

DEF has demonstrated that securitization has a significant likelihood of resulting in lower overall costs or would avoid or significantly mitigate rate impacts compared to the traditional method of cost recovery pursuant to Section 366.95(2)(a)6., Florida Statutes.

ISSUE 17: What amount, if any, should the Commission authorize DEF to recover through securitization?

The amounts that should be authorized for DEF to recover through securitization must meet the criteria set forth in Section 366.95, Florida Statutes. By the nature of this proceeding, that amount will not be known with precision until the bonds are issued. The principal amount of the nuclear asset-recovery bonds should be $1,283,012,000, representing the projected December 31, 2015 balance of the CR3 Regulatory Asset, subject to true-up to the actual December 31, 2015

balance, plus carrying charges beyond 2015 until the date of the bond issuance, plus upfront financing costs.

ISSUE 18: What is the appropriate treatment of the deferred tax liability consistent with paragraph 5(j) of the RRSSA?

No adjustment is necessary for the deferred tax liability. However, consistent with paragraph 5(j) of the RRSSA, the deferred tax liability will be excluded for earnings surveillance purposes.

ISSUE 19: Should DEF indemnify customers to the extent customers incur losses associated with higher servicing fees payable to a substitute servicer, or with higher administration fees payable to a substitute administrator, as a result of DEF's termination for cause?

DEF should be required to indemnify customers to the extent customers incur losses associated with higher servicing fees payable to a substitute servicer, or with higher administration fees payable to a substitute administrator, as a result of DEF's termination for cause attributable to its own actions.

ISSUE 20: What should be the up-front and ongoing fee for the role of servicer throughout the term of the nuclear asset-recovery bonds?

The up-front fee for the role of servicer is currently estimated to be $915,000. The actual amount may change based on DEF's final cost. So long as DEF or an affiliate of DEF is servicer, the annual fee for the role of servicer throughout the term of the nuclear asset-recovery bonds is 0.05% of the original principal balance of the nuclear asset-recovery bonds (currently estimated to be approximately $650,000).

ISSUE 21: What amount, if any, of DEF's periodic servicing fee in this transaction should DEF be required to credit back to customers through an adjustment to other rates and charges?

DEF will credit back to customers through the Capacity Cost Recovery Clause all periodic servicing fees in excess of DEF's or an affiliate of DEF's incremental cost of performing the servicer function until the next rate case when costs and revenues associated with the servicing fees will be included in the cost of service.

ISSUE 22: What should be the ongoing fee for the role of the administrator throughout the term of the nuclear asset-recovery bonds?

The ongoing fee for the role of the administrator throughout the term of the nuclear asset-recovery bonds will be $50,000.

ISSUE 23: What amount, if any, of DEF's periodic administration fee in this transaction should DEF be required to credit back to customers through an adjustment to other rates and charges?

DEF will credit back to customers through the Capacity Cost Recovery Clause all periodic administration fees in excess of DEF's or any affiliate of DEF's incremental cost of performing the administration function until the next rate case when costs and revenues associated with the administration fee will be included in the cost of service.

ISSUE 24: How frequently should DEF in its role as servicer be required to remit funds collected from customers to the SPE?

DEF will remit funds collected from customers to the SPE either on a daily basis based on estimated daily collections or on a monthly basis if certain conditions can be satisfied. These conditions have yet to be determined and will be driven both by rating agency requirements to achieve and maintain the targeted "AAA" rating on the bonds and by investor concerns in the marketing and pricing of the bonds.

ISSUE 25: If remittances are not daily, should DEF be required periodically to remit actual earnings on collections pending remittance?

If remittances are not daily, DEF will be required monthly to remit estimated earnings on collections pending remittance. The calculation of earnings will be consistent with the methodology for calculating interest on over- and under-collections associated with DEF's cost recovery clauses.

ISSUE 26: Is DEF's proposed process for determining whether the upfront bond issuance costs satisfy the statutory standard of Section 366.95(2)(c)5., Florida Statutes, reasonable and should it be approved?

In accordance with Section 366.95(2)(c)5., Florida Statutes, within 120 days after the issuance of the nuclear asset-recovery bonds, DEF will file supporting information on the actual upfront bond issuance costs, for the categories of costs as reflected on page 1 of Exhibit No. __ (BB-1). The Commission shall review such costs to determine compliance with Section 366.95(2)(c)5., Florida Statutes. As part of this review, the Commission shall only consider actual upfront bond issuance costs, but not ongoing financing costs, interest rate, or pricing of the bonds.

After the issuance of a Financing Order, if DEF decides not to cause nuclear asset-recovery bonds to be issued, then as provided in Section 366.95(2)(c)6., Florida Statutes, DEF may not recover financing costs, as defined in Section 366.95(1)(e), Florida Statutes, from customers.

ISSUE 27: Issue dropped.

ISSUE 28: What additional conditions, if any, should be made in the Financing Order that are authorized by Section 366.95(2)(c)2.i.?

The Financing Order will include ordering paragraphs, findings of fact, and conclusions of law that will give appropriate comfort to investors about the high quality of the nuclear asset-recovery bonds as a potential investment. Examples include:

1. A finding of fact that the Commission anticipates stress case analyses will show that the broad-based nature of the true-up mechanism under Section 366.95(2)(c)2.d, Florida Statutes, and the State pledge under Section 366.95(11), Florida Statutes, will serve to effectively eliminate for all practical purposes and circumstances any credit risk to the payment of the nuclear asset-recovery bonds (*i.e.*, that sufficient funds will be available and paid to discharge the principal and interest obligations when due);

2. A finding of fact and ordering paragraph directing that the automatic true-up mechanism is to be applied at least every six months;

3. A finding of fact and ordering paragraph that the automatic true-up mechanism will be implemented no later than 60 days after a filing by the servicer;

4. A finding of fact that the credit quality of the nuclear asset-recovery bonds are enhanced by Section 366.95, Florida Statutes, due to the requirements that (1) the nuclear asset-recovery charge in amounts authorized by the Commission are to be imposed on all customer bills and collected in full in the form of a nonbypassable charge separate from the electric utility's base rates, (2) the charge shall be paid by all existing and future customers receiving transmission or distribution services from the electric utility, and (3) following any fundamental change in regulation of public utilities in the State, a customer electing to purchase electricity from an alternate electricity supplier must still pay the charge. Furthermore, through the true-up mechanism, any delinquencies or under-collections in one customer rate class will be taken into account in the application of the True Up Mechanism to adjust the nuclear asset-recovery charge for all customers of DEF, not just the class of customers from which the delinquency or under-collection arose;

5. A finding of fact that the Commission interprets the legislative intent of the true-up mechanism provided for in Section 366.95 for allocating costs among customers rises to the level of joint and several liability among the customers of DEF.

6. A finding of fact and conclusion of law that the broad nature of the State pledge under Section 366.95(11), Florida Statutes, constitutes a contract with the bondholders, the owners of the nuclear asset-recovery property,

and other financing parties that the state will not: (1) Alter the provisions of this section which make the nuclear asset-recovery charges imposed by a Financing Order irrevocable, binding, and nonbypassable charges; (2) Take or permit any action that impairs or would impair the value of nuclear asset-recovery property or revises the nuclear asset-recovery costs for which recovery is authorized; or (3) Except as authorized under Section 366.95, reduce, alter, or impair nuclear asset-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 nuclear asset-recovery bonds have been paid and performed in full;

7. A finding of fact that this Commission guarantees that it will act pursuant to this Financing Order as expressly authorized by Section 366.95, Florida Statutes, to ensure that nuclear asset-recovery charge revenues are sufficient to pay principal and interest on the nuclear asset-recovery bonds issued pursuant to this Financing Order and other costs, including fees and expenses, in connection with the nuclear asset-recovery bonds;

8. A finding of fact that the broad based nature of the State pledge under Section 366.95(11), Florida Statutes, and the irrevocable character of this Financing Order, in conjunction with the true-up adjustment provisions required by Section 366.95(2)(c)2.d, Florida Statutes, and included in this Order, constitutes a guarantee of regulatory action for the benefit of investors in nuclear asset-recovery bonds;

9. A conclusion of law that nuclear asset-recovery property is not a receivable or a pool of receivables;

10. A conclusion of law that the nuclear asset-recovery property is not a financial asset in that it only represents a legally-enforceable regulatory property right under Section 366.95 to bill and collect nuclear asset-recovery charges on persons who receive electric transmission and distribution services from the electric utility or its successors or assignees;

11. A finding of fact that the issuer of the bonds is a special purpose finance subsidiary of DEF and a corporate issuer;

12. A conclusion of law that the Commission's obligation under the Financing Order relating to nuclear asset-recovery bonds, including the specific actions the Commission guarantees to take, are direct, explicit, irrevocable, and unconditional upon the issuance of nuclear asset-recovery bonds, and are legally enforceable against the Commission, a United States public sector entity; and

13. A conclusion of law and ordering paragraph that the Financing Order is irrevocable under Section 366.95(2)(c)6, Florida Statutes.

In addition, the Financing Order will call for the Commission's financial advisor to deliver to the Commission a certification as to whether the structuring, marketing, and pricing of the nuclear asset-recovery bonds resulted in the lowest nuclear asset-recovery charges consistent with prevailing market conditions and the terms of the Financing Order and other applicable law. That certification shall include a report of any action or inaction which the Commission's financial advisor believes might have caused the transaction not to achieve the lowest nuclear asset-recovery charges, regardless of whether DEF's reason for action or inaction was the result of DEF's sole view that it would expose DEF or the SPE to securities law liability. The Financing Order will provide that the Commission will take that certification from its financial advisor, along with any other facts and circumstances, except for a change in market conditions after the moment of pricing, into account in determining whether the remaining requirements of Section 366.95, Florida Statutes, and the Financing Order have been met and whether to issue a stop order no later than 5:00 pm Eastern time on the third business day following pricing, as provided in Ordering Paragraph 54 of the Financing Order.

The parties agree that the Financing Order shall be silent on the issue of whether any judgment or other finding of liability against the SPE(s) constitutes "financing costs" as those costs are defined in Section 366.95. Furthermore, the parties each agree that no party will assert that the Financing Order supports a finding in favor of or against the proposition that any judgment or finding of liability against the SPE(s) constitutes "financing costs" as defined in Section 366.95.

ISSUE 29: Should all legal opinions be subject to review by the Bond Team?

All legal opinions should be reviewed by the Bond Team. All legal opinions associated with the Nuclear Asset-Recovery Bonds should be submitted to the Commission automatically without requiring the Commission to specifically request the documents.

ISSUE 30: Should all transaction documents and subsequent amendments be filed with the Commission before becoming operative?

All transaction documents and subsequent amendments should be reviewed and approved by the Bond Team before becoming operative.

ISSUE 31: Is DEF's proposed pre-issuance review process reasonable and should it be approved?

DEF, its structuring advisor, and designated Commission staff and its financial advisor will serve on the Bond Team. One designated representative of DEF and one designated representative of the Commission shall be joint decision makers in

all aspects of the structuring, marketing and pricing of the nuclear asset-recovery bonds except for those recommendations that in the sole view of DEF would expose DEF or the SPE to securities law and other potential liability (*i.e.,* such as, but not limited to, the making of any untrue statement of a material fact or omissions to state a material fact required to be stated therein or necessary in order to make the statements made not misleading) or contractual law liability (*e.g.,* including but not limited to terms and conditions of the underwriter agreement(s)). The Commission's designated staff and financial advisor will be visibly involved, in advance, in all aspects of the structuring, marketing, and pricing of the nuclear asset-recovery bonds. All Bond Team members will actively participate in the design of the marketing materials for the transactions as well as in the development and implementation of the marketing and sales plan for the bonds. DEF believes DEF and the Commission staff and its financial advisor as Bond Team members, excluding DEF's structuring advisor, should also have equal rights on the hiring decisions for the underwriters and counsel to the underwriters. However, DEF will have sole right to select and engage all counsel for DEF and the SPE. In addition, together with the Bond Team's involvement in the structuring, marketing and pricing of the nuclear asset-recovery bonds, and the Issuance Advice Letter process, the Commission will be able to fully review the pricing of the bonds as the Commission determines whether to issue a stop order no later than 5:00 pm Eastern time on the third business day following pricing, as provided in Ordering Paragraph 54 of the Financing Order.

ISSUE 32: Should the Financing Documents be approved in substantially the form proposed by DEF, subject to modifications as addressed in the draft form of the Financing Order?

No. The specific terms, conditions, covenants, warranties, representations, and specific language contained in the Financing Documents may be impacted by the Commission's decisions on other issues and must be reviewed in consideration of the Financing Order approved by the Commission.

ISSUE 33: Is DEF's proposed Issuance Advice Letter process reasonable and consistent with the statutory financing cost objective contained in Section 366.95(2)(c)2.b., Florida Statutes?

Yes. DEF, its structuring advisor, and designated Commission staff and its financial advisor will serve on the Bond Team. One designated representative of DEF and one designated representative of the Commission shall be joint decision makers in all aspects of the structuring, marketing and pricing of the nuclear asset-recovery bonds, except for those recommendations that in the sole view of DEF would expose DEF or the SPE to securities law and other potential liability (*i.e.,* such as, but not limited to, the making of any untrue statement of a material fact or omissions to state a material fact required to be stated therein or necessary in order to make the statements made not misleading) or contractual law liability (*e.g.,* including but not limited to terms and conditions of the underwriter agreement(s)), so the Commission will be provided with information in real time

about the transaction. Furthermore, the Commission will have an opportunity to review a draft of the proposed Issuance Advice Letter in advance of pricing the transaction.

ISSUE 34: Should the Standard True-up Letter be approved in substantially the form proposed by DEF?

The Standard True-up Letter should be approved in substantially the form proposed by DEF.

ISSUE 35: Is DEF's proposed process for determining whether the structure, plan of marketing, expected pricing and financing costs of the nuclear asset-recovery bonds have a significant likelihood of resulting in lower overall costs or would avoid or significantly mitigate rate impacts to customers as compared with the traditional method of financing and recovering nuclear asset-recovery costs reasonable and should it be approved?

Yes. DEF's proposed process for determining whether the structure, plan of marketing, expected pricing and financing costs of the nuclear asset-recovery bonds has a significant likelihood of resulting in lower overall costs or would avoid or significantly mitigate rate impacts to customers as compared with the traditional method of financing and recovering nuclear asset-recovery costs.

ISSUE 36: Is the degree of flexibility afforded to DEF in establishing the terms and conditions of the nuclear asset-recovery bonds as described in the proposed form of Financing Order, reasonable and consistent with Section 366.95(2)(c)2.f., Florida Statutes?

Yes, as modified by this Stipulation. DEF, its structuring advisor, and designated Commission staff and its financial advisor will serve on the Bond Team. One designated representative of DEF and one designated representative of the Commission shall be joint decision makers in a collaborative process, except for those recommendations that in the sole view of DEF would expose DEF or the SPE to securities law or other potential liability (*i.e.*, such as, but not limited to, the making of any untrue statement of a material fact or omission to state a material fact required to be stated therein or necessary in order to make the statements made not misleading) or contractual law liability (*e.g.*, including but not limited to terms and conditions of the underwriter agreement(s)). This affords the flexibility that is reasonable and consistent with Section 366.95(2)(c)2f.

ISSUE 37: What persons or entities should be represented on the Bond Team?

DEF, its structuring advisor, and designated Commission staff and its financial advisor should be represented on the Bond Team.

ISSUE 38: Based on resolution of the preceding issues, should a Financing Order in substantially the form proposed by DEF be approved, including the findings of fact and conclusions of law as proposed?

The Financing Order, including findings of fact and conclusions of law, proposed by DEF should be revised, following consultation with and input from the active parties, to reflect the Commission's resolution of all issues in this proceeding.

ISSUE 39: If the Commission votes to issue a Financing Order, what post-Financing Order regulatory oversight is appropriate and how should that oversight be implemented?

DEF's customers will be effectively represented throughout the proposed transaction. DEF, its structuring advisor, and designated Commission staff and its financial advisor will serve on the Bond Team. One designated representative of DEF and one designated representative of the Commission shall be joint decision makers for all matters concerning the structuring, marketing, and pricing of the bonds except for those recommendations that in the sole view of DEF would expose DEF or the SPE to securities law and other potential liability (*i.e.*, such as, but not limited to, the making of any untrue statement of a material fact or omission to state a material fact required to be stated therein or necessary in order to make the statements made not misleading) or contractual law liability (*e.g.*, including but not limited to terms and conditions of the underwriter agreement(s)). The final structure of the transaction, including pricing, will be subject to review by the Commission for the limited purpose of ensuring that all requirements of law and the Financing Order have been met.

ISSUE 40: Are the energy sales forecasts used to develop the bond amortization schedules and the recovery mechanism appropriate?

The energy sales forecasts used to develop the bond amortization schedules and the recovery mechanism are appropriate.

ISSUE 41: If the Commission approves recovery of any nuclear asset-recovery related costs through securitization, how should the recovery of these costs be allocated to the rate classes consistent with Section 366.95(2)(c)2.g., Florida Statutes?

In accordance with Section 366.95(2)(c)2.g., Florida Statutes, DEF should allocate the nuclear asset-recovery costs recoverable under the nuclear asset-recovery charge consistent with the allocation methodology adopted in the RRSSA approved on November 12, 2013 in Order No. PSC-13-0598-FOF-EI. That approved allocation methodology for DEF is the 12CP and 1/13 AD. Spelled out, that means twelve-thirteenths of the revenue requirement is allocated based on 12 monthly coincident peaks (or demand) and one-thirteenth is allocated based on average demand (or energy).

ISSUE 42: **If the Commission approves recovery of any nuclear asset-recovery related costs through securitization, what is the appropriate recovery period for the Nuclear Asset-Recovery Charge?**

If the Commission approves recovery of any nuclear asset-recovery related costs through securitization, the appropriate recovery period for the Nuclear Asset-Recovery Charge is 240 months or until the nuclear asset-recovery bonds and associated charges and approved adjustments have been paid in full but not to exceed 276 months.

ISSUE 43: Issue dropped.

ISSUE 44: What should be the scheduled final maturity and the legal final maturity of the nuclear asset-recovery bonds?

The scheduled final maturity and the legal final maturity of the nuclear asset-recovery bonds are to be determined after the issuance of the Financing Order.

ISSUE 45: Is DEF's proposed Nuclear Asset-Recovery Charge True-Up Mechanism appropriate and consistent with Section 366.95, Florida Statutes, and should it be approved?

DEF's proposed Nuclear Asset-Recovery Charge True-Up Mechanism is appropriate and consistent with Section 366.95, Florida Statutes, and it should be approved.

ISSUE 46: How frequently should the Nuclear Asset-Recovery Charge True-up Mechanism be conducted?

The Nuclear Asset-Recovery Charge True-up Mechanism should be conducted not less than every six months.

ISSUE 47: If the Commission approves an amount to be securitized, on what date should the Nuclear Asset-Recovery Charge become effective?

The Nuclear Asset-Recovery Charges should become effective upon the first day of the billing cycle for the month following the issuance of the nuclear asset-recovery bonds.

ISSUE 48: Issue dropped.

ISSUE 49: If the Commission denies DEF's request for a Financing Order, or if the nuclear asset-recovery bonds are not issued for any reason after the Commission issues a Financing Order, should the Commission approve DEF's alternative request for a base rate increase pursuant to the RRSSA, to be implemented beginning six months after the final order rejecting DEF's request (in the event the Financing Order is not issued) or the date upon which DEF notifies the Commission that the bonds will not be issued (in the event the Financing Order is issued), with carrying costs on the nuclear asset-recovery costs collected from January 1, 2016, through the Capacity Cost Recovery Clause, until such time as the base rate increase goes into effect?

If the Commission denies DEF's request for a Financing Order, or if the nuclear asset-recovery bonds are not issued for any reason after the Commission issues a Financing Order, the Commission should approve DEF's alternative request for a base rate increase pursuant to the RRSSA, to be implemented beginning six months after the final order rejecting DEF's request (in the event the Financing Order is not issued) or the date upon which DEF notifies the Commission that the bonds will not be issued (in the event the Financing Order is issued), with carrying costs on the nuclear asset-recovery costs collected from January 1, 2016, through the Capacity Cost Recovery Clause, until such time as the base rate increase goes into effect.

ISSUE 50: Should the form of tariff sheets to be filed under DEF's tariff, as provided in Exhibit __ (MO-6A) of Witness Olivier's testimony, be approved?

The form of tariff sheets to be filed under DEF's tariff, as provided in Exhibit __ (MO-6A) of Witness Olivier's testimony, should be approved.

ISSUE 51: In accordance with Section 366.95(2)(c)2.h., Florida Statutes, if the Commission does not issue a stop order by 5:00 p.m. on the third business day after pricing, should the nuclear asset-recovery charges become final and effective without further action from the Commission?

In accordance with Section 366.95(2)(c)2.h., Florida Statutes, if the Commission does not issue a stop order by 5:00 p.m. on the third business day after pricing, the nuclear asset-recovery charges should become final and effective without further action from the Commission.

ISSUE 52: Should this docket be closed?

This docket should remain open pursuant to Section 366.95(2)(c)4., Florida Statutes.

*FIPUG takes no position on these proposed stipulations.

The following three tables describe the final order book and investor allocations that were made to reflect oversubscription of the trade.

CLASS A-1 ($111.971MM) FINAL PRICING LEVELS AND ALLOCATIONS

Investor	Order	Investor	Order
Invesco	$ 42	Invesco	$ 42
Wells	30	Wells	30
ING	25	ING	10
Blackrock	12	Blackrock	12
3M	15	3M	10
Thrivent	7	Thrivent	5
Asset Allocation Advisors	5	Asset Allocation Advisors	2
Morley Capital	2	Morley Capital	1
Total Book	**$ 137**		**$ 112**
# of Investors	**8**		**8**
Subscription Level	**123%**		**100%**

CLASS A-2 ($70.468MM) FINAL PRICING LEVELS AND ALLOCATIONS

Indication		Allocation	
Investor	**Order**	**Investor**	**Order**
USAA	$ 71	USAA	$ 26
Principal	35	Principal	15
Capital One	25	Capital One	11
Seix Investment Advisors	15	Seix Investment Advisors	6
ADP	10	ADP	4
Ambassador Capital	10	Ambassador Capital	4
Invesco	12	Invesco	4
Advantas	0	Advantas	0
Total Book	**$ 178**		**$ 70**
# of Investors	**8**		**8**
Subscription Level	**253%**		**100%**

CLASS A-3 ($262.483MM) FINAL PRICING LEVELS AND ALLOCATIONS

Indication		Allocation	
Investor	**Order**	**Investor**	**Order**
TIAA-CREF	$ 150	TIAA-CREF	$ 100
John Hancock	150	John Hancock	100
USAA	35	USAA	25
Advantus	20	Advantus	11
American United Life	20	American United Life	11
Asset Allocation Advisors	9	Asset Allocation Advisors	6
Kansas City Life Insurance	8	Kansas City Life Insurance	5
Mountain Asset Management	10	Mountain Asset Management	5
Total Book	**$ 402**		**$ 263**
# of Investors	**8**		**8**
Subscription Level	**153%**		**100%**

July 17, 2013

WELLS FARGO SECURITIES

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ABSolute Value: Rate Reduction Bond ABS Primer
An Overview of Utility Receivables Securitization

Executive Summary

- Securitizations of utility receivables have been known by several names: stranded-asset, rate-reduction and storm-recovery bonds. The market convention is to refer to all bonds in this sector as rate-reduction bonds or RRBs. We follow that convention in this report, which surveys the structural features of and conditions in the market for RRBs.
- RRBs are securitizations backed by the future collections of special charges applied to electric utility bills. The amount of the collection is based on power usage, which can vary from year to year based on weather or economic conditions.
- The bonds issued in this sector are structured with robust legal and regulatory protections to mitigate the potential political risks that may stem from the introduction of the utility tariff on ratepayer bills.
- Internal credit enhancement tends to be relatively low compared to benchmark consumer ABS due to these legal safeguards as well as the presence of the "true-up mechanism." This procedure allows the utility tariff to be adjusted, either up or down, in the event that tariff collections are significantly different than what would be needed to meet the scheduled amortization of the bonds. It has been used successfully in several cases.
- RRB issuance has been relatively light in recent years, although outstanding bonds stood at $11.3 billion as of Q2 2013 due to the relatively long average lives of the bonds. RRBs repay principal based on a scheduled amortization, which limits the prepayment risk and may make payments quarterly or semiannually, similar to corporate bonds.
- RRBs have similarities to secured utility bonds, such as first-mortgage bonds, and have found an audience from corporate crossover buyers, in our opinion. However, RRBs have significant legal and regulatory protections not normally found in corporate bonds.
- In our opinion, RRBs offer some of the best relative value in the consumer ABS market for the credit risk taken. Spreads of rate-reduction bond ABS have remained relatively wide throughout the post-crisis period. RRB spreads that trade at +4 bps or more to benchmark credit card ABS represent better relative value opportunities, in our opinion.

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Utility Receivables – What's in a Name?

Rate-reduction bond ABS are securitizations backed by the future collections of special charges applied to electric utility bills. The amount of the collection is based on power usage. These utility receivables deals have been identified by different names since first coming on the ABS scene in 1997. The earliest deals were called "stranded assets" because the charges applied to ratepayer bills were meant to defray the costs of nuclear power plants that would no longer be economic in a deregulated power-generation market. The investments were economically "stranded" under the previous regulatory regime and could not be recovered under ordinary market conditions.

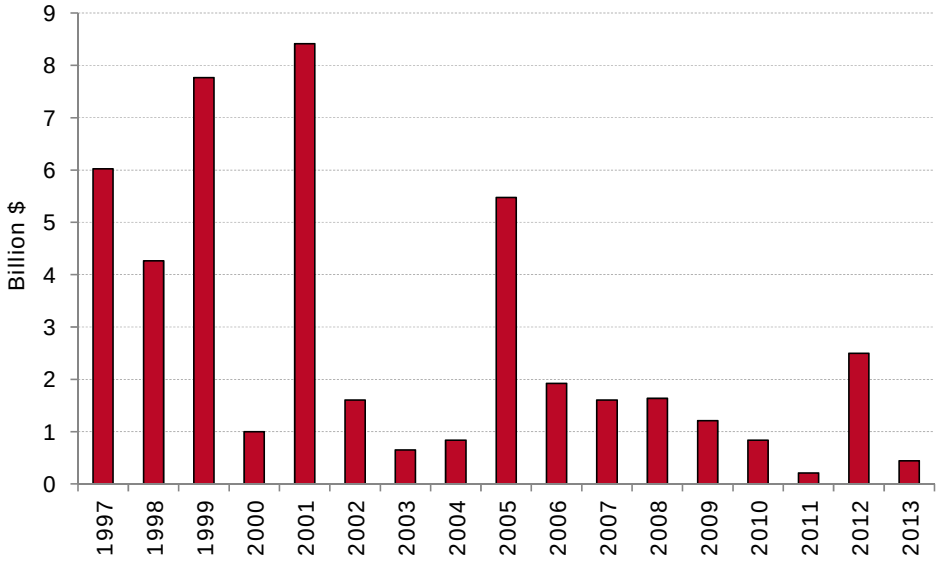
Later deals were termed "rate-reduction" bonds because electric utilities were allowed to recover the costs of certain infrastructure investments and, in turn, pass along lower utility rates to customers. Again, a deregulated power-generation market was intended to bring lower costs to end users. More recent deals have been christened "storm-recovery" bonds because utilities in various states have been allowed to apply a surcharge to bills to help pay for reconstruction and repairs to power networks damaged by hurricanes or other storms.

Despite the different names and reasons for implementation of the utility tariffs, the structural features and credit protections are generally the same. The market convention is to refer to all bonds in this sector *rate-reduction bonds*, or RRBs. We follow that convention in this report, which surveys the structural features of and conditions in the market for RRBs.

Issuance and Outstanding

The amount of RRB issuance in the early years was substantial, and many market participants expected considerable upside from the sector. Indeed, $27.5 billion of RRBs were issued in the five years from 1997–2001. However, in the following 12 years, including YTD 2013, the market has averaged just $1.6 billion per year, and only 2005 exceeded $5 billion (Exhibit 1). RRBs have become a smaller niche sector than many would have anticipated, but we believe RRBs offer certain characteristics that may not be found in other ABS sectors.

Exhibit 1: Rate Reduction Bond ABS Issuance

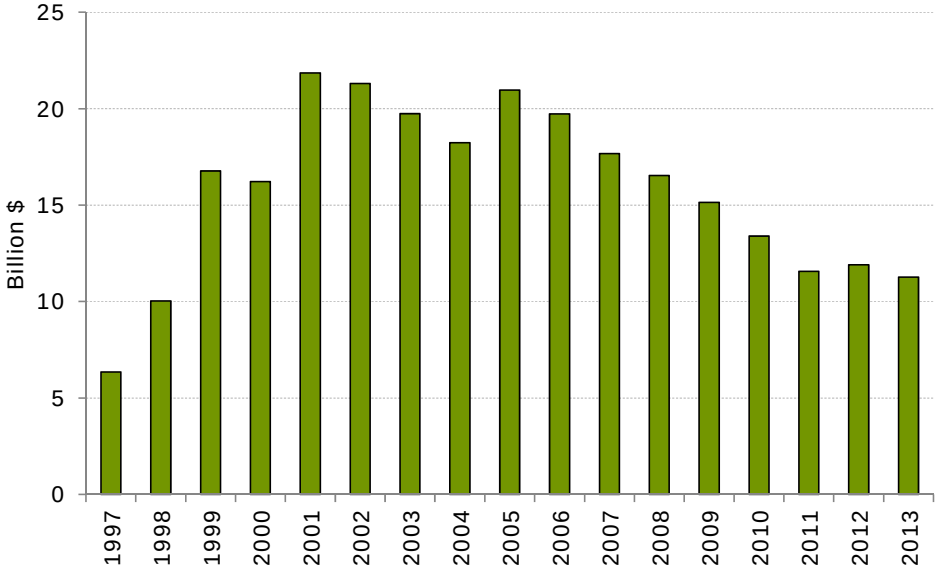


Source: Asset-Backed Alert, Bloomberg, Wells Fargo Securities, LLC.

RRBs repay principal based on a scheduled amortization, which limits the prepayment risk found in many other ABS backed by consumer receivables. Furthermore, the bonds may pay interest and principal quarterly or semiannually, similar to corporate bonds. This feature is one reason that RRBs have found an audience from corporate crossover buyers, in our opinion. RRBs have similarities to secured utility bonds such as first-mortgage bonds.

However, RRBs have significant legal and regulatory protections not normally found in a secured corporate bond. In addition, RRBs, in most cases, offer longer average lives than the typical auto or credit card ABS, with many bonds reaching seven years or more. Bonds with average lives of 10 years or more are not unusual. The longer average lives, combined with fixed-rate coupons offer ABS investors access to longer duration bonds.

Exhibit 2: RRB ABS Outstanding



Source: SIFMA.

Those longer principal windows and average lives are the reasons that the amount of RRBs outstanding is much higher than might have been expected given the dearth of new-issue volume over the past few years. Total RRBs outstanding fell to the $11 billion–$12 billion range from 2011–2013 from the most recent peak of $21 billion in 2005 (Exhibit 2). The RRB sector accounted for about 2% of total consumer ABS outstanding as of Q2 2013. A modest amount of issuance should keep the amount of ABS backed by utility receivables stable.

However, it can be difficult to forecast new-issue volume of RRBs because of the long legislative and regulatory lead times required to complete these deals. The utilities may also find it more advantageous to issue corporate debt instead of ABS. The history of RRB deals and their utility sponsors are listed in Exhibit 3. Deal sizes averaged approximately $1.1 billion from 1997–2005, but declined to $575 million after 2005. This average amount was boosted by two deals that weighed in at $1.7 billion each. Excluding those two deals, the average deal size since 2005 has been $433 million.

Exhibit 3: Rate Reduction Bond ABS Deals and Utility Sponsors

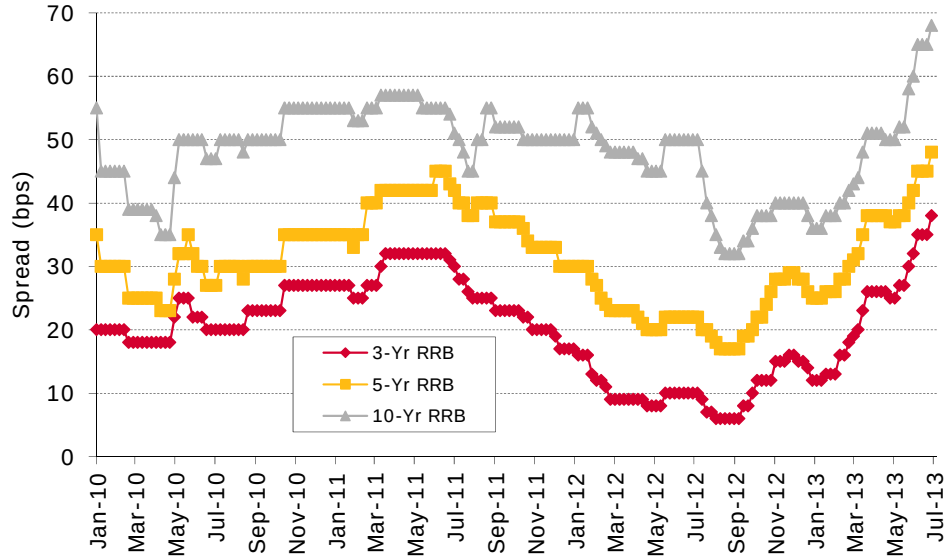
Deal Name	Pricing Date	Original Balance (MM$)	Trust Name	Utility Sponsor
CIPGE 1997-1	11/25/97	2,901	California Infrastructure PG&E	Pacific Gas and Electric Company
CISDG 1997-1	12/4/97	658	California Infrastructure SDG&E	San Diego Gas and Electric Company
CISCE 1997-1	12/4/97	2,463	California Infrastructure SCE	Southern California Edison Company
COMED 1998-1	12/7/98	3,400	COMED Transitional Funding Trust	Commonwealth Edison Company
IPSPT 1998-1	12/10/98	864	Illinois Power Special Purpose Trust	Illinois Power Company
PECO 1999-A	3/18/99	4,000	Peco Energy Transition Trust	Peco Energy Company
SPPC 1999-1	3/30/99	24	Sierra Pacific Power Company	Sierra Pacific Power Company
BECO 1999-1	7/14/99	725	Massachusetts RRB Special Purpose Trust	Boston Edison Company
PPL 1999-1	7/29/99	2,420	PP&L Transition Bond Company LLC	PPL Electric Utilities Corp.
WPP 1999-A	11/3/99	600	West Penn Funding LLC Transition Bonds	West Penn Power
PECO 2000-A	4/27/00	1,000	Peco Energy Transition Trust	Peco Energy Company
PEGTF 2001-1	1/25/01	2,525	PSE&G Transition Funding LLC	Public Service Electric & Gas Co.
PECO 2001-A	2/15/01	805	Peco Energy Transition Trust	Peco Energy Co
DESF 2001-1	3/2/01	1,750	Detroit Edison Securitization Funding LLC	Detriot Edison Company
CTRRB 2001-1	3/27/01	1,438	Connecticut RRB Special Purpose Trust	Connecticut Light & Power
PSNH 2001-1	4/20/01	525	Public Service New Hampshire Funding LLC	Public Service Company of New Hampshire
WMECO 2001-1	5/14/01	155	Massachusetts RRB Special Purpose Trust	Western Massachusetts Electric Company
CNP 2001-1	10/17/01	749	CenterPoint Energy Transition Bond Company IV	CenterPoint Energy Houston Electric LLC
CONFD 2001-1	10/31/01	469	Consumers Funding LLC	Consumers Energy Co
PSNH 2002-1	1/16/02	50	Public Service New Hampshire Funding LLC	Public Service Company of New Hampshire
AEPTC 2002-1	1/31/02	797	AEP Texas Central Transition Funding	Central Power and Light Company
JCPL 2002-A	6/4/02	320	JCP&L Transition Funding LLC	Jersey Central Power & Light
ACETF 2002-1	12/11/02	440	Atlantic City Electric Transition Funding LLC	Atlantic City Electric Company
ONCOR 2003-1	8/14/03	500	Oncor Electric Delivery Transition Bond LLC	Oncor Electric Delivery Co.
ACETF 2003-1	12/18/03	152	Atlantic City Electric Transition Funding LLC	Atlantic City Electric Company
ONCOR 2004-1	5/28/04	790	Oncor Electric Delivery Transition Bond LLC	Oncor Electric Delivery Co.
RCTF 2004-1A	7/28/04	46	Rockland Electric Co Transition Funding LLC	Orange and Rockland Utilities, Inc.
PERF 2005-1	2/3/05	1,888	PG&E Energy Recovery Funding LLC	Pacific Gas & Electric Co.
BECO 2005-1	2/15/05	675	Massachusetts RRB Special Purpose Trust	Boston Edison Co.; Commonwealth Electric Co.
PEGTF 2005-1	9/9/05	103	PSE&G Transition Funding LLC	Public Service Electric and Gas Co.
WPP 2005-A	9/22/05	115	West Penn Funding LLC Transition Bonds	West Penn Power
PERF 2005-2	11/9/05	844	PG&E Energy Recovery Funding L	Pacific Gas & Electric Co
CNP 2005-A	12/9/05	1,851	CenterPoint Energy Transition Bond Company IV	CenterPoint Energy
JCPL 2006-A	8/4/06	182	JCP&L Transition Funding LLC	Jersey Central Power & Light
AEPTC 2006-A	9/26/06	1,740	AEP Texas Central Transition Funding	AEP Texas Central Co.
FPL 2007-A	5/17/07	652	FPL Recovery Funding LLC	Florida Power & Light Co
EGSI 2007-A	6/22/07	330	Entergy Gulf States Reconstruction Funding LLC	Entergy Texas Inc
RSBBC 2007-A	6/29/07	623	RSB Bondco LLC	Baltimore Gas & Electric Co
CNP 2008-A	1/29/08	488	CenterPoint Energy Transition Bond Company IV	CenterPoint Energy
CLECO 2008-A	2/28/08	181	Cleco Katrina/Rita Hurricane Recovery Funding LLC	Cleco Power LLC
LPFA 2008-ELL	7/22/08	688	Louisiana Utilities Restoration Corp./ELL	Entergy Louisiana LLC
LPFA 2008-EGSL	8/20/08	278	Louisiana Utilities Restoration Corp./EGSL	Entergy Gulf States Louisiana
ETI 2009-A	10/29/09	546	Entergy Texas Restoration Funding LLC	Entergy Texas Inc
CNP 2009-1	11/18/09	665	CenterPoint Energy Transition Bond Company IV	CenterPoint Energy
LCDA 2010-EGSL	7/16/10	244	Louisiana Local Gov't Environmental Facilities and Community Development Authority	Entergy Gulf States Louisiana
LCDA 2010-ELL	7/16/10	469	Louisiana Local Gov't Environmental Facilities and Community Development Authority	Entergy Louisiana LLC
EAI 2010-A	8/11/10	124	Entergy Arkansas Restoration F	Entergy Arkansas Inc
ELL 2011-A	9/15/11	207	Entergy Louisiana Investment R	Entergy Louisiana LLC
CNP 2012-1	1/11/12	1,695	CenterPoint Energy Transition Bond Company IV	CenterPoint Energy
AEPTC 2012-1	3/7/12	800	AEP Texas Central Transition Funding	AEP Texas Central Co.
FEOH 2013-1	6/12/13	445	FirstEnergy Ohio PIRB Special Purpose Trust	FirstEnergy Corp.

Source: Asset-Backed Alert, Bloomberg, Wells Fargo Securities, LLC.

Relative Value Analysis to Benchmark Cards

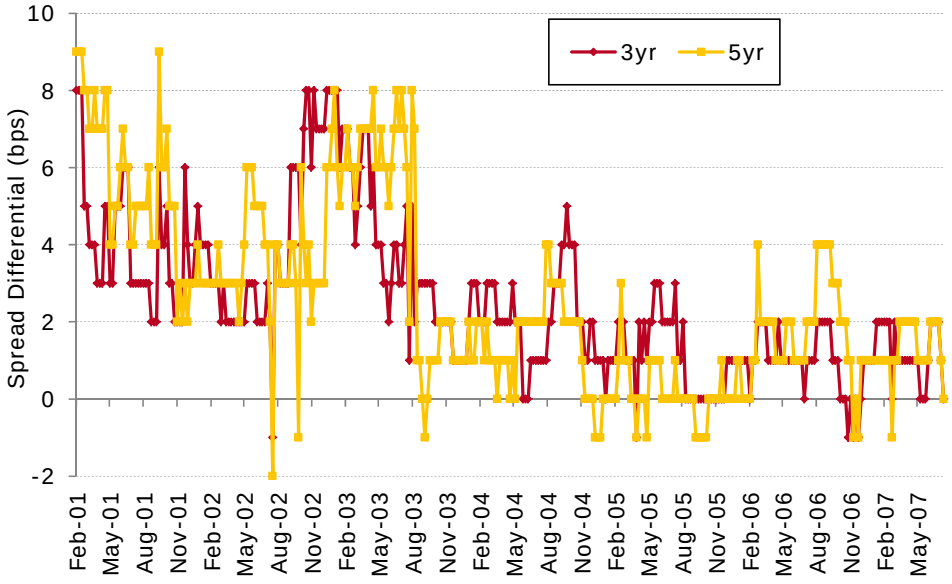
Spreads of rate-reduction bond ABS have remained relatively wide throughout the post-crisis period and have exhibited some wide swings over the past few years. Since hitting their post-crisis lows in September 2012, spreads have widened by about 30 bps through July 12, 2013 (Exhibit 4). We believe that this trend has been influenced by a general widening of spreads in the ABS market during 2012, and increased volatility brought on by the market's reaction to Federal Reserve policy communications. In our opinion, RRBs offer some of the best relative value in the consumer ABS market for the credit risk taken.

Exhibit 4: RRB Spreads



Source: Wells Fargo Securities, LLC.

Exhibit 5: RRB / Credit Card ABS Spread Differential – 2001-2007

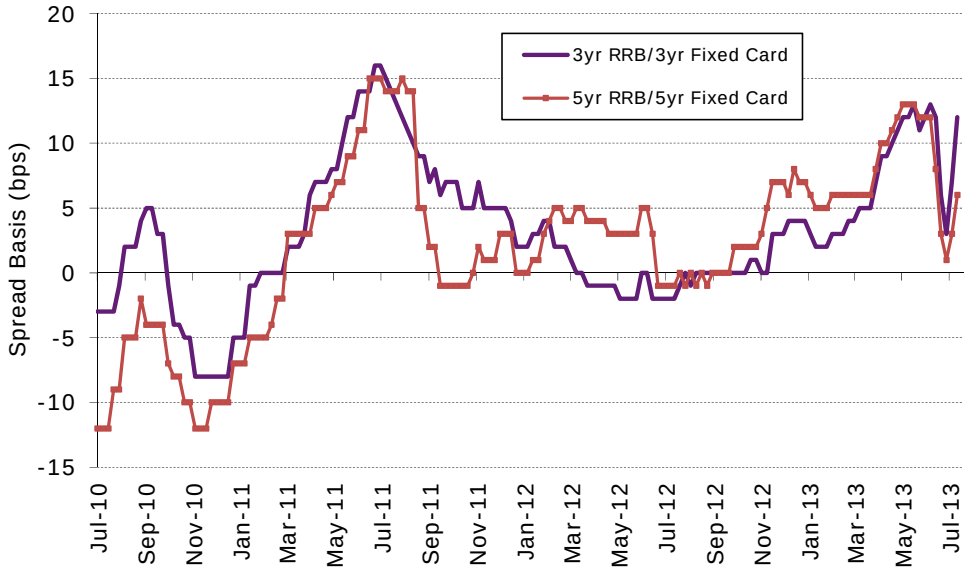


Source: Wells Fargo Securities, LLC.

Wells Fargo Securities has collected generic spreads on the RRB sector back to 2001. In our opinion, assessing relative value in rate-reduction bond ABS can be best accomplished by reviewing the spread differential between RRBs and benchmark credit card ABS. This relationship from 2001 to just before the market dislocation in July 2007 is charted in Exhibit 5. The average weekly difference was +4 bps to +6 bps, depending on the tenor of the bonds from 2001 to June 2003. However, the range of the spread differential was a wider +2 bps to +9 bps for three-year and five-year average life bonds.

After June 2003, the spread differential narrowed to an average weekly level of just about +1 bp, and this difference was stable across the benchmark tenors in RRBs (three-year, five-year and 10-year average lives). We believe that an increase in the amount of bonds outstanding and the number of issuers, as well as increasing investor acceptance, helped push the spread differential tighter. The week-to-week variability was relatively low, and this pattern was consistent with the benchmark auto and credit card ABS sectors. It indicated a meaningful increase in transparency and liquidity, in our view.

Exhibit 6: RRB / Credit Card ABS Spread Differential – 2010-2013



Source: Wells Fargo Securities, LLC.

RRBs traded well inside credit card ABS during the depths of the financial crisis in late 2008 and early 2009 (spreads 200 bps–300 bps inside) because investors placed a higher risk premium on large commercial banks and their credit card portfolios during this period. However, it took almost another two years for the spread relationship to normalize by early 2011.

The average weekly spread differential has returned to pre-crisis levels of +2 bps to +3 bps from July 2010 to July 2013. The average is closer to +4 bps, though, if all of 2010 is excluded. Nevertheless, secondary trading levels for RRBs have experienced large excursions away from this long-run average level, and these excursions have had a tendency to persist for a number of weeks.

We view RRB spreads trading at +4 bps or more to benchmark credit card ABS as representing better relative value. In general, RRBs involve less credit risk than credit card ABS, although the smaller size of the RRB sector, wider principal payment windows and somewhat less transparency due to the regulatory nature of the collateral require some spread concession, in our view.

Structural Considerations

Unlike most asset-backed securities, rate-reduction bond ABS are characterized primarily by their legal and regulatory framework. To a large extent, the credit analysis of the underlying obligors, which are the ratepayers in the utility's service area, is a secondary consideration, in our view. The securitization structure of most RRBs is relatively straightforward. The utility would transfer its ownership of the utility charges to a bankruptcy-remote special purpose vehicle (SPV) that would issue the ABS to investors.

The ABS may be issued as a single pass-through security, or there may be several tranches of bonds issued that pay in sequential order. Principal is repaid according to a scheduled amortization that would be consistent with the forecast for power usage and cash flows. Interest payments may be made quarterly or semiannually. The cash flows are stressed in the rating process to determine how much forecast error the deal can withstand and still make payments to investors in a timely manner.

Credit enhancement is provided, in most cases, by a small amount (generally 0.5%–1%) of overcollateralization, reserve fund, or some form of capital account to provide liquidity in the event of short-run cash flow shortfalls. However, the primary form of credit enhancement is a regulatory-mandated "true-up mechanism" that can adjust the amount of the utility tariff charged to the customer. The robust legal and regulatory nature of the true-up mechanism, along with the fundamental character of power usage, allows for the relatively low level of internal credit enhancement in RRBs.

A Regulatory Future Flow Receivable

One of the key considerations in the RRB sector is that the asset securitized is a future flow rather than an existing loan or receivable. The utility tariff is established by a law passed by a state legislature and further put into practice by a financing order from the state's utility regulators. The charge added to the utility bill is established as a property right of the utility that can be transferred or sold and pledged as a security interest similar to other kinds of receivables securitized in the ABS market.

In the event that a utility is subject to a merger or files for bankruptcy, the order to collect the utility tariff remains in place with the successor utility. This provision helps avoid any disruption in billing and collections of the tariff and, therefore, for bondholders. Although the utility has a target amount to be raised from the utility tariff, the periodic amount of the cash flows can only be estimated at origination based on the expectations for usage. Actual utility usage and cash flows may deviate from the forecast amount.

Irrevocability and State Pledge

One of the key legal features of an RRB is that the utility tariff is *irrevocable*. As noted above, the receivables have been created by legal and regulatory actions and are collected over time based on electricity usage. The receivable does not already exist, unlike an auto loan or lease. There is a risk that a future legislature or regulator could act to alter or rescind the utility tariff. In order to mitigate this risk, there is irrevocability language inserted in the legislation to prevent the impairment of the value of the utility tariff without adequate compensation.

The RRBs are not obligations of the state, nor do they carry the full faith and credit of any government or agency. However, the legislation creating the utility tariffs will generally contain a *state pledge* not to limit, alter, or impair the property rights created. There may be challenges from other constituencies over time that oppose the creation of the utility tariff, either through new legislation or ballot initiatives. The state pledges not to make any changes to the law or regulatory environment until the bonds are paid in full to mitigate the potential political risks to an asset created through the political process.

Non-bypassability
The utility receivables generated would be collected based on a customer's usage and the fact that the customer is connected to the utility's deliver system. This delivery, or network, charge should not be avoided, or bypassed, just because a customer contracts with another generator of the power. The utility can collect the charges from existing customers as well as future customers from its service area.

In some states or markets, third-party energy providers may be allowed by regulators to bill customers directly. In these cases, the tariff is collected by the third-party provider and the charges are passed along to the utility. Customers can reduce their exposure to the charge by using less power, or by disconnecting from the service grid entirely. However, they should not be able to avoid paying the utility tariff as long as they are connected to the utility's network.

Bankruptcy Remoteness
Like other types of securitized assets , the utility tariff is established as a property right that can be sold or transferred to another party. The right to the future receivables is sold by the utility to a bankruptcy-remote special purpose vehicle (SPV), which is the issuer of the ABS. This "true sale" of the receivables to the SPV should isolate the payments from being consolidated with the utility in the event that it files for bankruptcy.

The transfer of the utility tariff is a sale, not a pledge or a secured financing. Legal counsel would normally provide a nonconsolidation opinion that a bankruptcy court would not consolidate the SPV with the bankruptcy estate of the utility. This bankruptcy-remote nature of ABS is the standard in the market to provide a separation between the ABS and any potential bankruptcy of the seller/servicer.

True-Up Mechanism
The key credit enhancement feature of RRB deals is the true-up mechanism. This procedure allows the utility tariff to be adjusted, either up or down, in the event that tariff collections are significantly different than what would be needed to meet the scheduled amortization of the bonds, including any fees and replacement of credit-enhancement reserves. The true-up can occur at least annually, as needed, but some deals allow for more frequent changes in the charges, such as semiannually. Regulators cannot alter the true-up, nor do they need to approve its use.

The strength of the legal and structural safeguards, along with the robust nature of the protection provided by the true-up mechanism, affords substantial credit enhancement for ABS investors. Indeed, Fitch Ratings indicated in its "Outlook and Performance Review for U.S. Utility Tariff ABS" (Feb. 1, 2013) that several RRB transactions have successfully used their true-up mechanisms to offset revenue shortfalls.

Weather-related variations in collections have occurred due to system outages from hurricane damage and warmer-than-normal winter temperatures. In addition, six transactions suffered shortfalls from 2008–2010 due to the recession's effects on customers reducing their power usage. Some were residential customers trying to save on monthly expenses, wheras others were commercial and industrial customers cutting production or going out of business, according to the Fitch Ratings report.

Credit Analysis

When rating a new RRB deal and determining the potential variability in cash flows, the rating agencies typically perform a credit analysis of the utility and the service area that is subject to the utility tariff. The major areas of inquiry include the energy usage level and trends of the customer base and its composition, the size of the tariff in relation to the entire utility bill, customer

delinquency and loss trends, national and local economic factors affecting energy usage, and seasonality due to weather conditions.

The rating agencies incorporate various stresses in their cash-flow models to take account of forecast errors or variations in usage based on changing credit conditions. Although the credit analysis of the utility, its customer base and servicer area are important, they tend to take a position of secondary importance, in our opinion, to the legal and regulatory structure of the utility tariffs and the ability to true-up the charges when collections vary from the forecast.

Customer Base

A utility's customer base typically can be divided into four segments: Residential, Commercial, Industrial, and Government. The most important segments tend to be Residential and Commercial/Industrial. Most service areas have a low concentration of government obligor exposure, although some areas may include state or federal government offices or military bases.

Residential customers offer the most diversification because each household is just a small portion of the overall pool of residential customers. They should also represent the most stable cash flows because households (and smaller commercial customers) tend to be less sensitive to economic cycles in their power usage. It could be assumed that new residents would replace those who move away, providing additional long-run stability. However, reduced demand for housing during recessions may present a potential risk to power usage and the generation of cash flows backing the RRBs.

Commercial and industrial customers are likely to be more concentrated as a group, and the size of individual firms could mean an increase in risk to cash flows in the event of reduced usage from less production, self-generation of power, or the possibility of ceasing business in that service area. For that reason, the rating agencies analyze the power-usage patterns of areas with cyclical industries and emphasize periods of recession in their analysis. This process provides an estimate of the potential variability of cash flows from the amortization schedule of the bonds.

Usage Patterns and Seasonality

Residential and smaller commercial customers normally show greater changes in power usage due to changes in weather patterns. An unusually hot summer or colder-than-normal winter would likely drive power demand higher, and these seasonal patterns tend to be more important for short-run variations in power usage. In the long run, conservation measures, increased use of energy-efficient appliances and technological advances are more likely to play a role in energy-usage patterns. Larger commercial and industrial customers would also be affected by these weather-related and technological advances, although in the near term, they tend to be affected more by fluctuations in economic activity.

Size of Utility Tariff

The rating agencies also consider the size of the utility tariff relative to the overall customer bill. This relationship becomes more important if the true-up mechanism must be used to increase the charge due to variability in the receivables generated. An increase in the overall price of power could be large enough to reduce demand for power if the tariff is a relatively large portion of the bill. This incentive may become particularly intense for larger industrial customers who have more energy alternatives.

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Additional information is available on request.

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*This Glossary serves as the final exhibit to the testimony of both Public Staff witness Joseph Fichera and Public Staff witness Paul Sutherland, and is the same Glossary as referenced in the testimony of Public Staff witnesses.

Glossary

Asset-Backed Security (ABS) - A debt security issued by an SPE, the payment of which is backed by a physical asset (e.g., rail cars or airplanes) or a financial asset (e.g., a mortgage or the value of a portfolio of credit card receivables). At least for some purposes, Ratepayer-Backed Bonds are not technically Asset-Backed Securities but often have been treated as such to the detriment of ratepayers.

Bankruptcy Remote - An entity designed in such a way that (i) the likelihood of it going into bankruptcy is extremely small, and (ii) it would experience as little economic impact as possible in the event of a bankruptcy of other related legal entities.

Basis Point (bp) - One one-hundredth of a percentage point. Often referred to in writing as "bp" (or "bps" in the plural).

Benchmark – When pricing a bond, the Benchmark is a security with high price transparency that is agreed upon by all parties so that the Yield on the new issue can be set relative to the Yield on the Benchmark. In that way, if Yields in the market move after agreeing on the spread to Benchmark but before final pricing, the parties do not have to renegotiate the final price/Yield. A Benchmark can also be a similar security used to determine Relative Value when talking to investors.

Callable/Non-Callable Bonds/Pre-Payment Risk - In many cases bonds are offered for sale with a "call provision." For example, a company may want the right to retire a given bond in five years even though it carries a 25-year Maturity date. That bond would be said to carry a five-year call option. Investors who worry their bonds might be called away from them in a relatively short period of time will not pay a high price for those bonds because they can't rely on earning the bonds' stated interest rate through Maturity. Also known as Pre-Payment Risk. Non-callable bonds cannot be called away from the investor before the final Maturity date. Ratepayer-Backed Bonds typically are non-callable and have no Pre-Payment Risk.

Final Legal Maturity Date – The date by which, if the principal is not fully paid, the bonds will be considered to be in default. Usually, the Final Legal Maturity Date is one to two years after the Final Scheduled Maturity Date.

Final Scheduled Maturity Date– The date by which it is expected that the final principal payment on a bond or on a group of substantially identical bonds will be made.

Financing Order - An order issued by state regulators authorizing the issuance of Ratepayer-Backed Bonds, which order cannot be changed or revoked at a later date as long as the Ratepayer-Backed Bonds are outstanding, and which (i) segregates a specific component of the retail rate charge throughout the service territory, (ii) causes the right to receive this component to be treated as a present interest in property that can be bought, sold or pledged, (iii) authorizes the utility to sell such property to an SPE, (iv) authorizes the SPE to issue Ratepayer-Backed Bonds secured by such property, and (v) requires the utility which sold the property to use the proceeds of the sale for one or more specific purposes.

Maturity - The length of time until the issuer of a bond has to repay specified amounts to the lender / investor.

Net Present Value (**NPV**) **-** The amount of cash today that is equivalent in value to a payment, or to a stream of payments, to be received in the future. To determine the Net Present Value, each future cash flow is multiplied by a present value factor. For example, if the opportunity cost of funds is 10%, the Net Present Value of $100 to be received in one year is $100 x [1/(1 + 0.10)] = $91. Opportunity cost means what a dollar today could earn over a specific period of time.

Nominal Dollars or **Nominal Savings -** This type of measure reflects the current situation, not adjusted for the opportunity cost of funds over time. Nominal dollars treat all dollars the same whether received today or 10 years from today. See "Net Present Value" for the way to look at dollars over time.

Ratepayer-Backed Bond – Bonds issued by an SPE for the benefit of one or more sponsoring utilities in a Securitization transaction.

Regression Line - Regression takes a group of data points and tries to find a mathematical relationship between them. This relationship is typically in the form of a straight line (linear regression) that best approximates all the individual data points. It is the most common type of "trendline" used in Excel.

Relative Value - The relationship between two securities. In pricing a new Ratepayer-Backed Bond issue, for example, it is useful to compare the Spread over Swaps of the proposed bond Yield to the Spread over Swaps or over a AAA-rated U.S. agency bond. If the two securities were judged equal in risk with identical terms (not callable, same WAL etc.) but one had a higher Spread, it would be said to have greater Relative Value.

Road Show - A formal presentation to potential purchasers of a security, typically organized by Underwriters with the involvement of the issuer and the financial advisor. A team sometimes travels around the U.S. to discuss the features of the security, resulting in the term "Road Show." Sometimes the team travels to foreign financial centers to make these presentations. In recent years, most Road Shows have been conducted using electronic media over the Internet, reducing or eliminating the need for travel.

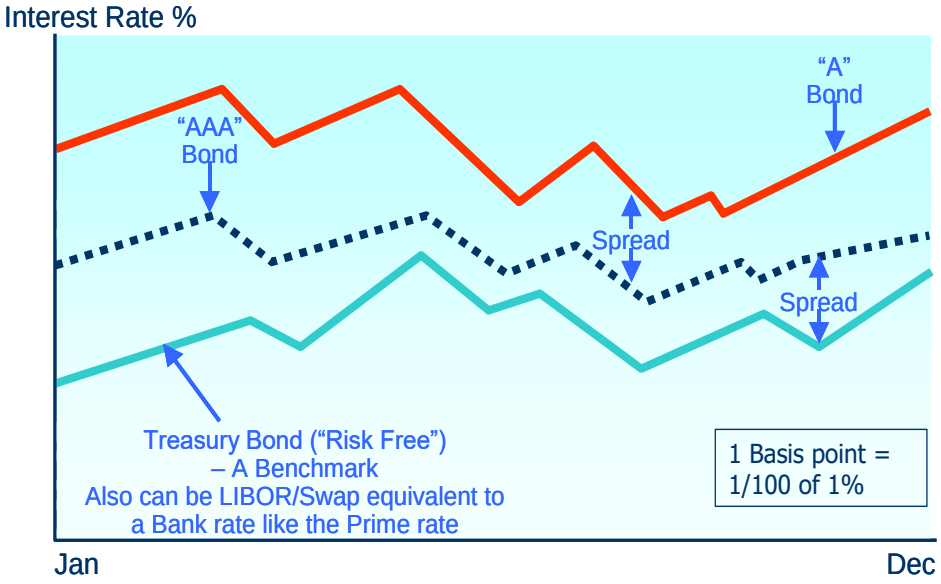
Secondary Market – The market in which stocks or bonds are traded after their initial issuance. When a publicly offered bond trades at a substantially higher price (lower Yield) in the Secondary Market immediately following its issuance, this is an indication that the bond was mispriced (priced too low) by the Underwriters in the original public offering.

Securitization - The process by which a pool of assets, such as loan receivables, is used as a basis for issuing highly rated (often AAA) bonds. The pool of assets is created and transferred to a trust or, in a utility Securitization, to a Bankruptcy Remote SPE. The entire right, title and interest in the assets are transferred at fair market value to the SPE. The SPE pledges the assets to secure the bonds and the cash flows from those assets are used to pay principal and interest on the bonds. Thus, the risk to the bondholder is just the risk associated with the cash flows from the assets in the SPE. The assets can be physical (such as plant and equipment) or intangible (such as a loan receivable or the right to some other revenue stream).

Special Purpose Entity (SPE) – A Bankruptcy Remote legal entity set up for the express purpose of owning the right, title and interest in the assets used to secure the bonds and provide the cash flows to pay interest and principal on the bonds.

Spread – The difference between the market Yields of different fixed-income securities of similar maturities, expressed in Basis Points. If a Treasury bond maturing in seven years is trading to Yield 3.87%, and a AAA-rated corporate bond is trading to Yield 4.25%, the corporate bond is said to trade at a 38 Basis Point Spread to the Treasury bond (4.25 – 3.87 = .38).

Spread is the easiest way to compare the cost of funds represented by different debt securities. Participants will refer to the spread "relative to Treasuries" or "relative to Swaps" as the most meaningful measure used to compare a given debt security to the most liquid, most secure, and most easily available benchmark for a given Maturity. Spreads are often referred to as either "Tight" or "Wide" to the Benchmark. (See **Tight Spread/Wide Spread** definition below.)



Swaps, or Interest Rate Swap Agreements - An interest rate Swap exchanges a floating rate for a fixed rate on bonds. Under certain market conditions, a combination of floating rate bonds and fixed rate Swaps could produce a lower overall "synthetic" fixed interest rate for ratepayers. Certain investors prefer a floating rate, while other investors prefer a fixed rate. For example, many European investors prefer a floating rate. There may be an opportunity to lower overall ratepayer costs and achieve the "lowest storm recovery charges" by issuing floating rate Ratepayer-Backed Bonds and swapping them to a synthetic fixed interest rate.

Tranche – A Tranche is a piece of a larger bond offering with its own cash flows, i.e., principal amount, Maturity and interest rate, but governed by the same documents as the larger bond offering, i.e. prospectus, trust agreement, servicing agreement, etc. While Tranche is common nomenclature for ABS type debt, corporate debt usually uses the term "series" for the same purpose.

Tight Spread/Wide Spread - If a Spread is considered "Tight," it is low and closer to the Benchmark rate. If it is "Wide," it is much higher than the Benchmark rate. Interest rates are composed of the Benchmark plus the Spread. Thus, a Tight Spread means a lower interest rate.

True-up Mechanism - PSC-Guaranteed True-up Mechanism" or "**True-up Mechanism**" means the mechanism irrevocably mandated by state law and the Financing Order whereby ratepayer charges to pay debt service and ongoing expenses on Ratepayer-Backed Bonds are reviewed and adjusted at least annually or semi-annually (true-up period), depending on the jurisdiction. The rates at which the charges are imposed on ratepayers, to be paid on a joint and several basis, will be adjusted to correct any over collections or under collections from prior periods and to guarantee payment of all principal and interest on a timely basis.

Underwrite – This refers to the actions of an investment bank when it initially purchases newly issued bonds with the intention of re-offering or re-selling them to the ultimate investors, thus assuming the market risk for a short period of time.

Underwriters - The investment banks that initially purchase the bonds and re-offer the bonds to ultimate investors. A lead Underwriter (sometimes called the "bookrunning" manager and most often called a lead manager) is responsible for assembling and leading a syndicate which generally includes additional investment banks in an effort to reach the widest audience of buyers. A co-lead Underwriter (or "co-manager") is another firm which also assumes responsibility to purchase bonds from the issuer. Nowadays, in practice, the Underwriters of a bond issue often have orders for 100% of a new issue before it is formally re-sold to anyone, and consequently the Underwriters do not hold the bonds or take any appreciable market risk.

Weighted Average Life (WAL) – The amount of time (in years), on average, that the principal amount will remain outstanding. It is calculated by weighting the time each component of the principal is outstanding by the principal amount. Thus, for a bond that pays back all its principal at final Maturity, the WAL is the same as the final Maturity. However, Ratepayer-Backed Bonds amortize principal over a number of years, so the WAL is always less than the Final Scheduled Maturity of each Ratepayer-Backed Bond.

Yield, Current - The annual coupon amount of interest on a bond, divided by the selling price (expressed as a percentage). A $1,000 principal amount bond that sells for $1,000 with a $50 annual interest coupon has a 5% Yield. The lower the price, the higher the Yield; the higher the price, the lower the Yield.

Yield to Maturity - Yield to Maturity is the discount rate at which the sum of all future cash flows from the bond (interest and principal) is equal to the price of the bond. This measure of Yield takes into account the difference between the current price and the principal value at redemption. This is the Yield referred to when pricing a bond and comparing to the Yield on benchmark securities. It is more reflective of true value because it accounts for the time value of money.

Rule R1-19. INTERVENTION.

(a) Contents of Petition. — Any person having an interest in the subject matter of any hearing or investigation pending before the Commission may become a party thereto and have the right to call and examine witnesses, cross-examine opposing witnesses, and be heard on all matters relative to the issues involved, by filing a verified petition with the Commission giving the docket number and title of the proceeding and the following information in separately numbered paragraphs:

(1) The correct name, post-office address and electronic mailing address of the petitioner.
(2) The name, post office address and electronic mailing address of counsel representing the petitioner, if any.
(3) A clear, concise statement of the nature of the petitioner's interest in the subject matter of the proceeding, and the way and manner in which such interest is affected by the issues involved in the proceeding.
(4) A statement of the exact relief desired.

(b) When Filed. — Petitions under this rule shall be filed with the Commission not less than ten (10) days prior to the time the proceeding is called for hearing, unless the notice of hearing fixes the time for filing such petitions, in which case such notice shall govern. A petition, which for good cause shown was not filed within the time herein limited, and which neither broadens the issues nor seeks affirmative relief, may be presented to and allowed or denied by the presiding official, in his discretion, at the time the cause is called for hearing.

(c) Copies Required. — See Rule R1-5, subsection (g).

(d) Leave. — Leave to intervene filed within the time herein provided, in compliance with this rule and showing a real interest in the subject matter of the proceeding, will be granted as a matter of course, but granting such leave does not constitute a finding by the Commission that such party will or may be affected by any order or rule made in the proceeding. Failure of any party to file answer or reply to such petition for leave to intervene does not constitute an admission of the facts stated in such petition, nor a waiver of the right to move to dismiss said petition at the time the cause is called for hearing for failure to comply with this rule.

(e) Notices of Intervention by the Public Staff. — Notices of Intervention by the Public Staff shall be deemed recognized without the issuance of any order. As a general rule, Notices of Intervention by the Public Staff need not be filed in advance of any hearing and appearances may be made and noted at the hearing. If the Public Staff elects to do so, Notices of Intervention may be filed in certain cases. The filing of testimony and exhibits and otherwise complying with all other Rules and Regulations of the Commission are not affected by this provision.

(NCUC Docket No. M-100, Sub 75, 10/27/77; NCUC Docket No. M-100, Sub 128, 11/03/99; NCUC Docket No. M-100, Sub 134, 3/11/10.)

DOCKET NO. 25230 **:•ijE.LR,3**

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

PUBLIC UTILITY COMM SSION

OF TEXAS

FINANCING ORDER

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Appendix A

Description of Amount of Regulatory Assets Eligible for Securitization

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DOCKET NO. 25230

JOINT APPLICATION FOR APPROVAL OF STIPULATION REGARDING TXU ELECTRIC COMPANY TRANSITION TO COMPETITION ISSUES	**§**	**PUBLIC UTILITY COMMISSION OF TEXAS**

FINANCING ORDER

This Financing Order addresses the application of TXU Electric Company (the Company) in Docket No. 21527, *Application of TXU Electric Company for Financing Order to Securitize Regulatory Assets and Other Qualified Costs,* 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, as modified on remand in this proceeding. As discussed in this Financing Order, the Commission found that the Company's initial request in Docket No. 21527 to securitize regulatory assets and other qualified costs in an amount of $1.650 billion—because it was based on an analysis of an aggregate amount using nominal dollars—could not be granted since it failed to meet all of the required statutory standards. Notwithstanding the Company's failure and based upon an analysis presented by other parties—one that accounts for the time value of money and evaluates whether any benefits accrue to ratepayers on an asset-by-asset basis—the Commission approved the securitization of regulatory assets and other qualified costs in the amount of approximately $363 million. Various parties appealed portions of the Commission's May 1, 2000 Financing Order and, ultimately, that Order was upheld by the Supreme Court on all but three issues. The remanded proceeded was assigned Docket No. 24892.

On December 31, 2001, a Stipulation and Joint Application for Approval Thereof, Including Request for Expedited Interim Relief ("Stipulation") was filed on behalf of TXU Electric ("Company"), its affiliates, and successors in interest; the Commission Staff ("Staff'); the Office of Public Utility Counsel ("OPC"); the Cities Served by TXU Electric ("Cities");

Texas Industrial Energy Consumers (“ITEC”); Texas Retailers Association; and AES New Energy; all hereinafter referred to as the "Joint Applicants," announcing that the Joint Applicants reached a settlement of numerous issues concerning TXU Electric's transition to competition and related Commission and judicial proceedings. The Stipulation resolves all issues related to TXU Electric's stranded cost recovery, securitization of regulatory assets, excess mitigation, unrecovered fuel balance, fuel reconciliation, wholesale "clawback," retail "clawback," regulatory asset review, and appeals of the Commission's orders in TXU Electric's Unbundled Cost of Service ("UCOS") case (PUC Docket No. 22350), as well as resolving certain judicial proceedings related to Commission orders affecting rates and the transition to retail competition. As part of the Stipulation filed in this proceeding, the Joint Applicants have proposed issuance of $1,300,000,000 of transition bonds. The Commission finds that entry of a financing order that empowers TXU Electric or its successor or assign to issue $1.3 billion of transition bonds to securitize its generation-related regulatory assets as reported by TXU Electric in its 1998 annual report on SEC Form 10-K as regulatory assets and liabilities and other qualified costs is reasonable, and the provisions approved in this Financing Order meet all applicable requirements of the Public Utility Regulatory Act.[1]

Accordingly, the Commission 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 $1,300,000,000; approves transition charges in an amount to be calculated as provided in this Financing Order; approves the structure of the proposed securitization financing, as modified by this Financing Order; and approves the form of the Company's 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, even at the highest authorized interest rate, realize benefits in excess of approximately $52 million on a present value basis if all $1,300,000,000 of transition bonds are issued. In addition, as a result of this Financing Order the amount of revenues collected by the Company will be reduced in excess of approximately $95

[1] ~~Public Utility Regulatory~~ Act, TEX. UTIL. CODE ANN. §§ 11.001-64.158 (Vernon 1998 & Supp. 2002) (PURA).

million, on a nominal basis, when compared to the amount that would have been collected under conventional utility financing methods.

The Public Utility Regulatory Act states that the purpose of allowing securitization financing is to lower the carrying costs of a utility's assets relative to the costs that would be incurred using conventional utility financing methods. It then charges the Commission as follows:

> *The commission shall ensure that securitization provides tangible and quantifiable benefits to ratepayers, greater than would have been achieved absent the issuance of transition bonds.* Public Utility Regulatory Act, Section 39.301.

/

Boiled down to its *essence,* the Commission's actions in this docket are based upon a reasoned adherence to this directive from the Legislature. To ensure that ratepayers receive tangible and quantifiable benefits as the result of securitization, the Commission rejected the Company's initial analysis, which evaluated the nominal amount of cost on an aggregate basis. The Commission in its May 1, 2000 Financing Order in Docket No. 21527 found that the Company's method was flawed for two reasons. First, it ignored the time value of money by using nominal values instead of present values. And second, by using an aggregate-based analysis, it allowed certain assets to diminish the benefits resulting from the securitization of other assets, to the detriment of ratepayers. TXU Electric appealed the May 1, 2000 Financing Order and, ultimately, the Texas Supreme Court in *TXU Electric Co. v. Public Utility Commission of Texas,* 51 S.W.3d 275 (Tex. 2001), upheld the discretion of the Commission to apply a present value test in addition to the present value test specifically set forth in PURA, but reversed the Commission and held that such additional present value test should assume recovery of regulatory assets absent securitization would occur in substantially less than 40 years, and further held that in applying the relevant tests the Commission must consider all regulatory assets that the Company requested be securitized in the aggregate and not on an asset-by-asset basis.

This Financing Order results from the Legislature's decision to restructure the retail electric industry in this state and to allow electric utilities to recover stranded costs. Stranded costs are created as a result of the transition to a competitive retail electric market and represent

the excess of the net book value over the market value of generation assets. Under conventional utility regulation, a utility would recover these costs through regulated rates. But in a free-market environment, it cannot charge rates high enough to recover these costs. Consequently, these excess costs are "stranded" because they would not be recovered by a utility in the new competitive retail market. To facilitate the transition to this new market structure, the Legislature decided as a policy matter that utilities should recover these stranded costs.

The Company's application in Docket No. 21527, as modified in the Stipulation in this proceeding, seeks securitization only of regulatory assets, a specific type of stranded cost. Regulatory assets are creations of regulation and only *have* value because a regulator allows the utility to recover the underlying costs of these assets from ratepayers; they have no value in a competitive market.

In Chapter 39 of PURA, the Legislature provided several methods that allow a utility to recover its stranded costs. Securitization financing is only one of these methods. Stranded costs that are not recovered through securitization will be recovered through one of the other mechanisms. Because of the permanent nature of securitization, the Legislature allows this method to be used to recover stranded costs only if certain statutorily prescribed standards are met. One of these standards dictates that ratepayers receive tangible and quantifiable benefits as the result of the securitization.

To ensure compliance with this standard, a true economic analysis that accounts for the time value of money must be used to demonstrate that ratepayers receive tangible and quantifiable benefits. This concept is embodied in the well-known principle that a dollar today is not equal to a dollar next year. An analysis that ignores the time value of money by using nominal sums, as the Company did in its initial filing, cannot calculate whether ratepayers receive a real benefit. When accounting for the time value of money, the Company's initial proposal to securitize $1.650 billion in regulatory assets actually resulted in an economic detriment to ratepayers, rather than the statutorily required benefit necessary to utilize securitization

A proper economic analysis—one accounting for the time value of money, using 12 years as the period of time over which, absent securitization, regulatory assets would be recovered through competition transition charges, and one based on an aggregate evaluation—demonstrates that ratepayers benefit from the securitization of all of the Company's regulatory assets. The Stipulation provides for securitization of regulatory assets of $1,247,413,626, plus qualified costs of $52,586,374, for a total securitization amount of $1,300,000,000, with TXU Electric amortizing the full $1,864,967,000 of retail generation-related regulatory assets over a period of time determined by the Company in consultation with its auditors. Based upon the analysis included in Appendix F, securitization of regulatory assets along with other related qualified costs in a total amount of $1,300,000,000 will provide benefits to ratepayers, at a minimum, in excess of approximately $52 million on a present value basis and will reduce the amount of nominal revenues received by the Company in excess of approximately $95 million over the life of the transition bonds. This analysis demonstrates that all of the standards required by PURA are met if the Company securitizes all of its regulatory assets in the manner as provided in the Stipulation and this Financing Order.

The Company's initial application in Docket No. 21527 requested authority to securitize $1.650 billion, in the aggregate, of regulatory assets and other qualified costs. On remand, and as part of the Stipulation, the Company and other Joint Applicants have requested the Commission approve securitization of $1,300,000,000 of regulatory assets and other qualified costs. As discussed in this Financing Order, while the Company's initial application failed to demonstrate compliance with all statutory standards, the Company's request on remand, as contained in the Stipulation, complies with all statutory standards. In particular, for the reasons set forth in the testimony of Company witness Marc D. Moseley in support of the Stipulation, the Commission finds the use of a 12-year period as the time period over which, absent securitization, regulatory assets would be recovered through competition transition charges, to be reasonable. The amount approved in this Financing Order is based on the aggregate analysis performed by the Commission's Office of *Regulatory Affairs* in the initial proceeding (found in Appendix F of the Commission's May 1, 2000 Financing Order). The Commission finds that aggregate present value analysis, measuring the aggregate cumulative effects of all transition bonds issued to the date of the series of transition bonds being tested, to be appropriate and in

compliance with the Supreme Court's opinion and mandate in *TXU Electric Co. v. Public Utility Commission of Texas, supra.* While the Stipulation provides for securitization of $17,136,932 more than the amount contained in the analysis in Appendix F, the analysis contained therein shows that there will be significant benefits, on a present value basis, based upon the issuance of $1,300,000,000 of transition bonds. Thus, the regulatory assets listed in Appendix C to this Financing Order should be securitized.

As a result of this Financing Order, all of the generation-related regulatory assets on Applicant's regulatory books will be recovered through the securitization. The assets securitized under this Financing Order will not be included in any annual report calculation or in the calculation of excess cost over market under !URA §§ 39.251-265.

I. DISCUSSION

A. Background

The Legislature amended PURA in 1999 to provide for competition in the provision of retail electric service.[2] To facilitate the transition to a competitive environment, an electric utility is allowed to recover all of its net, verifiable, nonmitigable stranded costs.[3] PURA provides several methods for an electric utility to mitigate or recover stranded costs, including the use of excess eamings,[4] recovery through a competition transition charge,[5] and recovery through securitization financing.[6] The Legislature provided this last 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—resulting in benefits to ratepayers as a result of the securitization.[7] To

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[2] *See* Act of May 27, 1999, 76'h *Leg.,* R.S., ch. 440, 1999 TEX. GEN. LAWS 1111 (codified primarily at TEX. UTIL. CODE Chapters 39, 40, and 41) (S.B. 7).

[3] *See* PURA § 39.252(a).

[4] *See Id. §§* 39.254-261.

[5] *See Id. §§* 39.201, 251-265

[6] *See Id. §§* 39.201, .301-.303.

[7] *See Id. §* 39.301.

ensure such benefits and as a precondition for 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.[8] 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 stranded costs, including 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.[9] 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 by end-use customers as part of the monthly charge for electric service,[1°] and must be approved by the Commission pursuant to a financing order."

B. Statutory Findings

The Commission may adopt a financing order allowing recovery of an electric utility's regulatory assets and eligible stranded costs 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 and that the financing order is consistent with the standards in PURA § 39.301.[12] To meet these standards, the Commission must ensure that the net proceeds of transition bonds may be used

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[8] *See Id. §§* 39.301, 303(a).

[9] *See Id. §* 39.302(6).

[1°] *See Id. §* 39.302(7).

[11] *See Id. §* 39.303(b).

[12] *1d.* § 303(a).

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 (I) 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 the use of securitization to recover a utility's stranded costs will provide real benefits to a utility's customers. Absent this showing of benefits, a utility must use another mechanism provided by statute to recover its stranded costs.

1. Economic Benefits

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 one that recognizes the time value of money and is necessary 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 (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. By analyzing the proposed securitization based upon those facts and assumptions, a determination can be made as to whether tangible and quantifiable benefits result and, if so, the

amount of those benefits. To ensure that the calculated benefits are realized, the securitization transaction must be structured in a manner to conform to the assumptions and facts used in the economic analysis.

The Company's initial application did not contain a present value economic analysis to demonstrate that its proposed securitization would provide tangible and quantifiable benefits to ratepayers. The Company claimed that, because the total amount of revenues, on a nominal basis, it would collect under the proposed securitization would be less than it would otherwise collect, ratepayers would realize a benefit. The Commission rejected the Company's argument that a present value economic analysis is not required to demonstrate that securitization results in tangible and quantifiable benefits. The Company's initial analysis failed to recognize the time value of money and, when the time value of money is considered, its proposal resulted in an economic detriment—not an economic benefit—to ratepayers. The Commission's position that such a present value analysis was within the discretion of the Commission to apply under PURA §39.301 was upheld on appeal by the Texas Supreme Court.

In determining if the amount proposed in the Stipulation to be securitized provides an economic benefit to customers using a present value analysis, it is appropriate to use the aggregate present value analysis performed by the Commission's Office of Regulatory Affairs (ORA) in the initial portion of this proceeding, which analysis was included as Appendix F to the May 1, 2000 Financing Order adopted in Docket No. 21527, and which is also included as Appendix F to this Financing Order. This aggregate, present value financial analysis, based *upon* a 12-year recovery period and an interest rate ceiling of 8.75%, shows an economic benefit to ratepayers of at least $52 million on a present value basis as a result of securitizing all of the Company's generation-related regulatory assets in an amount of $1,247,413,626, plus other qualified costs of $52,586,374. This $52 million economic benefit figure is reached by taking the $69,194,894 in benefit found on Appendix F, based upon securitization of regulatory assets and other qualified costs of $1,282,863,068, and reducing that benefit figure by $17,136,932, to reflect the amount to be securitized that is excess of the $1,282,863,068 amount *upon* which the analysis in Appendix F is based. This economic 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; under the assumed interest rate of 7.33% found in Appendix F, the economic benefit would be nearly $120 million.

2. Total Revenues

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. Using ORA's methodology and using worst case market conditions, the analysis of the requested securitization of $1,300,000,000 contained in the Stipulation demonstrate# that revenues will be reduced in excess of approximately $95 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 would increase.

3. Lowest Transition-Bond Charges

To issue a financing order, the Commission must also ensure that that the structuring and pricing of the transition bonds result in the lowest transition-bond charges consistent with market conditions and the terms of the financing order. Because the actual structure and pricing of the transition bonds cannot be known at this time, the Company has provided a general description of the proposed *structure* and pricing. This description does not contain every relevant detail and, in certain places, uses only approximations of certain costs and requirements. The final structure and pricing 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. Due to this uncertainty today of future requirements and conditions, the Company has asked for flexibility in designing the structure and pricing of the transition bonds.

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 to issue 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, as discussed elsewhere in this Financing Order, the Commission will participate in the actual design of the' structure and pricing of the transition bonds. The combination of these limiting criteria and the Commission's participation will ensure that the structure and pricing of the transition bonds will result in the lowest transition-bond charges considering the market conditions and the terms of this Financing Order.

C. SFAS 109

[Deleted]

D. Financial Advisor

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 transition bonds if the Company fails to make this demonstration or certification.

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 unless the Commission issues an order that the proposed issuance does not comply with this Financing Order.

E. Transition Charges

PURA requires that transition charges be collected from retail electric customers 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.[13] Transition charges can be recovered over a period that does not exceed 15 years.[14] 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.[15] 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,

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[13] *See Id. §* 39.302(7)

[14] *Id. §* 39.303(b).

[15] *Id.*

they become transition property and, as such, are afforded certain statutory protections to ensure that the charges are available for bond retirement.[16]

F. Statutory Enhancements

This Financing Order contains terms, as it must, ensuring that the imposition and collection of transition charges authorized in the order shall be nonbypassable.[17] 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.[18] 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.[19]

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[16] *Id §* 39.304(b).

[17] *See Id. §* 39.306.

[18] *Id §* 39.307.

[19] *Id. §* 39.310.

G. Transition Property

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 the pledge of the state just recited.[20] 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.[21] 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.[22] 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.[23]

H. Refinancing

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.[24] This Financing Order does not grant any authority to refinance transition bonds authorized by this Order.

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

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[20] *Id. §* 39.304(b).

[21] *Id. §* 39.305.

[22] *Id. §* 39.311.

[23] *Id. §* 39.309(a).

[24] *Id. §* 39.303(g).

II. DESCRIPTION OF PROPOSED TRANSACTION

A full description of the transactions proposed by the Company is contained in its initial application, exhibits, and testimony filed in Docket No. 21527, and the exhibits and testimony filed in this docket. A brief summary of the proposed transactions is provided in this section; a more detailed description is included in Section III.C, *Structure of the Proposed Securitization.* 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 (January 1, 2002, or June 1, 2001, for customer choice pilot projects under PURA § 39.104), retail electric providers (REPs) will be required to

meet certain financial standards to collect transition charges under this Financing Order. 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 electric customers. 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.

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. Transition charges will also be calculated so that this amount allocated to the various classes of retail customers as provided by PURA. 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. A non-standard true-up will be allowed for other circumstances as provided by this Financing Order.

III. FINDINGS OF FACT

A. Identification and Procedure.

Identification of Applicant and Application

1. TXU Electric Company (TXU 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. The Company is a wholly owned subsidiary of Texas Utilities Company and is an electric utility providing retail and wholesale electric service in Texas.

2. The Company's initial application was filed on October 18, 1999 and includes the exhibits, schedules, attachments, and testimony filed by or for the Company in Docket No. 21527.

3. In its application, the Company used the term Applicant to refer to TXU Electric Company and its successors and assigns that provide transmission or distribution service, or both, directly to retail customers in TXU'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 October 18, 1999, the Company initially filed its application for a financing order under Subchapter G of Chapter 39 of the Public Utility Regulatory Act[25] to permit securitization of some of its regulatory assets and other qualified costs as described in its application, which application was assigned Docket No. 21527.

5. The following persons moved to intervene and were granted party status in Docket No. 21527: Office of Public Utility Counsel (OPC), Steering Committee of Cities served by TXU Electric, NewEnergy Texas, L.L.C. (NewEnergy), Nucor Steel, Texas Industries, Texas Industrial Energy Consumers (TIEC), State of Texas, the City of Garland, Texas Retailers Association (TRA), Enron Energy Services, Inc. (Enron), Competitive Power Advocates, Entergy Gulf States, Inc. (Entergy), Brazos Electric Power Cooperative, Inc., Dallas Fort-Worth Hospital Council (Hospital Council), Alcoa, the Coalition of Independent Colleges and Universities (Coalition of Colleges), and the Cities of Addison, Arlington, Belton, Brownwood, Burleson, Carrollton, Cleburne, Copperas Cove, Dallas, Denison, Flower Mound, Fort Worth, Grand Prairie, Harker Heights, Highland Park, Howe, Irving, Mesquite, North Plano, Pantego, Richardson, Richland Hills, Rockwall Snyder, Sulphur Springs, University Park, Watauga, Waco, and Wichita Falls (Cities). The Commission's Office of Regulatory Affairs (ORA) also participated as a party.

6. On December 3, 1999, Enron filed a motion to limit the scope of the hearing in Docket No. 21527. Specifically, Enron requested that the Commission not address the issue of retail electric provider (REP) qualifications in that docket, but reserve that issue for consideration in Project No. 21082, *Certification of Retail Electric Providers and Registration of Power Generation Companies and Aggregators.* The administrative law judge (AU) denied the motion

[25] TEX. UTIL. CODE §§ 11.001-64.158 (Vernon 1998 & Supp. 2000) (PURA).

but noted that REP qualification issues would be addressed, if at all, only to the extent necessary for a Commission financing order.

7. On December 6 and 7, 1999, the Commission held a hearing on the merits in Docket No. 21527.

8. On December 6, 1999, the Steering Committee of Cities served by TXU Electric, OPC, T1EC, Alcoa, Enron, TRA, Texas Industries, NewEnergy, the City of Mesquite, the State of Texas, the Hospital Council, and the Coalition of Colleges filed a joint motion to dismiss TXU Electric's application and for summary judgment. In support of their motion, the movants asserted that TXU had failed to meet its burden to prove that the proposed securitization provides tangible and quantifiable benefits to customers by failing to include a present value analysis in its direct case. The Commission did not address the joint motion prior to the close of the hearing.

9. On December 23, 1999, the ALI granted Shell Energy Services Company, L.L.C. (Shell Energy); Fowler Energy, Inc.; Greenmountain.com Company; and DTE Energy leave to file *amicus curiae* briefs on the issues raised in Docket No. 21527.

10. On January 10, 2000, the Company filed a motion to extend the time for the Commission to issue a financing order to February 1, 2000. The Company orally modified its motion during the open meeting on January 10, 2000 to extend the deadline until March 13, 2000. The Commission approved this extension during the open meeting.

11. On March 1, 2000, in open meeting, the Commission deliberated on the merits of the Company's application and heard additional argument. During this open meeting, the Company moved to extend the deadline to issue a financing order to April 14, 2000. The Commission approved the Company's proposed extension to issue a draft financing order.

12. On March 21, 2000, the Company filed a proposed schedule to issue and review a draft financing order and a request to extend the deadline to issue a financing order; and TIEC, the

Hospital Council and Coalition of Colleges, and TRA filed a request related to the manner of billing transition charges for demand customers.

13. On March 23, 2000, in open meeting, the Commission further deliberated on the merits of the Company's application and heard additional argument. The Commission approved the Company's schedule to issue and review a draft financing order and extension of the deadline to issue a financing order to May 1, 2000.

14. On March 30, 2000, the Commission's Office of Policy Development filed a draft financing order in Docket No. 21527. On April 6, 2000, the parties filed comments to this draft financing order. On April 13, 2000, the parties met with the Office of Policy Development to provide further comments to the draft financing order.

15. On April 27, 2000, the Commission considered the draft financing order and parties' comments to the draft financing order, and rendered its final decision in Docket No. 21527, and entered its Financing Order on May 1, 2000.

15A. The following parties filed appeals of the May 1, 2000 Financing Order to Travis County District Court: TXU Electric, Office of Public Utility Counsel, Texas Industrial Energy Consumers, Nucor Steel, and Texas Industries, Inc. Numerous parties then filed appeals of the District Court's Judgment directly to the Texas Supreme Court. Ultimately, in *TXU Electric Co. v. Public Utility Commission of Texas, supra*, the Supreme Court denied all points of error except for three points brought by the Company, holding that: (a) that in conducting an additional present value test, the Commission must assume that absent securitization, regulatory assets would be recovered through competition transition charges in considerably less than 40 years; (b) in determining the amount to be securitized, the Commission must consider regulatory assets in the aggregate; and (c) Finding of Fact No. 113 and related findings and conclusions of law were premature and advisory. The Supreme Court then remanded the proceeding to the Commission for proceedings consistent with the Court's opinion. That remand proceeding was assigned Docket No. 24892, *Remand of Docket No. 21527(Application of TXU Electric Company for Financing Order to Securitize Regulatory Assets and Other Qualified Costs).*

15B. On December 31, 2001, the Stipulation was filed by Joint Applicants. The Stipulation resolves all issues related to TXU Electric's stranded cost recovery, securitization of regulatory assets, excess mitigation, unrecovered fuel balance, fuel reconciliation, wholesale "clawback," retail "clawback," regulatory asset review, and appeals of the Commission's orders in TXU Electric's Unbundled Cost of Service ("UCOS") case (PUC Docket No. 22350), as well as resolving certain judicial proceedings related to Commission orders affecting rates and the transition to retail competition. One of the terms of the Stipulation provides for the issuance of $1,300,000,000 in transition bonds. On January 2, 2002, in Order No. 1, Docket No. 24892 was consolidated into Docket No. 25230, closed as a separate proceeding, and the records of Docket Nos. 21527 and 24892 were incorporated into Docket No. 25230.

15C. TXU Electric filed direct testimony in support of the Joint Applicants' Stipulation on January 17, 2002. Dallas-Fort Worth Hospital Council ("DHC"), Coalition of Independent Colleges and Universities ("HCU"), and Texas Independent Energy Company, L.P. ("TIE") filed direct testimony in opposition to the Stipulation on February 21, 2002. TXU Electric filed rebuttal testimony on February 28, 2002. The Commission conducted an *en bane* hearing on the merits to consider the Stipulation on March 12, 2002. Post-hearing briefs were filed on March 25, 2002, and reply briefs *were* filed on April 5, 2002. The Commission considered the Stipulation during the regularly scheduled Open Meeting of the Commission on April 18, 2002. As part of its deliberations, the Commission requested additional evidence or briefing on five issues. On April 30, 2002, TXU Electric, Cities, and OPC filed testimony concerning those five issues, and TXU Electric filed a brief concerning one issue. No party filed testimony in opposition to that April 30 testimony. DHC, CICU, TIE, the State of Texas, and Nucor Steel-Texas filed Statements of Position and Briefs concerning those five issues on May 9, 2002. On May 16, 2002, TXU Electric filed a brief in reply to the briefs filed by those parties. On May 30, 2002, the Commission conducted an *en banc* hearing on the merits to consider the additional evidence concerning the five issues designated by the Commission.

Notice of Application

16. Notice of the Company's initial filing was provided through publication once a week for two consecutive weeks in newspapers having general circulation in the Company's Texas service area, beginning shortly after the filing of its application. In addition, the Company provided individual notice to the governing bodies of all Texas incorporated municipalities served by the Company that have retained original jurisdiction over the Company. 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.

16A. TXU Electric provided notice of the Stipulation to all parties in Commission Dockets Nos. 22350, 22344 (the generic UCOS docket), 24892 (the remand from the Texas Supreme Court of TXU Electric's application for a financing order), 22652 (the remand from the Texas Supreme Court related to the Comanche Peak minority owner disallowance), and 23806 (the 2000 Annual Report docket). Additionally, TXU Electric published notice of the Stipulation and this proceeding once each week for four consecutive weeks in newspapers of general circulation in each county in which TXU Electric was certificated to provide electric service as of December 31, 2001. TXU Electric also, on January 4, 2002, filed copies of an Executive Summary of the Stipulation with all municipalities located within TXU Electric's service area.

Evidence of Record

17. The following items were admitted into evidence in Docket No. 21527: (a) TXU Electric Exhibit Nos. 1-22; (b) Cities Exhibit Nos. 1, la, 2, 2a, and 4; (c) Dallas Fort-Worth Hospital Council and Coalition of Independent Colleges and Universities Exhibit Nos. 1-4; (d) NewEnergy Exhibit Nos. 14; (e) Nucor Steel Exhibit Nos. 1-3; OPC Exhibit Nos. 1, la, 2-3, and 3a; (f) State of Texas Exhibit No. 1; (g) TIEC Exhibit Nos. 1, la, 2, 2a, and 3-16; (h) Texas Industries Exhibit Nos. 1-2; (i) TRA Exhibit Nos. 1-2, 2a, 3-14; and (j) ORA Exhibit Nos. la, lb, lc, 2-3, 3a, 4, 4a, 5a, 5b, 6a, 6b, and 7-11.

17A. The following items were admitted into evidence in this proceeding: (a) TXU Electric Exhibit Nos. 1-7, 7A, 8, 8A, 9-11, 16-26; (b) Cities Exhibit No. 1; (c) OPC Exhibit No. 1; (d) Dallas Fort-Worth Hospital Council and Coalition of Independent Colleges and Universities

Exhibit Nos. 1-18; (e) Nucor Steel Exhibit No. 1; (f) State of Texas Exhibit Nos. 1-3; and (g) TIE Exhibit Nos. 1, and 5-23.

B. Qualified Costs and Amount to be Securitized.

18. 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 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.[26]

19. The Company proposed to recover qualified costs consisting of regulatory assets, the costs of issuing, supporting and servicing the transition bonds, the costs of retiring and refunding the Company's existing debt and equity securities in connection with the issuance of 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 credit enhancements and enhancement costs relating to the marketability of the transition bonds described in the Company's testimony as qualified costs.

Regulatory Assets

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 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.[27] The Company identified the amount of the generation-related portion regulatory assets as shown in Appendix A to this Financing Order. ORA made adjustments to the amounts proposed by the Company by reversing adjustments made by the

[26] *See* PURA § 39.302(4).

[27] *Id. §* 39.302(5).

Company and by applying a retail allocation factor of 99.33% to reflect the amount that retail customers should bear. Because the Commission finds that only the retail portion of regulatory assets may be recovered through a transition charge assessed against retail customers, the Commission finds that the jurisdictional generation demand allocation factor approved in Docket No. 18490[28] (the last Commission final order addressing the Company's rate design) should be used to determine the Texas retail portion of the amount of generation-related regulatory assets in this proceeding. The numeric value of the retail jurisdictional allocation factor approved in Docket No. 18490 is 99.33%. The Commission also finds that the amount of the regulatory assets listed in Appendix A is the eligible portion of the generation-related portion of the Texas retail jurisdictional portion of the amount listed on the Company's 1998 SEC Form 10-K. Only the amounts that satisfy all statutory requirements, however, can actually be securitized.

21. The Company did not include the amount of investment tax credits and other regulatory liabilities in its application. The Commission finds that the exclusion of these items in this proceeding is appropriate, and they were addressed in a different proceeding.

22. All of the regulatory assets proposed for securitization by the Company represent costs or obligations that have been incurred by the Company

23. The Company initially proposed to securitize regulatory assets in an aggregate amount of $1,579,834,904 and write off assets in the amount of $285,132,096. Under the Company's proposed securitization, $1,864,967,000 of regulatory assets would be removed from the Applicant's regulatory books, including $1,449,761,144 of SFAS-109 assets.

23A. In this proceeding, consistent with the terms of the Stipulation, entry of a financing order that empowers TXU Electric or its successor or assign to issue $1.3 billion of transition bonds to securitize its generation-related regulatory assets as reported by TXU Electric in its 1998 annual report on SEC Form 10-K as regulatory assets and liabilities and other qualified costs is reasonable, as shown in Appendix B. TXU Electric will amortize the full $1,864,967,000 of

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[28] *Joint Application to Reduce Texas Utilities Electric Company Base Rates and Approval of Certain Accounting Procedures*, Docket No. 18490, Order on Rehearing (June 25, 1998) (Docket No. 18490).

retail generation-related regulatory assets over a period of time determined by the Company in consultation with its auditors.

24. In Docket No. 21527 ORA performed calculations, adopted in Appendix F of the May 1, 2000 Order, demonstrating that, on an aggregate basis and conducting the present value analysis over a 12-year period, the Applicant had demonstrated tangible and quantifiable benefits to customers. In this proceeding, the Joint Applicants, based upon this analysis, proposed that the aggregate present value analysis use a 12-year period and that the Commission enter an order approving securitization of $1,300,000,000 in regulatory assets and qualified costs. For the reasons set forth in the testimony of Company witness Moseley in this proceeding, the Commission finds the use of a 12-year period as the time period over which, absent securitization, regulatory assets would be recovered through competition transition charges to be reasonable, and approves the proposed securitization by the Company of $1,300,000,000 in regulatory assets and other qualified costs.

Other Qualified Costs

25. Other qualified costs consist of the costs of issuing, supporting, and servicing transition bonds and any costs of retiring and refunding Applicant's existing debt and equity securities in connection with the issuance of the transition bonds. 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 actual amount of debt and equity securities to be retired and refunded will be affected by market conditions at the time such securities are retired or refunded, and, therefore, the actual cost of retiring and *refunding* debt and equity securities in connection with the issuance of the transition bonds will not be known until such securities are retired and such refunding is complete. 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 Company estimated the amount of these costs as shown in Appendix B and proposed to recover these estimated amounts as qualified costs in this Financing Order.

26. In Docket No. 21527 ORA proposed maximum estimated costs based in part on costs incurred in other securitizations and in part due to the difference in the amount originally proposed to be securitized by the Company and ORA. ORA' s proposed maximum estimated costs were adopted by the Commission in its May 1, 2000 Order. In the Stipulation filed in this proceeding, the Company requested that the fixed costs remain unchanged and that the variable costs, which are based upon percentages of the amount securitized, be increased to reflect the increased amount of regulatory assets to be securitized. The Commission finds the requested costs to be reasonable, and approves the aggregate amount of qualified costs on remand found in Appendix B. Because the $500 million in transition bonds that may be issued prior to 2004 is five-thirteenth's of the total $1.3 billion in transition bonds authorized by this Financing ***Order,*** the Commission finds that the aggregate cap on up-front qualified costs financed by transition bonds issued prior to 2004 shall not exceed $20,225,528, which is equal to five-thirteenth's of the total amount cap on up-front qualified costs of $52,586,374.

Amount to be Securitized

27. The Company in this proceeding proposed to include the amount of the regulatory assets, the costs of issuing, supporting and servicing the transition bonds, the costs of retiring and *refunding* debt and equity, and the Commission's cost for acquiring professional services as listed in Appendix B, plus the costs, which are not quantified, of swap and hedge agreements in the principal amount of the transition bonds.

28. The benefits of any 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 its statutory obligations to ensure quantifiable and tangible benefits to ratepayers, the Commission must limit the maximum amount of qualified costs other than regulatory assets approved in this Financing Order that may be included in the principal amount of the transition bonds so that the sum of the fixed and variable up-front qualified costs plus the costs to reacquire debt and equity does not exceed $52,586,374 as shown in Appendix C. The annual ongoing servicing fees and the annual fixed operating costs must be recovered directly through transition charges and must not be included in the principal amount of the transition bonds. Additional limits must be imposed to ensure that the ongoing servicing fees do

not exceed the maximum amount shown in Appendix C; and the sum of the annual fixed operating costs does not exceed $185,000. 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 plus the reacquisition costs must be provided as a credit in Applicant's ECOM proceeding or a future securitization proceeding.

29. As limited by this Financing Order, the recovery of the net amount of regulatory assets and other qualified costs listed in Appendix C should be approved because ratepayers will receive tangible and quantifiable benefits as a result of the securitization, and the amount of the Company's stranded costs will be *reduced, leading* to further benefits for ratepayers. The regulatory liabilities, including investment tax credits, not addressed in this docket were ' addressed in the Applicant's ECOM proceeding.

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 that this Financing Order is issued, the Company 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 E and the Transition Charge Rate Tariff in Appendix D to this Financing Order. The Company 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 clay, the Commission issues an order finding that the proposed issuance does not comply with those *requirements.*

31. The completion and filing of an issuance advice letter in the form of the Issuance Advice Letter attached as Appendix E, including the certification from Applicant as discussed in Finding of Fact No. 107, is necessary to ensure that any securitization actually undertaken by Applicant complies with the terms of this Financing Order.

Tangible and Quantifiable Benefit

32. 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. An economic analysis is one that accounts for the time value of money. An analysis ' that compares the present value of the traditional revenue requirement associated with an asset (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 an economic benefit to ratepayers. An analysis showing an economic benefit to ratepayers is necessary to show that the benefit is tangible and to quantify the amount of the benefit.

33. Securitization financing for the regulatory assets detailed in Appendix C is expected to *result* in approximately $52 million, at a minimum, of tangible and quantifiable economic benefits to ratepayers on a present-value basis if the transition bonds are issued at the maximum interest rates allowed by this Financing Order. 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 all regulatory assets using the methodology described in ORA's testimony in Docket No. 21527 using a discount rate of 8.75% and a maximum expected life of 12 years as detailed in Appendix F, offset by the amount of up-front and ongoing costs approved in this Financing Order.

34. The methodology described in ORA's testimony in Docket No. 21527 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 Appendix C.

Present Value Can

35. 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.[29] The methodology used by ORA to calculate economic benefits also demonstrates that the amount the Company 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.

36. The amount of qualified costs to be securitized detailed in Appendix C does not exceed the present value of the revenue requirement over the 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 expected weighted average interest rate on the transition bonds on an annual basis.

Total Amount of Revenue to be Recovered

37. 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.[30] The total amount of revenues to be collected under this Financing Order will be in excess of approximately $95 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 ORA's testimony in Docket No. 21527 using a transition-bond interest rate of 8.75% and a maximum expected bond life of 12 years as detailed in Appendix F, less the ongoing costs approved in this Financing Order.

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[29] *See* PURA § 39.301.

[30] *See Id. §* 39.303(a).

38. Based upon ORA's methodology in Docket No. 21527, Joint Applicants calculated 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. The Commission finds that this method is appropriate and properly calculates the reduction in total revenues collected from ratepayers resulting from the securitization approved in this Financing Order.

C. Structure of the Proposed Securitization.

The SPE

39. 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.

40. 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, including those that are related to the transition charges (including any shortfalls in payment of 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.

41. 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.

42. 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.

43. 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-bond charges. Therefore, the use and proposed structure of the SPE, as modified in Findings of Fact Nos. 40 and 68, should be approved.

Other Credit Enhancement

44. The Company 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.

45. The Company failed to quantify the hosts or any benefits related to any of the proposed methods of credit enhancement identified in Finding of Fact No. 44. Accordingly, costs related to any of the proposed methods of credit enhancement cannot cause the aggregate amount of the up-front costs that are securitized to exceed the amount of the cap on the aggregate amount for those costs specified in Appendix C. This finding does not apply to the use of a collection account or its subaccounts addressed in Findings of Fact Nos. 62 through 68 in this Financing Order.

Transition Property

46. 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.[31]

47. The proposed transfer by Applicant to the SPE of 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 pursuant to PURA § 39.304.

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[31] *See Id. §* 39.304(a).

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

49. 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.

50. To the extent that any interest in the transition property created by this Financing Order is assigned, sold or transferred to an assignee,[32] Applicant will enter into a contract with that assignee that will require Applicant to continue to operate its transmission and distribution system or its distribution system in order to provide electric services to Applicant's customers.

51. 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

[32] PURA § 39.302(1) defines an assignee as 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.

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 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.

52. 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 Applicant located within Applicant'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.

53. The proposals described in Findings of Fact Nos. 50 through 52 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 benefit to ratepayers and should be approved.

Retail Electric Providers

54. 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.

55. 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.

56. The billing and collection standards adopted by the Commission in Docket No. 2l528[33] should be adopted in this docket to provide, to the greatest extent possible, uniformity for these standards in Texas. Uniformity of standards will facilitate the competitiveness of the retail electric market in this state.

57. The billing and collection 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 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. Upon adoption of any amendment to the current rule addressing any of the standards, Staff 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 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.

58. The proposed REP standards are as follows:

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[33] *Application of Central Power and Light Company for Financing Order to Securitize Regulatory Assets and Other Qualified Costs,* Docket No. 21528 (March 27, 2000) (Docket No. 21528).

(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 Paragraph (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 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 charge 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.

59. The 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 under financing orders by REPs. Therefore, the proposed billing and collection standards for REPs and the applicability of those standards described in Findings of Fact Nos. 57 and 58 should be approved.

60. Prior to the introduction of customer choice,[34] 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 prior to the start of customer choice is reasonable and should be approved.

Transition Bonds

61. 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, acting through its designated personnel or financial advisor, consistent with market conditions and indications of the rating agencies, at the time the transition bonds are issued. 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 third business day, the Commission issues an order finding that the proposed issuance does not comply with the requirements established by this Financing Order.

62. The Company initially proposed to establish an amortization schedule for the transition bonds based on a front-end loaded amortization of the transition-bond principal. This front-end loaded schedule would result in transition charges that are higher in the first years of retail competition and that decline over the recovery period of the transition bonds.

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[34] *See* PURA § 39.101-102.

63. The Company's proposed structure of the transition bonds with respect to the maturities and classes or tranches of the transition bonds is reasonable and should be approved, provided that the weighted average interest rate for the bonds does not exceed 8.75% on an annual basis, the expected maximum bond life is 12 years, and a levelized recovery structure is used. 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 the protection of a competitive retail electric market. To protect the competitiveness of this market, the transition-bond amortization schedule must be based on a levelized recovery structure, except when required by a true-up of transition charges to collect an additional amount necessary to recoup undercollections from a prior period. The levelized recovery structure will result in transition charges that will likely decline over time due to increases in load growth and should benefit the competitiveness of the retail electric market. The Commission's financial advisor should also be charged with the obligation to protect the competitiveness of the retail electric market in a manner consistent with this Financing Order.

Security for Transition Bonds

64. The payment of the transition bonds 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 Company's 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 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 the Company'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.

65. 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 investment, and such moneys (including 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.

ii. The Overcollateralization Subaccount.

66. 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.

67. 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.

68. The capital contribution to the SPE should be funded by the Company, and the amount of the proceeds from the sale of the transition bonds that are used to retire or refund Applicant's debt or equity securities 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.

iv. The Reserve Subaccount.

69. The Reserve Subaccount will hold any transition-charge remittances and investment earnings on the Collection Account in excess of the amounts needed to pay current principal and interest on the transition bonds and to pay all of the other components of the Periodic Payment Requirement (including, but not limited to, funding or replenishing the Overcollateralization Subaccount and the Capital Subaccount). Any balance in the Reserve Subaccount on a true-up adjustment date will be subtracted from the Periodic Payment Requirement for purposes of the true-up adjustment. The moneys in this subaccount will be invested by the indenture trustee in short-term high-quality investments, and such moneys (including investment earnings thereon)

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.

General Provisions.

70. 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 will be released by the SPE to Applicant and, other than amounts that were in the Capital Subaccount, will be credited to customers consistent with PURA § 39.262(g).

71. The use of a collection account and its subaccounts in the manner proposed by the Company is reasonable, will lower risks associated with the securitization and thus lower the costs to ratepayers, and should, therefore, be approved.

Refinancing

72. The Company also seeks authorization, subject to an approved supplement to this Financing Order, to allow it, or the SPE, or any assignee to refinance the transition bonds sought in this docket in a face amount not to exceed the unamortized principal amount of the transition bonds approved in this Financing Order, consistent with PURA § 39.303(g). The Company

proposed that the Commission issue in the future a supplemental order to this Financing Order, based upon a supplementation of the Company's application filed in this docket, to approve these new transition bonds.

73. It is premature to approve a refinancing of the transition bonds approved in this Financing Order. Under PURA § 39.303(d), this Financing Order is irrevocable and not subject to further action of the Commission, except through the true-up mechanism under PURA § 39.307. The Commission may issue a financing order providing for retiring and refunding transition bonds under PURA § 39.303(g), but only upon 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 refunded. The Company has not provided any information that would allow the Commission to make the required statutory finding and the Commission may not approve the refinancing sought by the Company. The Company is not precluded, however, from filing a request in the future to retire or refund the transition bonds approved in this Financing Order upon a showing that the statutory criterion in PURA § 39.303(g) is met.

Transition Charges—Imposition and Collection. Nonbypassability, and Self-Generation.

74. 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).

75. Transition charges will be described on bills presented to retail customers and REPs to the extent provided in the Application.

76. If there is a shortfall in payment by a retail customer of an amount billed to that customer, 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. All payments made by REPs are governed by the REP standards addressed in Findings of Fact Nos. 57 and 58.

77. The Company in Docket No. 21527 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 delinquencies and end of period billings 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 through judicial process.

79. Transition charges will be collected from all existing retail customers of Applicant and all future retail customers located within Applicant's certificated service area as it existed on May 1, 1999. 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 Applicant 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 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 Applicant'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 Applicant'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 customer's REP, if any, or 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 Applicant's facilities and any other competition transition charges applicable to self-generation under PURA § 39.252.

81. The Company'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 tariff 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

82. The energy consumption of Texas-retail customers measured at the meter for the twelve-month period ending immediately prior to May 1, 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).

83. 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. The most recent docket addressing Applicant's rate design was Docket No. 18490. The Commission approved the use of an average and excess non-coincident peak (A&E-NCP) methodology to allocate Applicant's costs. Therefore, use of the A&E-NCP demand allocators calculated in Docket No. 18490 as adjusted to remove wholesale customers is reasonable and appropriate and should be approved.

84. 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.

85. The Company proposed that its retail rate schedules be grouped together into seven regulatory asset recovery classes for purposes of the billing and collection of the transition charge, as follows:

Regulatory Asset Recovery Class	Retail Rate Schedules
Residential Service	R, RLU, RTU, RTU1, RTU1-M, RRE
General Service Secondary	GS, S-Sec, GSR, MS, MP-Sec GTU-Sec, GTU-M-Sec, RTP-Sec, GC-Sec, and all riders excluding interruptible
General Service Primary	GPp$_i$ [1]S-Pri, GPR, MS-Pri, MP-Pri, GTU-Pri, GTU-M-Pri, RTP-Pri, GC-Pri, and all riders excluding interruptible
High Voltage Service	HV, S-Tran, HVR, GTU-Tran GTU-M-Tran, RTP-Tran, GC-Tran, and all riders excluding interruptible
Lighting Service	OL, SL, SL-Pri
Instantaneous Interruptible	GSI, GPI, HVI, SSI, SPI, STI, GSRTPI1, GSRTP1M, GSRTPID, GPRTPI1, GPRTPIM, GPRTPID, HVRI, HVRTPIM, HVRTPlD, and applicable riders
Noticed Interruptible	GSNI, GSNB, GPNI, GPNB, HVNI, NVNB, GTUC-Sec, GTUC-Pri, GTUC-Tran, GTUC-M-Sec, GTUC-M-Pri, GTUC-M-Tran, GSRTPNI, GPRTPNI, HVRTPNI, and applicable riders.

The Company's proposed consolidation was designed to produce a small number of classes of sufficient size such that any one class would be unlikely to lose all of its customers, while not grouping together customers with highly disparate usage, voltage level, or other characteristics. The Company's proposed regulatory asset recovery classes are reasonable and should be approved.

86. The Company proposed that, once billing under the RARC tariff begins, a customer continue to be billed, for the duration of the tariff, on the RARCF that applied to the Regulatory Asset Recovery Class that the customer was initially placed in, regardless of whether the customer subsequently changes to another rate class. This concept is known as "tagging" and is designed to prevent customers from switching classes in an attempt to obtain a lower transition charge. To implement this proposal, Applicant proposed that certain language be included in the tariff. The "tagging" concept is reasonable and should be implemented.

87. The following procedure is used to the develop the RAAFs in this Financing Order:

(a) The allocation to the residential class is determined according to the procedure specified in PURA § 39.253(c), and a described in Findings of Fact Nos. 82 and 83;

(b) The RAAF for the non-firm class is developed by multiplying the adjusted generation demand allocator developed in compliance with the methodology described in Findings of Fact Nos. 82 through 84 by 1.5. The RAAF for the non-firm class, once calculated, is applied to the total amount of costs to be allocated among all of the customer classes; and

(c) The allocation to the remaining classes is determined according to the procedure specified in PURA § 39.253(e), and as described in Findings of Fact Nos. 82 through 84.

88. The Company proposed that all classes be billed the transition charge on a kWh basis. To better track the basis upon which the securitized costs were incurred, it is more reasonable for each customer that is exclusively demand metered to be billed the transition charge on a kW basis, and each customer that is exclusively energy metered by billed on a kWh basis.

89. The transition charges collected *under* this Financing Order applicable to the General Service Secondary (GS) and General Service Primary (GP) classes will be separately determined for demand-metered and non-demand-metered customers, respectively, as follows:

(a) First, the transition charge applicable to non-demand-metered customers shall be derived by dividing the total regulatory asset recovery class Periodic Billing Requirement by the total projected class kilowatt-hour sales for the period. The total dollar amount estimated to be recovered from non-demand-metered customers will be the product of the

derived transition charge and the projected kilowatt-hour sales to non-demand-metered customers.

(b) The transition charges applicable to demand-metered customers shall be derived by subtracting the total dollar amount estimated to be recovered from non-demand-metered customers from the total regulatory asset recovery class Periodic Billing Requirement and dividing the result by the projected billing demand for the period. Billing demand will be determined using the definition of billing demand in the Applicant's applicable then-current Commission-approved tariffs.

90. The RAAFs in the following table are developed in accordance with the specific procedures set forth in PURA § 39.253 and should be approved:

Class	*RAAF*
Residential	41.2705%
General Service — Secondary	44.7323%
General Service — Primary	5.8982%
High Voltage Service	2.7875%
Lighting Service	0.6836%
Instantaneous Interruptible	1.8568%
Noticed Interruptible	2.7711%
Total	100.0000%

Should any of the Regulatory Asset Recovery Classes cease to have any customers, the RAAFs will be adjusted proportionately such that the sum of the RAAFs equals 100.0000%. For Rate S and Rider SI customers, the transition charge will be a pro-rated daily demand charge based on the otherwise applicable non-standby transition charge.

True-Up of Transition Charges

91. 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) 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.

92. 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 Requirement 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 the most recent experience of Applicant and the REPs regarding the payment of transition charges.

93. The servicer will make reconciliation adjustments in the following manner, known as the standard true-up procedure:

(a) allocate the upcoming period's Periodic Billing Requirement based on the RAAFs approved in this Financing Order;

(b) calculate undercollections or overcollections, including without limitation any caused by REP defaults, from the preceding period in each class;

(c) sum the amounts allocated to each customer class in steps (a) and (b) to determine an adjusted Periodic Billing Requirement for each transition charge customer class; and

(d) divide the amount assigned to each customer class in step (c) above by the appropriate 'forecasted billing units to determine the transition charge rate by class for the upcoming period. For the General Service Secondary and General Service Primary classes, the two-step procedure described in Finding of Fact No. 89 will be used to calculate a transition charge factor in dollars per kilowatt-hour for non-demand-metered customers and a transition charge factor in dollars per kilowatt for demand-metered customers.

Interim True-Up.

94. 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, based on rating agency and bondholder considerations. In addition to the foregoing, 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) 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 by the Applicant and the Commission's designated personnel or financial advisor at the time of pricing.

95. In the event an interim true-up is necessary, the interim true-up adjustment should be filed by the servicer 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.

Non-Standard True-Up.

96. A non-standard true-up procedure will be applied if the forecasted billing units for one or more of the transition charge customer classes for an upcoming period decreases by more than 10% compared to the billing units for the 12 months ending April 30, 1999 (known as the threshold billing units), shown in Appendix G to this Financing Order.

97. In conducting the non-standard true-up the servicer will:

(a) allocate the upcoming period's Periodic Billing Requirement based on the RAAFs approved in this Financing Order;

(b) calculate undercollections or overcollections, including without limitation any caused by REP defaults, from the preceding period in each class;

(c) sum the amounts allocated to each customer class in steps (a) and (b) to determine an adjusted Periodic Billing Requirement for each transition charge customer class;

(d) divide the Periodic Billing Requirement for each customer class by the maximum of the forecasted billing units or the threshold billing units for that class, to determine the "threshold rate";

(e) multiply the threshold rate by the forecasted billing units for each class to determine the expected collections under the threshold rate;

(f) allocate the difference in the adjusted Periodic Billing Requirement and the expected collections calculated in step (e) among the transition charge customer classes using the RAAFs approved in this Financing Order;

(g) add the amount allocated to each class in step (0 above to the expected collection amount by class calculated in step (e) above to determine the final Periodic Billing Requirement for each class; and

(h) divide the final Periodic Billing Requirement for each class by the forecasted billing units to determine the transition charge rate by class for the upcoming period. For the General Service Secondary and General Service Primary classes, the two-step

procedure described in Finding of Fact No. 89 will be used to calculate a transition charge factor in dollars per kilowatt-hour for non-demand-metered customers and a transition charge factor in dollars per kilowatt for demand-metered customers.

98. A proceeding for the purpose of approving a non-standard true-up should be conducted in the following manner:

(a) The servicer will make a "non-standard true-up filing" with the Commission at least 90 days before the date of the proposed true-up adjustment. 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 proposed non-standard true-up, and a statement of the proposed true-up dat.

(b) Concurrently with the filing of the non-standard true-up with the Commission, the servicer will notify all parties in Docket No. 21527 of the filing of the proposal for a nonstandard true-up.

(c) The servicer will issue appropriate notice and the Commission will conduct a contested case proceeding on the non-standard true-up proposal pursuant to PURA § 39.003.

The scope of the proceeding will be limited to determining whether the proposed adjustment complies with this Financing Order. The Commission will issue a final order by the proposed true-up adjustment date stated in the non-standard true-up 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.

Additional True-Up Provisions.

99. If, for any reason, the transition charge rate for any customer 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 approved in this Financing Order.

100. The true-up adjustment filing will set forth the servicer's calculation of the ***true-up*** adjustment to the transition charges. Except for the non-standard true-up procedure addressed in Findings of Fact Nos. 96 through 98, 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 non-standard true-up procedure described above, any true-up adjustment filed with the Commission will be effective immediately upon 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.

101. The true-up procedures proposed by the Company 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

102. 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 financing 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 and that it protects the competitiveness of the retail electric market in this state. 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.

103. 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 that the financial advisor 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 $2,450,000 ($942,308 in connection with transition bonds issued before 2004), of which $718,667 ($276,410 in connection with transition bonds issued before 2004) will come from the underwriting spread with the remainder to be included in the aggregate cap on the up-front costs to be securitized of $52,586,374 ($20,225,528 in connection with transition bonds issued before 2004).

Lowest Transition-Bond Charges

104. The Company 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 initial 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 initial 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, rating agency considerations, 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.

105. The Company's proposed transaction structure, 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 this Financing Order, to ensure the greatest

benefit to ratepayers consistent with market conditions, and to protect the competitiveness of the retail electric market.

106. 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 and ongoing costs, does not exceed 8.75%, (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 Periodic Billings Requirement as modified by this Financing Order is structured to be consistent with the amortization of the transition bonds based on a levelized recovery structure, (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. In the event there is more than one transaction, each such transaction must result in ratepayers receiving tangible and quantifiable economic benefits both separately and in the aggregate with all prior transactions.

107. 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 protection of the competitiveness of the retail electric market) set out in this Financing Order.

D. Use of Proceeds

Refinancing or Retirement of Utility Debt and Equity

108. 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.

109. The net proceeds from the sale of the transition bonds (after payment of transaction costs) will be applied to a refinancing or retirement of Applicant's debt or equity, or both, with the goal of maintaining a balanced capital structure and at least an investment grade credit rating. The ratios of debt and equity to total capitalization after securitization are expected to approximate those ratios as they currently exist, excluding consideration of the transition bonds, as described in the Company's application.

110. The debt, preferred equity, and common equity on Applicant's books as of September 30, 1999 (the end of the last quarter for which an SEC Form 10-Q has been filed) were $5,604 million (45% of capitalization), $136 million (1%), and $6,744 million (54%), respectively. 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 transition bonds. Pursuant to this Financing Order, $1,864,967,000 of recoverable generation-related regulatory assets on Applicant's regulatory books will be reduced through the securitization.

111. The net proceeds from the sale of transition bonds will be used solely to refinance or retire the Company's existing debt or equity and will result in a reduction in the amount of the Company's recoverable regulatory assets and stranded costs.

E. Annual Report Under PURA § 39.257 and Stranded Costs

112. The aggregate amount of the regulatory assets authorized to be securitized by this Financing Order is the sum of the generation-related portion of the Texas-retail jurisdictional portion of the gross-book-value amounts of those regulatory assets as of December 31, 1998.

113. [Deleted]

114. 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.

115. The unamortized balance of the regulatory 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, to the extent that such treatment is consistent with PURA. For all subsequent years, the unamortized balance of the securitized regulatory assets and associated ADIT will be excluded from the annual report submitted pursuant to PURA § 39.257.

116. The ADIT associated with the regulatory assets securitized under this Financing Order shall not be used to determine the Applicant's rates for transmission or distribution service, calculate stranded costs for the Applicant, or to calculate the Applicant's annual costs or invested capital for the annual report required by PURA § 39.257,

117. To *ensure* tangible and quantifiable benefits to customers from the securitization approved by this Financing Order, the treatments of the regulatory assets and associated ADIT securitized, and the amortization expense related to such regulatory assets for purposes of the annual report under PURA § 39.257 and future determinations of stranded costs set forth in Findings of Fact Nos. 114 through 116 of this Financing Order should be implemented.

IV. CONCLUSIONS OF LAW

1. TXU Electric Company is a public utility, as defined in PURA § 11.004, and an electric utility, as defined in PURA § 31.002(6).

2. The Company 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 initial application, and the provisions of the Stipulation relating to entry of a securitization financing order consistent with the Supreme Court's opinion in TXU Electric Co., *supra,* 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.

4A. The Stipulation constitutes a binding, enforceable contract among the Joint Applicants, except Commission Staff.

4B. This Financing Order creates a vested right in each Joint Applicant and person affected by the Order entitling that person to relief as specified in this Financing Order.

5. Notice of the Company's initial application, and notice of the Stipulation, was provided in compliance with the Administrative Procedure Act[35] and P.U.C. PROC. R. 22.54 and 22.55.

6. The Company's initial application did not constitute a major rate proceeding as defined by P.U.C. PROC. R. 22.2. The Stipulation likewise does not constitute a major rate proceeding.

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. Applicant may authorize the SPE to issue transition bonds, and 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

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[35] TEX. Gov'T CODE ANN. §§ 2001.001-901 (Vernon 1999)

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. An economic analysis is one that accounts for the time value of money. An analysis that compares the present value of the traditional revenue requirement associated with the Company's regulatory assets in the aggregate over a 12-year period with the present value of the revenue required under securitization is an appropriate economic analysis to demonstrate whether securitization provides economic benefits to ratepayers. An analysis that shows securitization will provide economic benefits to ratepayers satisfies the requirement for tangible and quantifiable benefits because it quantifies the benefit and demonstrates that the benefit is tangible.

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). The methodology approved in this Financing Order to true-up the transition charges satisfies the requirements of PURA § 39.307.

26. 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.

27. 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, 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.

28. 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.

29. 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 proposed 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).

30. 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

31. 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.

32. As provided in PURA § 39.309(t), 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.

33. 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.

34. 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.

35. 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.

36. 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.

37. This Financing Order will remain in full force and effect and unabated notwithstanding the bankruptcy of Applicant, its successors, or assignees.

38. 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.

39. 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.

39A. This Financing Order, while issued in conjunction with and consistent with the Stipulation and Order in Docket No. 25230, is a separate final order, the appeal of which is to be conducted pursuant to PURA § 39.303(f). The finality of this Financing Order is not impacted by the actions or inactions taken by the Commission with respect to other portions of the Stipulation 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

40. This Financing Order meets the requirements for a financing order under Subchapter G of Chapter 39 of PURA.

41. The provisions of this Financing Order relating to the treatment of the securitized regulatory assets and the amortization expense on the securitized regulatory assets for purposes of the annual report under PURA § 39.257 and subsequent determinations of Applicant's stranded costs comport with PURA §§ 39.201, 39.258, and 39.262 and all other applicable provisions of Chapter 39 of PURA.

V. ORDERH4G 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 TXU Electric Company, as amended by the request of the Company as found in the Stipulation and the testimony of Company witness Moseley, for the issuance of a financing order under PURA §§ 39.201(i) and 39.303 is approved as provided in this Financing Order.

2. Authority to Securitize. Applicant may securitize the amount of regulatory assets and other qualified costs detailed in Appendix C to this Financing Order in the manner provided by this Financing Order. In the event there is more than one transaction, each such transaction must result in ratepayers receiving tangible and quantifiable economic benefits both separately and in the aggregate with all prior transactions. The excess of any amounts securitized (including interest) over the actual amounts incurred by Applicant for up-front costs plus the reacquisition costs shall be provided as a credit in Applicant's ECOM proceeding, true up proceeding,[36] or a future securitization proceeding under Findings of Fact Nos. 91-101.

[36] *See* PURA § 39.262.

3. 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 Appendix C to this Financing Order (including payment of principal and interest on the transition bonds).

4. 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 E to this Financing Order. As part of the issuance advice letter, Applicant shall make the certification addressed in Finding of Fact No. 107 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 protection of the competitiveness of the retail electric market) set out in this Financing Order. All amounts which require computation shall be computed using the mathematical formulas contained in the form of the issuance advice letter attached as Appendix E and the Transition Charge Rate Tariff approved in this Financing Order and attached as Appendix D. 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.

5. Approval of Tariff. The form of the Transition Charge Rate Tariff attached as Appendix D to this Financing Order 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 Transition Charge Rate Tariff attached in Appendix D.

A. Transition Charges

6. 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 Requirement (including payment of principal and interest on the transition bonds), as approved in this Financing Order. If there is a shortfall in payment by a retail customer of an amount billed to that customer, 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.

7. 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, less the applicable charge-off allowance as provided in Findings of Fact Nos. 57 and 58, to the servicer of the transition bonds.

8. Collection Period. The transition charges related to a series of transition bonds shall be recovered 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.

9. Allocation. Applicant shall allocate the transition charges among customers in the manner described in Findings of Fact Nos. 82 through 90 of this Financing Order.

10. Nonbypassabilitv. Applicant and any other entity providing electric transmission or distribution services and any REP providing services to any retail customer within Applicant'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 Applicant's certificated service area as of May 1, 1999, and any REP providing services to any retail customer within Applicant's certificated service area.

11. True-ups. True-ups of the transition charges shall be undertaken and conducted as described in Findings of Fact Nos. 91 through 101 of this Financing Order. The servicer shall file the true-up adjustment in a compliance docket and shall give notice of the filing to all parties in this Docket No. 21527.

12. 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

13. Issuance. The SPE 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 to the amount detailed in Appendix C.

14. Refinancing. Applicant or any assignee may apply for one or more new financing orders pursuant to PURA § 39.303(g).

15. Collateral. All transition property and other collateral shall be held and administered by the indenture trustee pursuant to the indenture as described in the Company'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. 64 through 71. Upon the maturity of the transition bonds and the discharge of all obligations in respect thereof, all amounts, other than amounts in the capital subaccount, in the collection account, including investment earnings, shall be released to the SPE and shall be credited to ratepayers. Applicant shall within 30 days after the date that these funds are eligible to be released notify the Commission of the amount of such funds ' available for crediting to the benefit of ratepayers.

16. 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 for payment to Applicant. Investment earnings in this subaccount may be released earlier in accordance with the *indenture.*

17. 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 to mitigate the risk of an increase in interest rates, provided that the costs of such credit enhancement shall not cause the aggregate amount of up-front costs securitized plus the expense of reacquiring debt and equity to exceed the amount of the cap specified in Appendix C, and that the decision to use such credit enhancement shall be made in conjunction with the Commission acting through its designated personnel or financial advisor. This Ordering Paragraph does not apply to the collection account or its subaccounts approved in this Financing Order.

18. 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 8.75% on an annual basis.

19. Life of Bonds. The life of the transition bonds authorized by this Financing Order shall not exceed 15 years.

20. Amortization Schedule. The amortization of the transition bonds shall be based upon a levelized recovery structure consistent with Finding of Fact No. 63.

21. 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 and that it protects the competitiveness of the retail electric market in this state. 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 the Applicant and the Commission no later than 12:00 noon 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.

22. 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 minimize to the greatest extent 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

23. 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. i 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 Requirement 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 to this Financing Order, (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 $650,000, and (ii) the annual servicing fee payable to any other servicer not affiliated with Applicant shall not at any time exceed 0.60% of the original principal amount of the transition bonds.

24. 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 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.

25. 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.

26. 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,[37] Applicant shall enter into a contract with that assignee that requires Applicant to continue to operate its transmission system or distribution system or both in order to provide electric services to Applicant's customers.

D. **Retail Electric Providers**

27. REP Billing and Credit Standards. The Commission approves the REP standards detailed in Findings of Fact Nos. 57 and 58. 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 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. Upon adoption of any amendment to the current rule addressing any of these REP standards, 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

[37] PURA § 39.302(1) defines an assignee as 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.

transition bonds shall also comply with the provisions of the REP standards adopted by this Financing Order that are applicable to the servicer.

28. 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.

29. 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.

30. 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.

31. 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.

32. 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 the metering, 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.

33. 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.

34. 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

35. Structure. Applicant shall structure this securitization as proposed in the Company's application as modified by this Financing Order. This structure shall be consistent with Findings of Fact Nos. 104 through 107.

F. Use of Proceeds

36. 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 a refinancing or retirement of Applicant's debt or equity, or both, with a goal of maintaining a balanced capital structure and at

least an investment grade rating, excluding consideration of the transition bonds, as described in the Company's application.

G. Miscellaneous Provisions

37. Annual Report and Stranded Costs. Following issuance of transition bonds, Applicant shall remove from the annual report and from excess-cost-over-market calculations the regulatory assets securitized under this Financing Order, associated ADIT, and associated cost of service items, as described in Finding of Fact Nos. 112 and 114 through 117. The regulatory liabilities, including investment tax credits, not addressed in this Financing Order were addressed in the Applicant's ECOM proceeding.

38. 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 five years following the date on which this Financing Order becomes final and no longer appealable.

39. 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 that 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 Application.

40. Binding on Successors. This Financing Order, together with the transition charges authorized in it, shall be binding upon Applicant and any successor to TXU Electric Company that provides transmission or distribution service directly to retail customers in TXU Electric Company'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.

41. 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.

42. Effectiveness of Order. Subject to the terms of this Financing Order, it becomes 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.

43. 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.

44. 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.

45. 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 $2,450,000 ($942,308 in connection with transition bonds issued before 2004) to be included in the aggregate cap on up-front costs to be securitized of $52,586,374.

46. Effect. This Financing Order constitutes a legal financing order for TXU Electric Company 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 the compliance with the criteria established in this Financing Order.

46A. This Financing Order, while adopted pursuant to the approval and adoption of the Stipulation filed in this proceeding, is a separate final order, the appeal of which is to be conducted pursuant to PURA § 39.303(f). The finality of this Financing Order is not impacted by the actions or inactions taken by the Commission with respect to other portions of the Stipulation 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

47. 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 5th day of August 2002.

PUBLIC UTILITY COMMISSION OF TEXAS

REBECCA KLEIN, KLEIN, CHAIRMAN

BRETT A. PE MAN, COMMISSIONER

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for approval to include in base rates the revenue requirement for the CR3 regulatory asset, by Duke Energy Florida, Inc.	DOCKET NO. 150148-EI
In re: Petition for issuance of nuclear asset-recovery financing order, by Duke Energy Florida, Inc. d/b/a Duke Energy.	DOCKET NO. 150171-EI ORDER NO. PSC-15-0537-FOF-EI ISSUED: November 19, 2015

The following Commissioners participated in the disposition of this matter:

ART GRAHAM, Chairman
LISA POLAK EDGAR
RONALD A. BRISÉ
JULIE I. BROWN
JIMMY PATRONIS

FINANCING ORDER

APPEARANCES:

DIANNE M. TRIPLETT, and JOHN T. BURNETT, ESQUIRES, 299 First Avenue North, St. Petersburg, FL, 33701, and MATTHEW BERNIER, ESQUIRE, 106 East College Avenue, Suite 800, Tallahassee, FL 32301-7740 On behalf of Duke Energy Florida, LLC (DEF).

J.R. KELLY and CHARLES REHWINKEL, ESQUIRES, c/o The Florida Legislature, 111 W. Madison Street, Room 812, Tallahassee, FL 32399-1400
On behalf of Office of Public Counsel (OPC).

JON C. MOYLE, JR. and KAREN A. PUTNAL, ESQUIRES, c/o Moyle Law Firm, P.A. 118 North Gadsden Street, Tallahassee, FL 32301
On behalf of Florida Industrial Power Users Group (FIPUG).

JAMES W. BREW, OWEN J. KOPON, and LAURA A. WYNN, ESQUIRES, Stone Mattheis Xenopoulos & Brew, PC, West Tower, 1025 Thomas Jefferson Street, NW, Washington, D.C. 20007-0800
On behalf of White Springs Agricultural Chemicals, Inc. d/b/a PCS Phosphate – White Springs (PCS Phosphate).

ROBERT SCHEFFEL WRIGHT and JOHN T. LAVIA, III, ESQUIRES, Gardner, Bist, Bowden, Bush, Dee, LaVia & Wright, P.A., 1300 Thomaswood Drive, Tallahassee, FL 32308
On behalf of Florida Retail Federation (FRF).

ROSANNE GERVASI, LEE ENG TAN, KEINO YOUNG, KELLEY CORBARI and LESLIE AMES, ESQUIRES, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850
On behalf of the Florida Public Service Commission (Staff).

MARY ANNE HELTON, ESQUIRE, Deputy General Counsel, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850
Advisor to the Florida Public Service Commission.

CHARLIE BECK, ESQUIRE, General Counsel, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850
Florida Public Service Commission General Counsel.

BY THE COMMISSION:

I. INTRODUCTION

On July 27, 2015, Duke Energy Florida, LLC ("DEF" or "the Company") filed a petition for issuance of a nuclear asset-recovery bond financing order ("Petition"). This Commission has jurisdiction pursuant to Chapter 366, Florida Statutes (F.S.), including Sections 366.04, 366.05, 366.06, and 366.95, F.S.

History

In its 2015 session, the Florida Legislature established a mechanism by which electric utilities can recover their nuclear asset-recovery costs. This mechanism, referred to herein as "securitization," allows electric utilities to access lower-cost funds through "nuclear asset-recovery bonds" issued pursuant to financing orders issued by this Commission. This provision of Florida law is codified in Section 366.95, F.S.

By Order No. PSC-13-1598-FOF-EI,[1] this Commission approved a comprehensive settlement (the Revised and Restated Settlement and Stipulation Agreement or "RRSSA") that resolved many issues, including the treatment and retirement of DEF's nuclear unit, Crystal River 3 ("CR3"). The RRSSA contains provisions by which DEF is authorized to increase its base rates by the revenue requirement for the CR3 Regulatory Asset, which is a defined term in the RRSSA.

[1] Issued November 12, 2013, in Docket No. 130208-EI, as amended by Order No. PSC-13-0598A-FOF-EI, issued November 13, 2013, In re: Petition for limited proceeding to approve revised and restated stipulation and settlement agreement by Duke Energy Florida, Inc. d/b/a Duke Energy.

By Order No. PSC-15-0465-S-EI, issued October 14, 2015, in this consolidated docket, this Commission approved an amendment to the RRSSA (the "Amended RRSSA") to clarify the appropriate recovery period for the CR3 Regulatory Asset if nuclear asset-recovery bonds are issued pursuant to Section 366.95, F.S., and to clarify the appropriate scheduled final maturity date and legal final maturity date for the last maturing tranche of such nuclear asset-recovery bonds.[2]

The amount of the CR3 Regulatory Asset to be securitized does not include (1) capital costs of dry cask storage facilities at CR3; (2) additional funds needed to fund the CR3 Nuclear Decommissioning Trust in support of decommissioning CR3; or (3) costs which result from a new requirement adopted after October 14, 2015, by the United States Nuclear Regulatory Commission, Federal Energy Commission, or North American Electric Reliability Corporation that are applicable industry wide or generally applicable to shut down nuclear plants or any other Force Majeure event.

Summary of DEF's Petition

By its Petition, DEF requests that we issue a financing order under Section 366.95, F.S.: (1) to securitize the Securitizable Balance, defined below, (2) for approval of the proposed securitization financing structure, (3) for approval to issue the nuclear asset-recovery bonds, secured by the pledge of the nuclear asset-recovery property, in one or more series in an aggregate principal amount not to exceed the Securitizable Balance (as of the date the nuclear asset-recovery bonds are issued), (4) for approval of the financing costs, including upfront bond issuance costs incurred in connection with the issuance of the nuclear asset-recovery bonds and ongoing financing costs, (5) for approval of the creation of the nuclear asset-recovery property, including the right to impose, bill, collect and receive nonbypassable nuclear asset-recovery charges sufficient to recover the principal of, and interest on, the nuclear asset-recovery bonds plus ongoing financing costs, and (6) for approval of the tariff to implement the nuclear asset-recovery charges.

To repay the nuclear asset-recovery bonds and associated financing costs, consistent with the Amended RRSSA, DEF proposes that a nuclear asset-recovery charge be collected on a per kWh basis from all customer rate classes over a repayment period not to exceed the close of the last billing cycle for the 276th month from the inception of the nuclear asset-recovery charge. The nuclear asset-recovery charge will provide for repayment of the nuclear asset-recovery bonds (including principal, which includes upfront bond issuance costs) and ongoing financing costs (including without limitation; interest, rating agency surveillance fees, servicing fees, administration fees, legal and auditing fees, regulatory assessment fees, trustee fees, independent manager(s) fees and the return on invested capital (sometimes referred to as "ongoing financing costs" as further described herein)).

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[2] Tranches of nuclear asset-recovery bonds may be offered to investors as separate "series" of bonds. This should not be confused with the authority granted pursuant to this Financing Order to offer, sell, and issue the approved nuclear asset-recovery bonds "in one or more series" on different dates, possibly pursuant to different offering documents.

Highlight by Witness

Standard for Review of Petition

As noted above, the Florida Legislature enacted 2015 House Bill 7109, which has been codified in relevant part as Section 366.95, F.S. This section allows electric utilities, with the approval of this Commission, to finance the costs associated with the premature retirement of a nuclear power plant with the proceeds of nuclear asset-recovery bonds that are secured by the nuclear asset-recovery property.

Nuclear asset-recovery bonds are defined, pursuant to Section 366.95(1)(i), F.S., 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 nuclear asset-recovery costs and financing costs, and that are secured by or payable from nuclear asset-recovery property. Electric customers must pay the principal, interest, and related ongoing financing costs of the nuclear asset-recovery bonds through nuclear asset-recovery charges, which, pursuant to Section 366.95(1)(j), F.S., are nonbypassable charges that shall be paid by all existing or future 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 366.95(2)(a), F.S., authorizes electric utilities to petition this Commission for nuclear asset-recovery bond financing orders and provides that for each petition the electric utility shall: (1) describe the nuclear asset-recovery costs; (2) indicate whether the electric utility proposes to finance all or a portion of the nuclear asset-recovery costs using nuclear asset-recovery bonds; (3) estimate the financing costs related to the nuclear asset-recovery bonds; (4) estimate the nuclear asset-recovery charges necessary for recovery of such costs; (5) estimate any projected cost savings, based on current market conditions, or demonstrate how the issuance of nuclear asset-recovery bonds and the imposition of nuclear asset-recovery charges would avoid or significantly mitigate rate impacts to customers as compared with the traditional method of financing and recovering nuclear asset-recovery costs from customers; (6) demonstrate that securitization has a significant likelihood of resulting in lower overall costs or would avoid or significantly mitigate rate impacts compared to the traditional method of cost recovery; and (7) file direct testimony supporting the petition.

If an electric utility is subject to a settlement agreement that governs the type and amount of principal costs that could be recovered as nuclear asset-recovery costs, Section 366.95(2)(b), F.S., provides that the electric utility must file a petition with this Commission for review and approval of those principal costs no later than 60 days before filing a petition for a financing order. This Commission may not authorize any such costs to be included or excluded, as applicable, as nuclear asset-recovery costs if such inclusion or exclusion, as applicable, of those costs would otherwise be precluded by such electric utility's settlement agreement.

Highlight by Witness

Section 366.95(2)(c)1.b., F.S., provides the standard of review applicable to a petition for issuance of a financing order:

> The commission shall issue a financing order authorizing the financing of reasonable and prudent nuclear asset-recovery costs and financing costs if the commission finds that the issuance of the nuclear asset-recovery bonds and the imposition of nuclear asset-recovery charges authorized by the financing order have a significant likelihood of resulting in lower overall costs or would avoid or significantly mitigate rate impacts to customers as compared with the traditional method of financing and recovering nuclear asset-recovery costs. Any determination of whether nuclear asset-recovery costs are reasonable and prudent shall be made with reference to the general public interest and in accordance with paragraph (b) **[**of Section 366.95(2), F.S.**]**, if applicable.

Content of Financing Order

In any financing order issued to an electric utility, Section 366.95(2)(c)2., F.S., provides that this Commission shall:

a. specify the amount of nuclear asset-recovery costs to be financed using nuclear asset-recovery bonds, describe and estimate the amount of financing costs which may be recovered through nuclear asset-recovery charges and specify the period over which such costs may be recovered;

b. determine if the proposed structuring, expected pricing, and financing costs have a significant likelihood of resulting in lower overall costs or would avoid or significantly mitigate rate impacts to customers as compared with the traditional method of financing and recovering nuclear asset-recovery costs; including detailed findings of fact addressing cost-effectiveness and associated rate impacts upon retail customers and retail customer classes;

c. require that nuclear asset-recovery charges be nonbypassable;

d. include a formula-based true-up mechanism for making expeditious periodic adjustments in the nuclear asset-recovery charges that are necessary (i) to correct for any overcollection or undercollection of nuclear asset-recovery charges, or (ii) to otherwise ensure the timely payment of nuclear asset-recovery bonds, financing costs, and other required amounts and charges payable in connection with the nuclear asset-recovery bonds;

e. specify the nuclear asset-recovery property that shall be used to pay or secure nuclear asset-recovery bonds and all financing costs;

f. specify the degree of flexibility to be afforded to the electric utility in establishing the terms and conditions of the nuclear asset-recovery bonds;

g. require nuclear asset-recovery charges to be allocated to customer classes in specified ways;

h. require that the electric utility's determination of the initial nuclear asset-recovery charge be final and effective upon issuance of nuclear asset-recovery bonds, without further action by this Commission, so long as the nuclear asset-recovery charge is consistent with the financing order; and

i. include any other conditions that this Commission considers appropriate and that are authorized by this section.

Case Background

On May 22, 2015, pursuant to Sections 366.04 and 366.05, F.S., and consistent with the RRSSA, DEF filed its Petition for Approval to Include in Base Rates the Revenue Requirement for the Crystal River Unit 3 Regulatory Asset (CR3 Regulatory Asset Petition), along with supporting testimony and exhibits. Docket No. 150148-EI was opened to address the CR3 Regulatory Asset Petition.

By Order No. PSC-15-0238-PCO-EI (Order Establishing Procedure), issued June 5, 2015, Docket No. 150148-EI was scheduled for a formal evidentiary hearing on October 14-16, 2015, and procedures and controlling dates were established.

This Commission granted intervention to OPC by ORDER No. PSC-15-0243-PCO-EI, issued June 10, 2015; to PCS Phosphate by Order No. PSC-15-0254-PCO-EI, issued June 25, 2015; to FIPUG by Order No. PSC-15-0255-PCO-EI, issued June 25, 2015; and to FRF by Order No. PSC-15-0395-PCO-EI, issued September 16, 2015.

On July 27, 2015, pursuant to Section 366.95, F.S., DEF filed its Petition for Financing Order, along with supporting testimony and exhibits for witnesses Bryan Buckler, Patrick Collins, Marcia Olivier, and Michael Covington, and a Motion to Consolidate the dockets. Docket No. 150171-EI was opened to address the Petition.

By Order No. PSC-15-0327-PCO-EI, issued August 13, 2015, the Commission consolidated Docket Nos. 150148-EI and 150171-EI. By Order No. PSC-15-0340-PCO-EI, issued August 21, 2015, certain of the controlling dates governing the proceedings were revised.

On September 9, 2015, Commission staff submitted direct testimony and exhibits for witnesses Paul Sutherland, Rebecca Klein, Brian A. Maher and Hyman Schoenblum with respect to the Financing Order issues. Witnesses Bryan Buckler and Patrick Collins submitted rebuttal testimony and exhibits on September 14, 2015.

On September 15, 2015, this Commission approved DEF's Motion for Approval of a Stipulation regarding the CR3 Regulatory Asset-related issues and an amendment to the RRSSA to clarify the appropriate recovery period if the nuclear asset-recovery bonds are issued pursuant to Section 366.95, F.S.

This Commission held a Prehearing Conference on October 1, 2015.

Highlight by Witness

On October 14, 2015, this Commission held a hearing in Docket Nos. 150148-EI and 150171-EI. All testimony filed in both dockets was entered into the record as though read, along with the prefiled exhibits of all witnesses, and cross-examination was waived by all parties and staff. A total of 89 exhibits were entered into the record, including DEF's responses to certain of the Commission staff's discovery requests.

The hearing considered (a) whether this Commission should issue a financing order pursuant to DEF's Petition, and if so, (b) what standards, conditions and procedures should be included in that financing order. In connection with that hearing, the parties presented Proposed Stipulations on Financing Order Issues. We approved the Proposed Stipulations on Financing Order Issues upon finding them to be in the public interest, and admitted them as Exhibit 87.

During the hearing, the Commission, staff, and the parties discussed and acknowledged the Best Practices provided in testimony by Saber Partners, including the participation of the Commission's financial advisor in the structuring, marketing, and pricing of the bonds and the selection and compensation of the underwriters. In addition, all parties agreed that this Financing Order would direct that nuclear asset-recovery bonds shall be structured, marketed and priced so as to result in the lowest nuclear asset-recovery charges consistent with this Financing Order and market conditions at the time of pricing. Also at the hearing, the parties agreed that Commission staff would prepare a proposed form of Financing Order consistent with the Proposed Stipulations on Financing Order Issues for review by the other parties and for consideration by this Commission at its special agenda conference on November 17, 2015.

Summary of Decision

Consistent with the time requirements of Section 366.95(2)(c)1., F.S., we reached a decision on DEF's Petition. This Financing Order memorializes our decision.

In this Financing Order, we find that the issuance of nuclear asset-recovery bonds and the imposition of related nuclear asset-recovery charges to finance the recovery of DEF's reasonable and prudently incurred nuclear asset-recovery costs and related financing costs have a significant likelihood of resulting in lower overall costs or would significantly mitigate rate impacts to customers as compared with the traditional method of financing and recovering nuclear asset-recovery costs. Thus, by this Financing Order, we:

(1) approve the recovery through securitization of the Securitizable Balance, which consists of (a) nuclear asset-recovery costs, in the form of the Crystal River Unit 3 ("CR3") Regulatory Asset as determined pursuant to Docket No. 150148-EI (more specifically, the principal amount should be $1,283,012,000, representing the projected December 31, 2015 balance of the CR3 Regulatory Asset, subject to true-up to the actual December 31, 2015 balance), plus (b) estimated financing costs associated with the issuance of the nuclear asset-recovery bonds (sometimes referred to as "upfront bond issuance costs"), plus (c) carrying charges accruing at 6.0% per annum on the CR3 Regulatory Asset balance from December 31, 2015 through the date of issuance of the respective series of nuclear asset-recovery bonds.

(2) authorize the issuance of nuclear asset-recovery bonds, secured by the pledge of nuclear asset-recovery property, in one or more series, in an aggregate principal amount not to exceed the Securitizable Balance (as of the date the nuclear asset-recovery bonds are issued);

(3) approve the recovery of financing costs, including, upfront bond issuance costs incurred in connection with the issuance of the nuclear asset-recovery bonds and ongoing financing costs;

(4) approve the transaction structure of nuclear asset-recovery bonds as described in this Financing Order;

(5) approve the creation of the nuclear asset-recovery property, which includes the right to impose, bill, collect and receive nuclear asset-recovery charges in an amount authorized under this Financing Order and to obtain periodic adjustments to such charges as provided in this Financing Order and in accordance with Finding of Fact paragraph 29 and Conclusion of Law paragraph 11, to Guarantee the timely payment of the nuclear asset-recovery bonds and financing costs and other required amounts and charges payable in connection with the nuclear asset-recovery bonds; and

(6) approve the form of tariff schedule to be filed under DEF's tariff, as provided in this Financing Order, to implement the nuclear asset-recovery charges.

Pursuant to the Issuance Advice Letter procedures described in Finding of Fact paragraphs 98 through 103 of this Financing Order, DEF shall update its estimates of the upfront financing costs, ongoing financing costs and other relevant current information in accordance with the terms of this Financing Order.

Apart from storm-recovery bonds which this Commission approved for Florida Power & Light Company pursuant to Section 366.8260, F.S., and Order Nos. PSC-06-0464-FOF-EI and PSC-06-0626-FOF-EI, issued May 30, 2006 and July 21, 2006, respectively, in Docket No. 060038-EI, these nuclear asset-recovery bonds will be unlike any other corporate 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 DEF will be available to make promised payments of principal, interest, and other costs associated with the proposed nuclear asset-recovery bonds. Rather, by operation of Section 366.95, F.S., this Commission must irrevocably commit that all such amounts will be paid from nuclear asset-recovery charges, a special tariff rate imposed on all retail consumers of electricity in DEF's service territory. This represents an extraordinary relinquishment of future regulatory authority and a shifting of all economic burdens in connection with nuclear asset-recovery bonds from DEF to its customers.

While we recognize the need for some degree of flexibility with regard to the final details of the nuclear asset-recovery bond securitization transaction approved in this Financing Order, our primary focus is upon (a) meeting all statutory requirements including (i) pursuant to Section 366.95(2)(c)2.b., our determination that the proposed structuring, expected pricing, and financing costs of the nuclear asset-recovery bonds have a significant likelihood of resulting in lower

overall costs or would avoid or significantly mitigate rate impacts to customers as compared with the traditional method of financing and recovering nuclear asset-recovery costs (the "statutory financing cost objective"), (ii) our determination that this Financing Order addresses all matters required by Section 366.95(2)(c)2., and, (iii) pursuant to Section 366.95(2)(c)5., our determination, on a reasonably comparable basis, that the actual costs of the nuclear asset-recovery bond issuance results 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 (the "lowest issuance cost objective", and collectively with the statutory financing cost objective, the "statutory cost objectives"); and (b) ensuring that nuclear asset-recovery bonds authorized by this Financing Order will be structured, marketed and priced so as to result in the lowest nuclear asset-recovery charges consistent with this Financing Order and market conditions at the time of pricing (the "lowest overall cost standard").

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 nuclear asset-recovery bonds being borne by DEF's customers, we feel compelled to ensure from the outset that clear standards and effective procedures and conditions are in place to safeguard the interests of customers. Otherwise all the benefits potentially available to customers from this securitized nuclear asset-recovery bond financing might not be realized.

Section 366.95(2)(c)2.i., F.S., directs this Commission to include in a financing order any other conditions that this Commission considers appropriate and that are authorized by this section. In this Financing Order, we establish standards, procedures and conditions which we find will effectively safeguard the interests of customers. Among those is the lowest overall cost standard. We find that these standards, procedures and conditions, applied in a manner supportive of the provisions of the previously approved Amended RRSSA, are most likely to ensure satisfaction of the statutory cost objectives. These standards, procedures and conditions are designed to allow for meaningful and substantive cooperation between DEF and its designated advisors, this Commission and our designated advisors, legal counsel, and representatives through a "Bond Team" to ensure that the structuring, marketing, pricing and financing costs of the nuclear asset-recovery bonds will achieve the statutory cost objectives as well as the lowest overall cost standard. Each of the standards, procedures and conditions set forth in this Financing Order must be met. This Financing Order grants authority to issue nuclear asset-recovery bonds and to impose and collect nuclear asset-recovery charges only if the final structure of the transaction and the standards, procedures and conditions followed comply with or satisfy (as the case may be) in all respects the standards, procedures and conditions set forth herein.

DEF, its structuring advisor, and designated Commission staff and its financial advisor will serve on the Bond Team. One designated representative of DEF and one designated representative of this Commission shall be joint decision makers in all aspects of the structuring, marketing and pricing of the nuclear asset-recovery bonds except for those recommendations that in the sole view of DEF would expose DEF or the special purpose entity ("SPE") to securities law and other potential liability (*i.e.*, such as, but not limited to, the making of any untrue statement of a material fact or omissions to state a material fact required to be stated therein or

necessary in order to make the statements made not misleading) or contractual law liability (*e.g.*, including but not limited to terms and conditions of the underwriter agreement(s)). This Commission's designated staff and financial advisor will be visibly involved, in advance, in all aspects of the structuring, marketing, and pricing of the nuclear asset-recovery bonds. All Bond Team members will actively participate in the design of the marketing materials for the transactions as well as in the development and implementation of the marketing and sales plan for the bonds. DEF agrees DEF and this Commission's staff and its financial advisor as Bond Team members, excluding DEF's structuring advisor, should also have equal rights on the hiring decisions for the underwriters and counsel to the underwriters. However, DEF shall have sole right to select and engage all counsel for DEF and the SPE. In addition, together with the Bond Team's involvement in the structuring, marketing and pricing of the nuclear asset-recovery bonds, and the Issuance Advice Letter process, this Commission will be able to fully review the pricing of the bonds as this Commission determines whether to issue a stop order no later than 5:00 pm Eastern time on the third business day following pricing.

To ensure that the statutory cost objectives and the lowest overall cost standard are met and that these procedures are followed, this Commission – as represented at various stages either jointly or separately by designated Commission personnel, with support from this Commission's financial advisor and this Commission's outside legal counsel, as the designated Commission personnel deem appropriate – will participate visibly and in advance in the structuring, marketing, and pricing of the nuclear asset-recovery bonds in accordance with the standards, procedures and conditions established in this Financing Order.

The authority and approval to issue nuclear asset-recovery bonds pursuant to this Financing Order is effective only upon DEF filing with this Commission an Issuance Advice Letter in accordance with this Financing Order, and this Commission not issuing an order to stop the transaction and containing a basis for such stop order by 5:00 p.m. Eastern Time on the third business day following pricing of the nuclear asset-recovery bonds.

II. TRANSACTION STRUCTURE AND DOCUMENTS

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

a. The use of one or more SPEs as issuer of nuclear asset-recovery bonds, limiting the risks to Bondholders (holders of nuclear asset-recovery bonds) of any adverse impact resulting from a bankruptcy proceeding of DEF or any affiliate.

b. The right to impose, bill, collect and receive nuclear asset-recovery charges that are nonbypassable and which must be trued-up at least every six months, but may be trued-up more frequently under specified circumstances, in order to ensure the timely payment of the debt service and on-going financing costs. Consistent with the Amended RRSSA, the recovery period proposed for the nuclear asset-recovery charges shall not exceed the close of the last billing cycle for the 276th month from the inception of the nuclear asset-recovery charge.

c. Include as collateral a collection account which includes, without limitation, a Capital Subaccount funded initially by a deposit from DEF equal to at least 0.5% of the initial principal amount of the nuclear asset-recovery bonds, resulting in greater certainty of payment of interest and principal to investors.

d. A servicer (initially DEF) responsible for billing and collecting the nuclear asset-recovery charge from existing and future customers.

e. The Federal income tax consequences of the transaction meet the provisions established in IRS Revenue Procedure 2005-62.

Portions of the transaction structure, described in this Financing Order, are necessary to enable the nuclear asset-recovery bonds to obtain the highest bond credit rating possible, with an objective of AAA/Aaa bond credit ratings, so as to further ensure that the proposed structuring, expected pricing and financing costs of the nuclear asset-recovery bonds and the imposition of the nuclear asset-recovery charges will avoid or significantly mitigate rate impacts to customers as compared with the traditional method of financing and recovering nuclear asset-recovery costs from customers.

In accordance with Section 366.95(2)(a)6., the transaction structure, described in this Financing Order, has a significant likelihood of resulting in lower overall costs or would significantly mitigate rate impacts compared to the traditional method of cost recovery.

DEF has submitted in connection with its Petition a draft of each of the Nuclear Asset-Recovery Property Purchase and Sale Agreement, the Administration Agreement, and the Nuclear Asset-Recovery Property Servicing Agreement (the "Financing Documents"), which set out in substantial detail certain terms and conditions relating to the transaction structure, including the proposed sale of the Nuclear Asset-Recovery Property to the SPE, the administration of the SPE, and the servicing of the nuclear asset-recovery charges and the nuclear asset-recovery bonds. DEF initially requested that we approve the substance of the form of each of the agreements between DEF and the SPE in connection with issuance of this Financing Order. We find that such approval is not necessary at this time. Drafts of these agreements were filed in order that this Commission may evaluate the principal rights and responsibilities of the parties thereto. The final versions of these agreements will be subject to change based on the input from Commission staff, rating agencies, investors and other parties involved in the structuring and marketing of the nuclear asset-recovery bonds. DEF has also submitted a draft of the Indenture between the SPE and the indenture trustee, which sets forth proposed security and terms for the nuclear asset-recovery bonds. DEF requested that we approve the substance of the Indenture, subject to such changes based on the input from Commission staff, rating agencies, investors and other parties involved in the structuring and marketing of the nuclear asset-recovery bonds. DEF has also submitted a form of the Limited Liability Company Agreement ("LLC Agreement") with DEF as the sole member, that DEF proposed would constitute the organizing document of the SPE. DEF initially 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 DEF deems necessary or advisable to satisfy bankruptcy and rating agency considerations.

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The SPE

DEF proposed to create one or more SPEs, each as a bankruptcy remote, Delaware limited liability company with DEF as its sole member, as set forth in the LLC Agreement. In striving to achieve the lowest overall cost standard, it would be helpful if nuclear asset-recovery bonds can be presented to investors as corporate securities and not as asset-backed securities. Exhibit 75 discusses an SEC no-action letter dated September 19, 2007 which treated securitized utility bonds issued by an SPE as not asset-backed securities where that SPE was authorized to issue more than one series of securitized utility bonds. Unless separate SPEs are required by the rating agencies to achieve the highest possible credit ratings, all series of nuclear asset-recovery bonds authorized by this Financing Order shall be issued by the same SPE.

DEF proposed that the SPE may issue nuclear asset-recovery bonds in an aggregate amount not to exceed the Securitizable Balance approved by this Financing Order and will pledge to an indenture trustee, as collateral for payment of the nuclear asset-recovery bonds, the nuclear asset-recovery property, including the SPE's right to receive the nuclear asset-recovery charges as and when collected, and other collateral described in the Indenture. Pursuant to Section 366.95(5)(a)3., the SPE will be created for the limited purpose of acquiring, owning, or administering nuclear asset-recovery property or issuing nuclear asset-recovery bonds under this Financing Order or one or more future financing orders issued by this Commission. These restrictions on the activities of the SPE and restrictions on the ability of DEF to take action on the SPE's behalf are imposed to achieve the objective that the SPE will be bankruptcy-remote and not be affected by a bankruptcy of DEF or any affiliate or successor of DEF.

DEF proposed that the SPE will be managed by a board of managers with rights and duties set forth in its organizational documents. As long as the nuclear asset-recovery bonds remain outstanding, DEF proposed that the SPE will have at least one independent manager with no organizational affiliation with DEF other than possibly acting as independent manager(s) for another bankruptcy-remote subsidiary of DEF or its affiliates. The SPE will not be permitted to amend the provisions of the LLC Agreement or other organizational documents that relate to bankruptcy-remoteness of the SPE without the consent of the independent manager(s). 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(s). Other restrictions to facilitate bankruptcy-remoteness may also be included in the organizational documents of the SPE as required by the rating agencies.

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

The Servicer and the Servicing Agreement

DEF 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. DEF 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, bill, collect and receive the nuclear asset-recovery charges for the benefit and account of the SPE, to initiate the periodic true-up adjustments of nuclear asset-recovery charges required or allowed by this Financing Order and to account for and remit its collection of nuclear asset-recovery 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 nuclear asset-recovery 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 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 nuclear asset-recovery bonds.

Trust Accounts

The payment of the nuclear asset-recovery bonds and related nuclear asset-recovery charges authorized by this Financing Order is to be secured by the nuclear asset-recovery property created by this Financing Order and by certain other collateral as described in this Financing Order. The nuclear asset-recovery bonds will be issued pursuant to the Indenture under which the indenture trustee will administer the trust. DEF proposed that the SPE will establish a Collection Account as a trust account to be held by the indenture trustee as collateral to facilitate the payment of the principal of, interest on, and ongoing financing costs related to the nuclear asset-recovery 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 if required to obtain AAA/Aaa ratings on the nuclear asset-recovery bonds.

DEF proposed that nuclear asset-recovery charge remittances from the servicer with respect to the nuclear asset-recovery bonds will be deposited into the General Subaccount. On a periodic basis, the money in the General Subaccount will be allocated to pay the nuclear asset-recovery bonds and financing costs and other required amounts and charges payable in connection with the nuclear asset-recovery bonds, including without limitation the funding requirements of the other subaccounts, according to specified payment priority established in the Indenture (the "Periodic Payment Requirement"). 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 fund the Periodic Payment Requirement.

When the nuclear asset-recovery bonds are issued, DEF proposes that DEF will make a capital contribution to the SPE, which the SPE will deposit into the Capital Subaccount. Proceeds of nuclear asset-recovery bonds will not be used to fund this capital contribution. The

amount of the capital contribution will be at least 0.5 percent of the original principal amount of the nuclear asset-recovery bonds. The Capital Subaccount will serve as collateral to facilitate timely payment of principal of and interest on the nuclear asset-recovery bonds. To the extent that the Capital Subaccount must be drawn upon to pay these amounts due to a shortfall in the nuclear asset-recovery charge collections, it will be replenished to its original level through the true-up process described below. The funds in the Capital Subaccount will be invested in short-term high-quality investments and, if necessary, such funds (including investment earnings) will be used by the indenture trustee to fund the Periodic Payment Requirement. DEF will be permitted to earn a rate of return on its invested capital in the SPE equal to the rate of interest payable on the longest maturing tranche of nuclear asset-recovery bonds and this return on invested capital should be a component of the Periodic Payment Requirement (as defined above), and accordingly, recovered from nuclear asset-recovery charges.

DEF proposed that the Excess Funds Subaccount will hold any nuclear asset-recovery charge collections and investment earnings on the Collection Account in excess of the amounts needed to fund the Periodic Payment Requirement. Any balance in or amounts allocated to 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 funds in the Excess Funds Subaccount will be invested in short-term high-quality investments, and such funds (including investment earnings thereon) will be available to fund the Periodic Payment Requirement.

DEF proposed that the Collection Account and the subaccounts described above are intended to facilitate the full and timely payment of the Periodic Payment Requirement. If the amount of nuclear asset-recovery charge collections in the General Subaccount is insufficient to fund, on a timely basis, the Periodic Payment Requirement, the Excess Funds Subaccount and the Capital Subaccount will be drawn down, in that order, to make such 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 established such additional accounts and subaccounts as are necessary to segregate amounts received from various sources, or to be used for specified purposes consistent with this Financing Order and Section 366.95, F.S.

Upon the maturity of the nuclear asset-recovery bonds and upon the discharge of all obligations with respect to such bonds, amounts remaining in the Collection Account will be released to the SPE and will be available for distribution by the SPE to DEF. As noted in this Financing Order, equivalent amounts, less the amount of the Capital Subaccount, will be credited by DEF to current customers' bills in the same manner that the charges were collected, or through a credit to 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.

Guaranteed True-Ups of the Nuclear Asset-Recovery Charges

Pursuant to Section 366.95(2)(c)2.d. and (2)(c)4., F.S., the servicer of the nuclear asset-recovery property will file for standard true-up adjustments to the nuclear asset-recovery charges at least every six months to ensure the recovery of revenues sufficient to provide for the timely funding of the Periodic Payment Requirement. Pursuant to Section 366.95(2)(c)2.d., F.S., this

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Financing Order must include a formula-based true-up mechanism for making expeditious periodic adjustments in the nuclear asset-recovery charges that customers are required to pay pursuant to this Financing 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 funding of the Periodic Payment Requirement.

Pursuant to Section 366.95(2)(c)4., F.S., DEF shall file with this Commission at least every six months (and at least quarterly after the last scheduled debt service payment date of nuclear asset-recovery bonds) a petition or a letter applying the formula-based true-up 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 amount of any overcollection or undercollection of nuclear asset-recovery charges, or to otherwise ensure the timely payment of nuclear asset-recovery bonds and financing costs and other required amounts and charges payable in connection with the nuclear asset-recovery bonds, and the amount of an adjustment. Such adjustments shall ensure the recovery of revenues sufficient to provide for the timely payment of principal, financing costs, or other required amounts and charges payable in connection with the nuclear asset-recovery bonds approved under this Financing Order (*i.e.*, the Periodic Payment Requirement). Within 60 days of receiving DEF's request, Commission staff will administratively approve the request or inform DEF of any mathematical errors in its calculation. If this Commission informs DEF of any mathematical errors, then DEF may correct that error and refile its request.

In addition to the standard semi-annual true-up adjustments, DEF proposed that the servicer of the nuclear asset-recovery property also be authorized to make optional interim true-up adjustments at any time and for any reason in order to ensure the recovery of revenues sufficient to provide for the timely payment of Periodic Payment Requirement.

In the event an optional interim true-up is necessary, the optional interim true-up adjustment will use the allocation factors utilized in the most recent semi-annual true-up adjustment and will be filed not less than 60 days prior to the first day of the monthly billing cycle in which the revised nuclear asset-recovery charges will become effective.

Similar to the standard semi-annual (and quarterly) true-up adjustments, the review of an optional interim true-up adjustment shall be limited to determining whether there is any mathematical error in the application of the formula-based mechanism relating to the amount of any overcollection or undercollection of nuclear asset-recovery charges and the amount of such adjustment.

The servicer shall also be authorized to seek a non-standard true-up at any time to be effective simultaneously with a base rate change that includes any change in the cost allocation among customers used in determining the nuclear asset-recovery charges, such true-up to go into effect simultaneously with any changes to DEF's other base rates. Commission staff will have 60 days in which to approve a non-standard true-up.

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Nuclear Asset-Recovery Property

Pursuant to Section 366.95(2)(c)3., F.S., DEF has requested that this Financing Order provide that the creation of the nuclear asset-recovery property will be conditioned upon, and simultaneous with, the sale of the nuclear asset-recovery property to the SPE and the pledge of the nuclear asset-recovery property to secure the nuclear asset-recovery bonds. The nuclear asset-recovery property to be sold by DEF to the SPE consists of: (1) all rights and interests of DEF or any successor or assignee of DEF under this Financing Order, including the right to impose, bill, collect, and receive the nuclear asset-recovery charges authorized in this Financing Order and to obtain periodic adjustments to such nuclear asset-recovery charges as provided in this Financing 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.

State Pledge

The State of Florida has pledged to and agrees with Bondholders, the owners of the nuclear asset-recovery property, and other financing parties that the State will not take or permit any action that would impair the value of the nuclear asset-recovery property, as further described in Section 366.95(11), F.S.

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FINDINGS OF FACT

I. IDENTIFICATION OF APPLICANT AND PROCEDURAL HISTORY

1. DEF is an "electric utility" within the meaning of 366.8255, F.S., and as used in 366.95(1)(d), F.S.

2. This Commission approved the RRSSA by Order No. PSC-13-1598-FOF-EI, issued November 12, 2013. The RRSSA provides for the treatment and retirement of CR3, and it contains provisions by which DEF is authorized to increase its base rates by the revenue requirement for the CR3 Regulatory Asset, which is a defined term in the RRSSA. On May 22, 2015, DEF filed a petition pursuant to those provisions that is the subject of Docket No. 150148-EI. The May 22nd filing satisfied the requirements of Section 366.95(2)(b). This Commission approved the Amended RRSSA by Order No. PSC-15-0465-S-EI, issued October 14, 2015. The Amended RRSSA clarifies the appropriate recovery period for the CR3 Regulatory Asset if nuclear asset-recovery bonds are issued pursuant to Section 366.95, F.S., and clarifies the appropriate scheduled final maturity date and legal final maturity date for the last maturing tranche of such nuclear asset-recovery bonds. On July 27, 2015, in accordance with the timeframes set out in Section 366.95(2)(b), DEF filed its Petition for a Financing Order that is the subject of Docket No. 150171-EI.

II. NUCLEAR ASSET-RECOVERY BONDS

3. The issuance of nuclear asset-recovery bonds in one or more series in an aggregate amount not to exceed the Securitizable Balance will reimburse DEF for reasonable and prudently incurred nuclear asset-recovery costs associated with the premature retirement of the Crystal River Nuclear Power Plant (CR3) and upfront bond issuance costs. Specifically, the Securitizable Balance consists of (i) the CR3 Regulatory Asset, as determined pursuant to Docket No. 150148-EI plus (ii) upfront bond issuance costs plus (iii) carrying charges accruing at 6.0% per annum on the CR3 Regulatory Asset balance from December 31, 2015 through the date of issuance of the respective series of nuclear asset-recovery bonds.

III. NUCLEAR ASSET-RECOVERY COSTS

4. For the CR3 Regulatory Asset, the RRSSA sets forth the traditional method for financing and recovering nuclear asset-recovery costs. Specifically, the RRSSA allows DEF to increase its base rates by the revenue requirement for the CR3 Regulatory Asset. As set forth in the RRSSA, DEF can recover the CR3 Regulatory Asset value in base rates upon the termination of the Levy Nuclear Plant cost recovery charge. That recovery charge terminated in May 2015; therefore DEF would be authorized to increase its base rates to begin recovering the CR3 Regulatory Asset with the first billing cycle for January 2016. The revenue requirement for the CR3 Regulatory Asset is calculated pursuant to Exhibit 10 to the RRSSA. As explained in updated exhibits filed in Docket No. 150171-EI, the year one calculated annual revenue requirement is $168.3 million and the base rate increase would be $4.96 per 1000 kWh on the residential bill and the total revenue requirement over the 20 year recovery period would be

approximately $2,531 million. Rate increases by customer rate class are contained in Exhibits 30 and 31.

5. The cost amounts contained in DEF's CR3 Regulatory Asset meet the definition of "nuclear asset-recovery costs" pursuant to Section 366.95(1)(k), F.S. Exhibit 10 to the RRSSA sets forth the categories of costs to be included in the CR3 Regulatory Asset, and such costs are therefore nuclear asset-recovery costs. The detailed costs that make up the CR3 Regulatory Asset are shown on page 17 of Order No. PSC-15-0465-S-EI, issued October 14, 2015.

Reasonableness and Prudence of Nuclear Asset-Recovery Costs

6. Pursuant to Section 366.95(2)(c)1.b., this Commission may issue a financing order authorizing financing of reasonable and prudent nuclear asset-recovery costs, and any determination of whether nuclear asset-recovery costs are reasonable and prudent must be made with reference to the general public interests and in accordance with Section 366.95(2)(b).

7. As explained in the testimony filed in Docket No. 150148-EI, DEF took reasonable and prudent actions to minimize the CR3 Regulatory Asset value for its customers. Upon the announcement of the retirement of CR3, DEF promptly carried out the necessary steps to transition the site from a fully staffed and operational plant to a decommissioning site. DEF also submitted several License Amendment Requests ("LARs") to the Nuclear Regulatory Commission to reduce regulatory requirements that resulted in DEF's ability to reduce costs and workforce levels. At the time of the retirement, there were also several pending projects at the site, as noted on Exhibit 10 to the RRSSA. DEF took reasonable and prudent actions to safely and timely close out those projects.

8. We find that DEF also used reasonable and prudent efforts to sell or otherwise salvage assets that would otherwise be included in the CR3 Regulatory Asset. After the retirement decision, the Company promptly formed an investment recovery team and utilized a stepwise process for assessing and dispositioning the CR3 Assets. DEF used a variety of methods to maximize value received, including offering assets on industry utility parts websites like RAPID and Pooled Inventory Management, conducting bid events and an auction, and pursuing sales options with the original manufacturers of some parts. The disposition of the Company's nuclear fuel inventory was handled in a similar manner, but due to the particular market conditions for nuclear fuel components, DEF will not receive proceeds until a future date. As a result of DEF's efforts, the CR3 Regulatory Asset has been reduced by a total of $127.3 million, including $119.4 million for future nuclear fuel proceeds and $7.9 million for sales proceeds and salvage on the assets at CR3. DEF also calculated the CR3 Regulatory Asset value consistent with the provisions of the RRSSA.

9. The amounts that should be authorized for DEF to recover through securitization must meet the criteria set forth in Section 366.95, F.S. By the nature of this proceeding, that amount will not be known with precision until the bonds are issued. The principal amount of the nuclear asset-recovery bonds should be $1,283,012,000, representing the projected December 31, 2015 balance of the CR3 Regulatory Asset, subject to true-up to the actual December 31, 2015 balance, plus carrying charges beyond 2015 until the date of the bond issuance, plus upfront

financing costs. An estimated calculation of the amount of nuclear asset-recovery costs to be financed is shown in Appendix A to this Financing Order.

IV. UPFRONT BOND ISSUANCE COSTS

10. Upfront bond issuance costs as described in the Petition are estimated "financing costs" eligible to be financed from the proceeds of the nuclear asset-recovery bonds. Upfront bond issuance costs 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 the nuclear asset-recovery bonds, including counsel fees, structuring advisory fees (including counsel), underwriting fees and original issue discount, rating agency and trustee fees (including trustee's counsel), auditing fees, servicer set-up costs (including information technology programming costs), 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 the financial advisor and outside counsel retained by this Commission to assist this Commission in performing its responsibilities under Section 366.95(2)(c)2. and 5., F.S. Upfront bond issuance costs include reimbursement to DEF 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, interest rate locks, and other mechanisms designed to promote the credit quality and marketability of the nuclear asset-recovery bonds or designed to achieve the statutory financing cost objective and the lowest overall cost standard. The upfront bond issuance 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 nuclear asset-recovery bonds or other ongoing financing costs, which are addressed later in this Financing Order.

11. DEF has provided estimates of upfront bond issuance costs ranging from approximately $10 million to $17 million in Exhibit 79. DEF shall further update the upfront bond issuance costs prior to the pricing of the nuclear asset-recovery bonds in accordance with the Issuance Advice Letter procedures described in Finding of Fact paragraphs 98 through 103 of this Financing Order.

12. Certain upfront bond issuance costs, such as fees for underwriters' services, underwriters' counsel, trustee services and printing services may be procured through a competitive solicitation process to achieve lower costs. The development of any 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 procedures set forth in Finding of Fact paragraphs 42 through 50 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 transaction that meets the lowest overall cost standard.

13. In accordance with Section 366.95(2)(c)5., F.S., within 120 days after issuance of the nuclear asset-recovery bonds, DEF is required to file with this Commission supporting information on the upfront bond issuance costs for the categories of costs reflected in Exhibit 18.

This Commission shall review such costs to determine compliance with Section 366.95(2)(c)5., F.S.. As part of that review, this Commission shall only consider actual upfront bond issuance costs, but not ongoing financing costs, interest rate, or pricing of the bonds.

14. To the extent the actual upfront bond issuance costs are (a) in excess of the amount appearing in the final Issuance Advice Letter filed within one business day after actual pricing of the nuclear asset-recovery bonds, and (b) in compliance with Section 366.95(2)(c)5., F.S., we find that DEF shall collect such excess amounts through the capacity cost recovery clause, if prudently incurred.

15. 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 DEF, such as possible litigation, possible review by the United States Securities and Exchange Commission ("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 366.95(2)(c)2. and 5., F.S., including services provided in assisting us in our active role on the Bond Team responsible for the structuring, marketing, and pricing of the nuclear asset-recovery bonds, are costs which are at least in part within the control of this Commission and such costs are fully recoverable from nuclear asset-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 this Commission, as such arrangements may be modified by any amendment entered into at this Commission's sole discretion.

V. NUCLEAR ASSET-RECOVERY CHARGE

16. To repay the nuclear asset-recovery bonds and associated financing costs, DEF is authorized to impose a nuclear asset-recovery charge to be collected on a per-kWh basis from all applicable customer rate classes. Nuclear asset-recovery charges should be effective upon the first day of the billing cycle for the month following the issuance of the nuclear asset-recovery bonds and should remain in effect for a recovery period not to exceed the close of the last billing cycle for the 276th month from the inception of the nuclear asset-recovery charge. The nuclear asset-recovery charge is nonbypassable, and must be paid by all existing or future customers receiving transmission or distribution services from DEF 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 366.95(1)(j) and (2)(c)2.c., F.S. In the event that there is a fundamental change in the regulation of public utilities, the nuclear asset-recovery charge shall be collected in a manner that will not adversely affect the rating on the nuclear asset-recovery bonds.

17. The nuclear asset-recovery charge covers the cost associated with repayment of principal of and interest on nuclear asset-recovery bonds and other ongoing financing costs. Ongoing financing costs include, without limitation, rating agency surveillance fees, servicing fees, legal and auditing costs, trustee fees, administration fees, the return on invested capital, regulatory assessment fees and miscellaneous other fees associated with the servicing of the

nuclear asset-recovery bonds. Ongoing financing costs may also include the ongoing financing costs of other types of credit enhancement, not specifically described herein, including letters of credit, reserve accounts, surety bonds, interest rate swap agreements entered into in connection with floating rate nuclear asset-recovery bonds, if issued (currently, DEF expects the bonds to be issued in fixed-rate tranches, and thus floating-to-fixed rate swaps are currently not expected to be necessary), interest rate locks and other mechanisms designed to promote the credit quality and or lower the interest costs of the nuclear asset-recovery bonds.

18. The types of ongoing financing costs identified in DEF's Petition qualify as "financing costs" pursuant to Section 366.95(1)(e), F.S.

19. Exhibit 79 provides an estimate of the ongoing financing costs associated with the nuclear asset-recovery bonds, which, in addition to debt service, will be recovered through the nuclear asset-recovery charge. Certain of these ongoing financing costs, such as the administration fees and the amount of the servicing fee for DEF (as the initial servicer) are determinable, either by reference to an established dollar amount or a percentage, on or before the issuance of the nuclear asset-recovery bonds. Other ongoing financing costs will vary over the term of the nuclear asset-recovery bonds.

Computation of the Nuclear Asset-Recovery Charges

20. A verifiable formula-based mechanism as described in Section 366.95(2)(c)4., F.S., to calculate, and adjust from time to time, the nuclear asset-recovery charges for each customer rate class was submitted by DEF. DEF submitted with its Petition the supporting testimony of Mr. Covington, which provided the formula-based true-up mechanism to determine the Periodic Payment Requirement to be recovered from the nuclear asset-recovery charge (the "True-Up Mechanism"). This True-Up Mechanism is attached as Appendix B.

21. DEF submitted with its Petition supporting testimony with respect to allocation of these periodic costs and the computation of the nuclear asset-recovery charge for each customer rate class. In Exhibit 27, DEF computed the estimated nuclear asset-recovery charge, as described in Section 366.95(1)(j), F.S. In summary, Section 366.95, F.S., provides for the recovery of the nuclear asset-recovery costs through nuclear asset-recovery bonds. Accordingly, in order to compute the charges, DEF first applied the allocation factors to the total first year revenue requirements as presented in Exhibit 33 in order to allocate the revenue requirements to each customer rate class. Next, the rate for the secondary metering level was calculated by dividing total revenue requirements for each customer rate class by the effective kWh sales at secondary metering level for each customer rate class. Then the rates for primary and transmission metering levels were calculated by applying metering reductions of 1% and 2%, respectively, from the secondary rate. Then these rates were grossed-up to reflect uncollectible account write-offs and the regulatory assessment fee to arrive at the nuclear asset-recovery charge by rate schedule.

22. We hereby find that in accordance with Section 366.95(2)(c)2.g., F.S., and consistent with the provisions we previously approved in the Amended RRSSA, DEF should allocate the nuclear asset-recovery costs recoverable under the nuclear asset-recovery charge

consistent with the allocation methodology adopted in the RRSSA approved on November 12, 2013 in Order No. PSC-13-0598-FOF-EI. That approved allocation methodology for DEF is the 12CP and 1/13 AD. Spelled out, that means twelve-thirteenths of the revenue requirement is allocated based on 12 monthly coincident peaks (or demand) and one-thirteenth is allocated based on average demand (or energy).

23. The Commission finds that the True-Up Mechanism provided for in Section 366.95(2)(c)2.d., F.S., for allocating costs among customers creates joint and several liability among all the customers of DEF for payment of the nuclear asset-recovery charges payable in connection with the nuclear asset-recovery bonds. Although holders of nuclear asset-recovery bonds may not arbitrarily seek to impose the entire burden of repaying nuclear asset-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 rate class will be taken into account in the application of the True-Up Mechanism to adjust the nuclear asset-recovery charge for all customers of DEF, not just the class of customers from which the delinquency or under-collection arose.

24. In Section 366.95(11)(b), F.S., the State pledges to and agrees with the Bondholders, the owners of nuclear asset-recovery property, and other financing parties that the State will not: (1) alter the provisions of this Section 366.95 which make the nuclear asset-recovery charges imposed by this Financing Order irrevocable, binding, and nonbypassable charges; (2) take or permit any action that impairs or would impair the value of nuclear asset-recovery property or revises the nuclear asset-recovery costs for which recovery is authorized; or (3) except as authorized under Section 366.95, reduce, alter, or impair nuclear asset-recovery charges that are to be imposed, collected, and remitted for the benefit of the owners of DEF's nuclear asset-recovery bonds 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 nuclear asset-recovery bonds have been paid and performed in full. This Commission finds that this State Pledge will constitute a contract with the Bondholders, the owners of nuclear asset-recovery property, and other financing parties.

25. This Commission anticipates stress case analyses will show that the broad-based nature of the true-up mechanism under Section 366.95(2)(c)2.d., F.S., and the State pledge under Section 366.95(11), F.S., will serve to effectively eliminate for all practical purposes and circumstances any credit risk to the payment of the nuclear asset-recovery bonds (*i.e.*, that sufficient funds will be available and paid to discharge the principal and interest when due).

Treatment of Nuclear Asset-Recovery Charge in Tariff and on Customer Bills

26. The tariff applicable to customers shall indicate the nuclear asset-recovery charge and the ownership of the right to receive that charge. The proposed tariff sheet, submitted as Exhibit 32 reflects the needed language. In accordance with Section 366.95(4)(b), F.S., the nuclear asset-recovery charge will be recognized as a separate line item on customer bills entitled Asset Securitization Charge and include the rate and amount of the charge. In addition, all electric bills will state that, as approved in a financing order, all rights to the Asset Securitization

Charge are owned by the SPE and that the Company is acting as collection agent or servicer for the SPE.

Allocation of Collections

27. DEF proposed that nuclear asset-recovery charge collections be allocated based on DEF's existing methodology. Under that methodology, DEF would assign cash collections on a customer-by-customer basis. The first dollars collected from each customer 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.

Guaranteed True-Up of Nuclear Asset-Recovery Charges

28. Pursuant to Section 366.95(2)(c)2.d. and (2)(c)4., F.S., the servicer of the nuclear asset-recovery property will file for standard true-up adjustments to the nuclear asset-recovery charges at least every six months to ensure the recovery of revenues sufficient to provide for the timely payment of the principal of and interest on the nuclear asset-recovery bonds and of all of the ongoing financing costs payable by the SPE in respect of nuclear asset-recovery bonds as approved under this Financing Order.

29. After issuance of nuclear asset-recovery bonds, the servicer will submit such true-up adjustment filings 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 herein and in Appendix B to this Financing Order for making expeditious periodic adjustments in the nuclear asset-recovery charge to correct for any overcollection or undercollection of the charges or to otherwise ensure the timely payment of the Periodic Payment Requirement. The Periodic Payment Requirement will be composed of the following components for the period from the issue date of nuclear asset-recovery bonds to the first scheduled debt service payment date, and for each subsequent period between scheduled debt service payment dates (each a "Remittance Period"): (i) the payments of the principal of and interest on the nuclear asset-recovery bonds issued by the SPE, in accordance with the expected amortization schedule, including deficiencies on past-due principal and interest for any reason, and interest on deficiencies on past-due principal and interest, (ii) ongoing financing costs payable during the Remittance Period, including without limitation, the operating costs of the SPE, the cost of servicing the nuclear asset-recovery bonds, trustee fees, rating agency fees, legal and auditing fees, the cost of funding and/or replenishing the Capital Subaccount, the return on investment on the Capital Subaccount deposit and any other credit enhancements established in connection with the nuclear asset-recovery bonds issued by the SPE and other related fees and expenses and (iii) other required amounts and charges payable in connection with the nuclear asset-recovery bonds. The first Periodic Payment Requirement established through the Issuance Advice Letter procedures may be calculated based upon a Remittance Period that is greater than six months. The final Periodic Payment Requirement may be calculated based upon a Remittance Period that is less than six months. Notwithstanding the foregoing, in the event that any nuclear asset-recovery bonds are outstanding following the last scheduled debt service payment date for such bonds, the Periodic Payment Requirement will be calculated so that

collections are sufficient to make all payments on those nuclear asset-recovery bonds and in respect of financing costs no later than the immediately following debt service payment date. Along with each True-Up Adjustment Letter, the servicer shall provide workpapers showing all inputs and calculations, including its calculation of the nuclear asset-recovery charge by customer rate class. Consistent with Section 366.95(2)(c)4., F.S., 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 the servicer of any mathematical errors in its calculation as expeditiously as possible but no later than 60 days following the servicer'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 the servicer's true-up filing. If no action is taken within 60 days of the true-up filing, the true-up calculation shall be deemed approved. 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. Section 366.95(2)(c)2.d., F.S., provides that the true-up adjustments will "ensure the timely payment of nuclear asset-recovery bonds." We find that this True-Up Mechanism, together with the State Pledge, will "Guarantee" the timely payment of the principal and interest of the bonds.

30. In addition to the semi-annual true-up adjustment, DEF, as servicer (or a successor servicer) will also be authorized to make optional interim true-up adjustments at any time for any reason to ensure timely payment of the Periodic Payment Requirement, which adjustment will be implemented based upon the same time frames as the semi-annual true-ups.

31. To Guarantee adequate nuclear asset-recovery charge collections and to avoid large over-collections and under-collections over time, we direct that the servicer shall reconcile nuclear asset-recovery charges using DEF's most recent forecast of electricity deliveries (*i.e.*, forecasted billing units) used for all corporate purposes and DEF's estimates of related expenses. Each periodic true-up adjustment should Guarantee recovery of revenues sufficient to meet the Periodic Payment Requirement. The calculation of the nuclear asset-recovery charges will also reflect both a projection of uncollectible nuclear asset-recovery charges and a projection of payment lags between the billing and collection of nuclear asset-recovery charges based upon DEF's most recent experience regarding collection of nuclear asset-recovery charges.

32. The servicer may also make a non-standard true-up adjustment to be effective simultaneously with a base rate change that includes any change in the rate allocation among customers used to determine the nuclear asset-recovery charges, such true-up to go into effect simultaneously with any changes to DEF's other base rates. Any non-standard true-up will be subject to approval within the 60-day approval period contemplated by Section 366.95(2)(c)4., F.S.

33. This Commission finds that the broad-based nature of the True-Up Mechanism and the pledge of the State of Florida set forth in Section 366.95(11), F.S., will constitute a guarantee of regulatory action for the benefit of investors in nuclear asset-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 nuclear asset-recovery bonds (*i.e.*, that sufficient funds will be available and paid to discharge all principal of and interest on the nuclear asset-recovery bonds when due).

34. This Commission finds that the True-Up Mechanism is appropriate and consistent with Section 366.95, F.S., and it should be approved. This Commission also finds that each True-Up Adjustment Letter should be based upon the cumulative differences, regardless of the reason, between the Periodic Payment Requirement (including scheduled principal and interest payments on the nuclear asset-recovery bonds) and the estimated amount of nuclear asset-recovery charge collections to be remitted to the indenture trustee during the Remittance Period.

VI. MITIGATION OF RATE IMPACTS

35. Section 366.95(2)(a)5., F.S., requires an electric utility petitioning this Commission for a financing order to "estimate any projected cost savings, based on current market conditions, or demonstrate how the issuance of nuclear asset-recovery bonds and the imposition of nuclear asset-recovery charges would avoid or significantly mitigate rate impacts to customers as compared with the traditional method of financing and recovering nuclear asset-recovery costs from customers." In addition, Section 366.95(2)(a)6., F.S., requires an electric utility petitioning this Commission for a financing order to demonstrate "that securitization has a significant likelihood of resulting in lower overall costs or would avoid or significantly mitigate rate impacts compared to the traditional method of cost recovery." For the CR3 Regulatory Asset, the RRSSA sets forth the traditional method for financing and recovering nuclear asset-recovery costs. Specifically, the RRSSA allows DEF to increase its base rates by the revenue requirement for the CR3 Regulatory Asset. As set forth in the RRSSA, DEF can recover the CR3 Regulatory Asset value in base rates upon the termination of the Levy Nuclear Plant cost recovery charge. That recovery charge terminated in May 2015; therefore DEF would be authorized to increase its base rates to begin recovering the CR3 Regulatory Asset with the first billing cycle for January 2016. The revenue requirement for the CR3 Regulatory Asset is calculated pursuant to Exhibit 10 to the RRSSA.

36. We find that DEF has demonstrated that securitization has a significant likelihood of resulting in lower overall costs or would avoid or significantly mitigate rate impacts compared to the traditional method of cost recovery pursuant to Section 366.95(2)(a)6., F.S.

37. If nuclear asset-recovery bonds are not issued, DEF has proposed recovery of nuclear asset-recovery costs through the traditional method of recovering such amounts through the implementation of a base rate increase. Specifically, we find that the year-one base rate increase would be $4.96 per 1000 kWh on the residential bill and the total revenue requirement over the 20 year recovery period would be approximately $2,531 million, and the rate increases for the other customer rate classes are contained in Exhibits 30 and 31.

38. In contrast, based on DEF's request to recover its nuclear asset-recovery costs through the issuance of nuclear asset-recovery bonds in one or more series in an aggregate principal amount not to exceed the Securitizable Balance (assuming a scheduled final debt service payment date of approximately 20 years, and final legal maturity of up to 23 years), DEF estimates that an initial nuclear asset-recovery charge of approximately $2.93 would be imposed on a typical (1,000 kWh) residential bill and the estimated cumulative revenue requirement amount over the total period outstanding would be $1,823 million. DEF has demonstrated that, based on current market conditions, this total estimated cumulative revenue requirement would

be $708 million lower, on an undiscounted basis, compared to the total estimated cumulative revenue requirement under the traditional recovery method.

39. Thus, we find that the issuance of the nuclear asset-recovery bonds and the imposition of the nuclear asset-recovery charges authorized by this Financing Order have a significant likelihood of resulting in lower overall costs or would significantly mitigate rate impacts to customers as compared with the traditional method of financing and recovering nuclear asset-recovery costs. Likewise, through implementation of the required standards, conditions and procedures established in this Financing Order, we find that the structuring, marketing and pricing of nuclear asset-recovery bonds are reasonably expected to mitigate rate impacts to customers as compared with the traditional method of financing and recovering nuclear asset-recovery costs.

40. The broad based nature of the State pledge under Section 366.95(11), F.S., and the irrevocable character of this Financing Order, in conjunction with the true-up adjustment provisions required by Section 366.95(2)(c)2.d, F.S., and included in this Financing Order, constitutes a guarantee of regulatory action for the benefit of investors in nuclear asset-recovery bonds.

41. This Commission guarantees that it will act pursuant to this Financing Order as expressly authorized by Sections 366.95(2)(c)2.d. and 366.95(2)(c)4., F.S., to ensure that nuclear asset-recovery charge revenues are sufficient to pay principal of and interest on the nuclear asset-recovery bonds issued pursuant to this Financing Order and other costs, including fees and expenses, in connection with the nuclear asset-recovery bonds.

VII. BOND TEAM

42. DEF, its structuring advisor, and designated Commission staff and its financial advisor should serve on the Bond Team.

43. One designated representative of DEF and one designated representative of this Commission should be joint decision makers in all aspects of the structuring, marketing and pricing of the nuclear asset-recovery bonds except for those recommendations that in the sole view of DEF would expose DEF or the SPE to securities law and other potential liability (*i.e.*, such as, but not limited to, the making of any untrue statement of a material fact or omissions to state a material fact required to be stated therein or necessary in order to make the statements made not misleading) or contractual law liability (*e.g.*, including but not limited to terms and conditions of the underwriter agreement(s)).

44. This Commission's designated staff and financial advisor should be visibly involved, in advance, in all aspects of the structuring, marketing, and pricing of the nuclear asset-recovery bonds.

45. All Bond Team members should actively participate in the design of the marketing materials for the transactions as well as in the development and implementation of the marketing and sales plan for the bonds.

46. DEF and this Commission's staff and its financial advisor as Bond Team members, excluding DEF's structuring advisor, should also have equal rights on the hiring decisions for the underwriters and counsel to the underwriters. However, DEF should have sole right to select and engage all counsel for DEF and the SPE.

47. The final structure of the transaction, including pricing, will be subject to review by this Commission for the limited purpose of ensuring that all requirements of law and this Financing Order have been met.

48. Together with the Bond Team's involvement in the structuring, marketing and pricing of the nuclear asset-recovery bonds, and the Issuance Advice Letter process, this Commission should be able to fully review the pricing of the bonds as this Commission determines whether to issue a stop order no later than 5:00 pm Eastern time on the third business day following pricing.

49. The Bond Team structure and process affords the flexibility that is reasonable and consistent with Section 366.95(2)(c)2.f., F.S.

50. This Commission should designate one Commissioner to resolve any issue as to which the DEF and Commission staff joint decision makers are unable to reach agreement. Any such matter should be presented by the DEF and Commission staff joint decision makers by email or in other writing. The designated Commissioner should announce his or her decision on the matter presented to the DEF and Commission staff joint decision makers by email or other writing as soon as reasonably possible. The parties to this proceeding agree that the decision of the designated Commissioner should be final and not subject to review by this Commission.

VIII. FLEXIBILITY

51. In this Financing Order, we approve the financing of nuclear asset-recovery costs and upfront bond issuance costs through nuclear asset-recovery bonds with terms to be established by DEF, at the time of pricing, subject to compliance with the Issuance Advice Letter Procedures outlined in this Financing Order. As discussed above, under Mitigation of Rate Impacts, DEF has provided testimony establishing that the issuance of the nuclear asset-recovery bonds will significantly mitigate rate impacts to customers as compared with the traditional method of financing and recovering nuclear asset-recovery costs. Section 366.95(2)(c)2.f., F.S., requires this Commission to specify the degree of flexibility to be afforded to DEF in establishing the terms and conditions of the nuclear asset-recovery bonds, including, but not limited to, repayment schedules, expected interest rates, and other financing costs consistent with 366.95(2)(c)2.a.-e., F.S. Furthermore, Section 366.95(2)(c)2.i., F.S., directs this Commission to "[i]nclude any other conditions that this Commission considers appropriate and that are authorized by this section." While we recognize the need for some degree of flexibility with regard to the final details of the nuclear asset-recovery bond securitization transaction approved in this Financing Order, our primary focus is on ensuring that the structuring, marketing, and pricing of nuclear asset-recovery bonds achieves the lowest overall cost standard and the greatest possible customer protections. Therefore, we find and direct that the standard for this Financing

Order should be that the structuring, marketing, and pricing of nuclear asset-recovery bonds will achieve the lowest overall cost standard and the greatest possible customer protections.

52. The previously approved Amended RRSSA proposes that the SPE issue nuclear asset-recovery bonds with a scheduled final debt service payment date for the last maturing tranche as close as is reasonably possible to the close of the last billing cycle for the 240th month from inception of imposition of the nuclear asset-recovery charge. We find that the appropriate recovery period for the nuclear asset-recovery charge is 240 months from inception of imposition of the nuclear asset-recovery charge or until the nuclear asset-recovery bonds and associated charges and approved adjustments have been paid in full, but not to exceed 276 months from inception of imposition of the nuclear asset-recovery charge. The exact scheduled final maturity and legal final maturity of the nuclear asset-recovery bonds will be determined after issuance of this Financing Order. This Commission further finds that the period of 240 months from inception of imposition of the nuclear asset-recovery charge or until the nuclear asset-recovery bonds and associated charges and approved adjustments have been paid in full, but not to exceed 276 months from inception of imposition of the nuclear asset-recovery charge, for recovery of the nuclear asset-recovery charge is appropriate and that such recovery period is consistent with the Amended RRSSA.

53. We find that nuclear asset-recovery bonds should be issued in one or more series, each series of nuclear asset-recovery bonds should be issued in one or more tranches, and the nuclear asset-recovery bonds should be structured by DEF, in consultation with the other members of the Bond Team and subject to Finding of Fact paragraph 50 and Ordering Paragraph 67, to achieve the statutory financing cost objective and the lowest overall cost standard. Further, the nuclear asset-recovery bonds shall be structured such that the expected payment of the principal of and interest on the nuclear asset-recovery bonds is expected to be substantially level over those expected terms.

54. Subject to the Issuance Advice Letter procedures in Finding of Fact paragraphs 98 through 103, DEF, in consultation with the other members of the Bond Team subject to Finding of Fact paragraph 42 through 50, shall be afforded flexibility in determining the final terms of each series of the nuclear asset-recovery bonds, including payment and maturity dates, interest rates (or the method of determining interest rates), the terms of any interest rate swap agreement, interest rate lock or similar agreement, the creation and funding of any supplemental capital, reserve or other subaccount, and the issuance of nuclear asset-recovery bonds through either one SPE or multiple SPEs, except as otherwise provided in this Financing Order.

55. As noted above, certain costs, such as debt service on the nuclear asset-recovery bonds, as well as the ongoing fees of the trustee, rating agency surveillance fees, regulatory assessment fees and the ongoing financing costs of any other credit enhancement or interest rate swaps, will not be known until the pricing of a series of nuclear asset-recovery bonds. This Financing Order provides flexibility to recover such costs through the nuclear asset-recovery charge and the true-up of such charge. At the same time, we have established the Issuance Advice Letter procedures in Findings of Fact paragraphs 98 through 103 of this Financing Order which are intended to ensure that the structuring, marketing and pricing of nuclear asset-recovery bonds achieves the statutory cost objectives and lowest overall cost standard.

56. This Commission finds that a bond structure, providing for substantially levelized annual revenue requirements over the expected life of the nuclear asset-recovery bonds, is in the general public interest and should be used. This structure offers the benefit of not relying upon electric utility customer growth and will allow the resulting overall weighted average nuclear asset-recovery charges to remain level or decline over time, if billing determinants remain level or grow.

IX. TRANSACTION STRUCTURE

57. DEF's proposed transaction structure, as set forth and modified in the Amended RRSSA and in the body of this Financing Order, is hereby approved.

The SPE

58. DEF will create one or more SPEs as bankruptcy remote, Delaware limited liability companies, in each case, with DEF as its sole member. Each SPE will be formed for the limited purpose of acquiring nuclear asset-recovery property, issuing nuclear asset-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.

59. The SPE will be a special purpose finance company, a subsidiary of DEF and a corporate issuer.

60. The SPE(s) may issue nuclear asset-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 outstanding nuclear asset-recovery bonds issued for the benefit of DEF. The SPE(s) may issue nuclear asset-recovery bonds approved in this Financing Order in an aggregate amount not to exceed the Securitizable Balance approved by this Financing Order and will pledge to an indenture trustee, as collateral for payment of the nuclear asset-recovery bonds, the nuclear asset-recovery property, including the SPE's right to receive the nuclear asset-recovery 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 nuclear asset-recovery property and related assets to support its obligations under the nuclear asset-recovery bonds and the ongoing financing costs. These restrictions on the activities of the SPE and restrictions on the ability of DEF to take action on the SPE's behalf are imposed to achieve the objective that the SPE will be bankruptcy-remote and not be affected by a bankruptcy of DEF or any affiliate.

61. Each SPE will be managed by a board of managers with rights and duties set forth in its organizational documents. As long as nuclear asset-recovery bonds remain outstanding, the SPE will have at least one independent manager with no organizational affiliation with DEF other than possibly acting as independent manager(s) for another bankruptcy-remote subsidiary of DEF or its affiliates. The SPE will not be permitted to amend the provisions of the LLC Agreement or other organizational documents that relate to bankruptcy-remoteness of the SPE without the consent of the independent manager(s). 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 managers. To the extent provided in its organizational documents, the transaction documents and this Financing Order, the Commission will be deemed to have contractual privity with the SPE for purposes of enforcing those documents. Other restrictions to facilitate bankruptcy-remoteness may also be included in the organizational documents of the SPE as required by the rating agencies.

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

63. Per rating agency and IRS requirements, DEF 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 is expected to be 0.50% of the initial principal amount of the nuclear asset-recovery bonds to be issued by the SPE 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 paragraphs 42 through 50. We find that the lowest overall cost standard 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

64. The expected final debt service payment date for the last maturing tranche of the nuclear asset-recovery bonds should be as close as is reasonably possible to the close of the last billing cycle for the 240th month from inception of imposition of the nuclear asset-recovery charge. The legal final maturity date for the last maturing tranche of nuclear asset recovery bonds should be no later than the 276th month from inception of the imposition of the charge. The exact scheduled final maturity and legal final maturity of the nuclear asset-recovery bonds shall be determined by the Bond Team after issuance of this Financing Order.

65. Annual payments of principal of and interest on the nuclear asset-recovery bonds shall be substantially level over the expected term of the nuclear asset-recovery bonds.

66. The energy sales forecasts used to develop the nuclear asset-recovery bond amortization schedules and the recovery mechanism are appropriate.

67. The first payment of principal and interest for each series of nuclear asset-recovery bonds shall occur within 12 months of issuance. Payments of principal and interest thereafter shall be no less frequent than semi-annually.

Interest Rates

68. We find that each tranche of the nuclear asset-recovery bonds should have a fixed interest rate, based on current market conditions. If market conditions change, and it becomes necessary for the one or more tranches of bonds to be issued in floating-rate mode, DEF is

authorized to issue such bonds but will be required to execute agreements to swap the floating payments to fixed-rate payments.

Ongoing Financing Costs

69. DEF will be the initial servicer of the nuclear asset-recovery bonds. To preserve the integrity of the bankruptcy-remote structure of the SPE and ensure the high credit quality of the nuclear asset-recovery bonds, the servicer must be adequately compensated for the services it provides, including the calculation, billing, and collection of nuclear asset-recovery charges, remittance of those charges to the indenture trustee, and the preparation, filing, and processing of True-Up Adjustment Letters. DEF's proposed form of Servicing Agreement provides for an ongoing servicing fee for the initial servicer in the amount of 0.05 percent of the initial principal amount of the nuclear asset-recovery bonds. We find that this level of ongoing 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 nuclear asset-recovery bonds.

70. DEF 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 nuclear asset-recovery bonds, the administrator must be adequately compensated for these services. The ongoing fee for these services will be $50,000 per year. We find that this level of ongoing 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 nuclear asset-recovery bonds.

Credit Ratings

71. This Commission finds that the credit quality of the nuclear asset-recovery bonds will be enhanced by Section 366.95, F.S., due to the requirements that (1) the nuclear asset-recovery charge in amounts authorized by this Commission are to be imposed on all customer bills and collected in full in the form of a nonbypassable charge separate from DEF's base rates, (2) the charge shall be paid by all existing and future customers receiving transmission or distribution services from DEF, and (3) following any fundamental change in regulation of public utilities in the State of Florida, a customer electing to purchase electricity from an alternate electricity supplier must still pay the nuclear asset-recovery charge. Furthermore, through the True-Up Mechanism, any delinquencies or under-collections in one customer rate class will be taken into account in the application of the True-Up Mechanism to adjust the nuclear asset-recovery charge for all customers of DEF, not just the class of customers from which the delinquency or under-collection arose.

72. The Company anticipates that each series of nuclear asset-recovery bonds will have a AAA/Aaa rating from at least two nationally recognized rating agencies, and if not inconsistent with the lowest overall cost standard DEF is authorized to provide necessary credit enhancements, with recovery of related costs as a form of ongoing financing costs, to achieve such ratings.

Offering and Sale of the Bonds

73. DEF has proposed that the nuclear asset-recovery bonds be offered pursuant to an SEC-registered offering, rather than a private placement or a Rule 144A qualified institutional offering. The Company has provided testimony to the effect that virtually all utility securitizations have been sold as SEC-registered public transactions. Further, the Company has provided testimony to the effect that an SEC-registered, public offering, is likely to result in a lower cost of funds relative to Rule 144A qualified institutional offering, all else being equal, due to the enhanced transparency and liquidity of publicly-registered securities. New SEC registration requirements will become effective prior to December 2015. Compliance with these new requirements may increase costs and result in delay of the offering. Accordingly, subject to the Issuance Advice Letter procedure, this Commission finds that an SEC-registered public offering is most likely to result in lower costs to consumers, and should be approved. However, this Commission further finds, in light of new SEC registration requirements, DEF, in consultation with the other members of the Bond Team, subject to the Issuance Advice Letter procedures and Finding of Fact paragraph 50 and Ordering Paragraph 67, may pursue a Rule 144A qualified institutional offering of the nuclear asset-recovery bonds.

74. DEF has proposed that the bonds be sold pursuant to a sale to one or more underwriters in a negotiated offering. DEF has testified that a negotiated underwriting is likely to provide greater flexibility and availability of investor funds than a competitively sold transaction. DEF and this Commission's staff, together with this Commission's financial advisor and other Bond Team members (other than DEF's structuring advisor) should have equal rights on the hiring decisions for the underwriters and counsel to the underwriters. This Commission finds, subject to the Issuance Advice Letter procedures, that the issuance of the nuclear asset-recovery bonds pursuant to a negotiated sale is likely to result in lower overall costs and satisfy the statutory financing cost objective, and should be approved. However, DEF, in consultation with the other members of the Bond Team, subject to the Issuance Advice Letter procedures and Finding of Fact paragraph 50 and Ordering Paragraph 67 is authorized to pursue other sale options, including a competitively sold transaction, in order to satisfy the statutory cost objectives and the lowest overall cost standard.

Security for the Nuclear Asset-Recovery Bonds

75. As proposed by DEF, the payment of the nuclear asset-recovery bonds and related financing costs authorized by this Financing Order is to be secured by the nuclear asset-recovery property created by this Financing Order and by certain other collateral as described in the Petition. The nuclear asset-recovery bonds will be issued pursuant to the Indenture under which the indenture trustee will administer the trust. The Indenture shall include provisions for a Collection Account for each series of nuclear asset-recovery bonds and subaccounts for the collection and administration for the nuclear asset-recovery charges and payment or funding of the principal of and interest on the nuclear asset-recovery bonds and other costs, including fees and expenses, in connection with the nuclear asset-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 of, interest on, and other costs related to the series of nuclear asset-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 AAA/Aaa ratings on the series of nuclear asset-recovery bonds. Final terms of the Indenture shall be approved by the Bond Team.

76. The Excess Funds Subaccount will hold any nuclear asset-recovery charge collections and investment earnings on amounts in the Collection Account in excess of the amounts needed to pay current principal of and interest on the nuclear asset-recovery bonds and to pay other Periodic 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 Revenue Requirement for purposes of the true-up adjustment. The funds in this Excess Funds 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 reduce the nuclear asset-recovery revenue requirement for purposes of the true-up adjustment.

77. The Collection Account and the subaccounts described above are intended to facilitate the full and timely payment of scheduled principal of and interest on the series of nuclear asset-recovery bonds and all other components of the Periodic Payment Requirement. If for any reason the amount of nuclear asset-recovery charge collections in the General Subaccount is insufficient to make, on a timely basis, all scheduled payments of principal of and interest on the nuclear asset-recovery bonds and to make payment of 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, 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 series of nuclear asset-recovery bonds and upon discharge of all obligations in respect thereof, amounts remaining in the Collection Account will be released to the SPE and will be available for distribution by the SPE to DEF. Equivalent amounts, less the amount of the Capital Subaccount, will be credited by DEF to current customers' bills in the same manner that the charges were collected, or through a credit to 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. DEF shall similarly credit customers an aggregate amount equal to any nuclear asset-recovery charges subsequently received by the SPE or its successor in interest to the nuclear asset-recovery property.

DEF as Initial Servicer of the Nuclear Asset-Recovery Bonds

78. DEF 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 paragraphs 98 through 103. The Servicing Agreement may be amended, renewed, or replaced by another servicing agreement in accordance with its terms and as approved by this Commission.

Highlight by Witness

a. Under the Servicing Agreement, the servicer shall be required, among other things, to impose, bill, collect and receive the nuclear asset-recovery charges for the benefit and account of the SPE, to make the periodic true-up adjustments of nuclear asset-recovery charges required or allowed by this Financing Order, and to account for and remit the nuclear asset-recovery 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 Financing Order.

b. The annual fee for ongoing services will be 0.05 percent of the initial principal amount of the nuclear asset-recovery bonds.

c. In addition to the annual ongoing servicing fee, DEF proposes to recover as an upfront bond issuance cost, DEF's actual costs to recover set-up costs of the servicer, including information technology programming costs to adapt DEF's existing systems to bill, collect, receive and process nuclear asset-recovery charges, and to set up necessary servicing functions. DEF estimates its actual set-up costs to be approximately $915,000. The reasonableness of these additional upfront bond issuance costs will be subject to review by this Commission pursuant to Section 366.95(2)(c)5. As part of this review, the Commission shall only consider actual upfront bond issuance costs, but not ongoing financing costs, interest rate, or pricing of the bonds.

d. DEF shall indemnify customers to the extent customers incur losses associated with higher servicing fees payable to a substitute servicer, or higher administration fees payable to a substitute administrator, as a result of (a) DEF's negligence, recklessness or willful misconduct, or (b) DEF's termination for cause attributable to its own actions. This indemnification provision shall be reflected in the transaction documents for these nuclear asset-recovery bonds.

e. DEF has proposed that it not be permitted voluntarily to resign from its duties as servicer if the resignation will harm the credit rating on nuclear asset-recovery bonds issued by the SPE. Even if DEF's resignation as servicer would not harm the credit rating on the nuclear asset-recovery bonds issued by the SPE, we find and direct that DEF shall not be permitted to voluntarily resign from its duties as servicer without consent of this Commission. If DEF defaults on its duties as servicer or is required for any reason to discontinue those functions, then DEF proposes that a successor servicer acceptable to the indenture trustee be named to replace DEF as servicer so long as such replacement would not cause any of the then current credit ratings of the nuclear asset-recovery bonds to be suspended, withdrawn or downgraded. We find that any successor servicer to DEF also should be acceptable to this Commission.

f. DEF has proposed that, and 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 nuclear asset-recovery bonds, unless a higher fee is approved by this Commission.

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

DEF as Administrator of the SPE

79. Under the Administration Agreement, DEF 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 Financing Order.

80. The annual fee for performing the services required by the Administration Agreement will be $50,000. We find that this fee is reasonable.

81. DEF will credit back to customers through the Capacity Cost Recovery Clause all periodic servicing fees in excess of DEF's or an affiliate of DEF's incremental cost of performing the servicer function until the next rate case when costs and revenues associated with the servicing fees will be included in the cost of service. DEF will credit back to customers through the Capacity Cost Recovery Clause all periodic administration fees in excess of DEF's or an affiliate of DEF's incremental cost of performing the administration function until the next rate case when costs and revenues associated with the administration fees will be included in the cost of service. We find this to be reasonable.

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

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

X. UNDERWRITER REQUIREMENTS

83. DEF and this Commission's staff and this Commission's financial advisor as Bond Team members, excluding DEF's structuring advisor, should have equal rights on the hiring decisions for underwriters and counsel for the underwriters.

84. We find that requiring all book-running underwriters of a series of nuclear asset-recovery bonds to deliver periodic reports with indicative pricing levels derived independently by each book-running underwriter for the nuclear asset-recovery bonds before any public offering of that series of nuclear asset-recovery bonds is launched is likely to facilitate achievement of the statutory financing cost objective and the lowest overall cost standard. We also find that the Bond Team may request one or more of the bookrunning underwriters to deliver an opinion letter as to whether the structuring, marketing, and pricing of the nuclear asset-recovery bonds achieved the lowest overall cost standard.

85. We find that requiring the book-running underwriter(s) of nuclear asset-recovery bonds to provide the Bond Team documentary verification that any term sheet, prospectus, registration statement, offering memorandum or other marketing materials used by the underwriting syndicate in marketing the nuclear asset-recovery bonds (collectively, the "offering documents") receives a broad distribution to potential investors most likely to accept the lowest yield on the nuclear asset-recovery bonds will facilitate achievement of the statutory financing

cost objective and the lowest overall cost standard. This documentary 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.

XI. COMMISSION PARTICIPATION IN THE TRANSACTION

86. We recognize that the nuclear asset-recovery bonds approved through this Financing Order are very different from the typical bonds issued by DEF. Pursuant to Section 366.95, F.S., 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 366.95, F.S., requires us to issue an irrevocable financing order in which the sponsoring utility, DEF, 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 Financing Order, that commits this Commission to periodically adjust the nuclear asset-recovery charge that supports the nuclear asset-recovery bonds to whatever level is necessary to 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 nuclear asset-recovery charge applied to all DEF ratepayers, the unconditional Commission guarantee to adjust the nuclear asset-recovery 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 DEF.

87. We also recognize that the nuclear asset-recovery bonds approved through this Financing Order are different from the typical bonds issued by DEF 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 nuclear asset-recovery bonds, while the issuance costs are subject to review under Section 366.95(2)(c)5., F.S. (and as part of that review the Commission shall only consider actual upfront bond issuance costs, but not ongoing financing costs, interest rate, or pricing of the bonds), we find that an after-the-fact review of the interest rate achieved will not allow us to determine whether the lowest overall cost standard has been achieved.

88. We recognize that another difference between typical utility bonds and the nuclear asset-recovery bonds approved through this Financing Order is how these bonds impact DEF's financial position. In more typical debt offerings, DEF has a strong incentive to negotiate hard with underwriters for the lowest possible interest rates as well as the lowest possible underwriting fees. DEF 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 DEF'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 nuclear asset-recovery bonds. While typical utility bonds directly impact DEF's financial ratios, nuclear asset-recovery bonds are not direct obligations of DEF and are non-recourse to DEF. For these reasons, the same incentives and consequences for pursuing a lowest overall cost of funds with

regard to DEF's typical utility bonds are not present with respect to the proposed nuclear asset-recovery bonds.

89. 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 nuclear asset-recovery bonds approved through this Financing Order will achieve the lowest overall cost standard.

90. This Commission has engaged the services of a financial advisor and outside legal counsel for the purposes described herein in this Financing Order. This Commission will have the sole authority to retain its financial advisor and its outside legal counsel and, if needed, terminate and replace the financial advisor or outside legal counsel.

91. We find that this Commission, as represented by designated Commission staff, this Commission's financial advisor, and this Commission's outside legal counsel, shall be actively and integrally involved in the bond issuance on a day-to-day basis, subject to Finding of Fact paragraph 50 and Ordering Paragraph 67 as part of a Bond Team that also includes DEF, its structuring advisor or underwriter(s), and its outside counsel(s), in all aspects of the structuring, marketing, and pricing of each series of nuclear asset-recovery bonds. This will allow for meaningful and substantive cooperation among DEF and this Commission and its representatives to ensure that the structuring, pricing, and financing costs of the nuclear asset-recovery bonds will achieve the statutory cost objectives and the lowest overall cost standard. Cooperation among DEF and this Commission will promote transparency in the nuclear asset-recovery bond pricing process, thereby promoting the integrity of the issuance process. 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.

92. Subject to Finding of Fact paragraph 50 and Ordering Paragraph 67, the Bond Team shall oversee the development of the competitive solicitation and selection of some or all underwriters, underwriters' counsel, trustee services and other transaction arrangements as deemed appropriate by the Bond Team, other than DEF's counsel and issuer's counsel, to ensure that the processes are competitive, will provide the greatest value for customers, and will result in the selection of transaction participants that have experience and the ability to achieve the lowest overall cost standard.

93. Subject to Finding of Fact paragraph 50 and Ordering Paragraph 67, the Bond Team shall review the nuclear asset-recovery bond transaction documents to ensure that the lowest overall cost standard is achieved, to ensure that the transaction documents reflect the terms of this Financing Order and to ensure that the greatest possible customer protections are included. All legal opinions related to the nuclear asset-recovery bond transaction shall be provided to the Bond Team for review.

94. The Bond Team shall have the opportunity to review the presentations to the rating agencies and to make recommendations in furtherance of achieving the lowest overall cost standard; provided, however, that DEF shall be the sole decision maker in all aspects of the structuring, marketing and pricing of the nuclear asset-recovery bonds that, in the sole view of

DEF would expose DEF or the SPE to securities law or other potential liability (*i.e.*, such as, but not limited to, the making of any untrue statement of a material fact or omissions to state a material fact required to be stated therein or necessary in order to make the statements made not misleading) or contractual law liability (*e.g.*, including but not limited to terms and conditions of the underwriting agreement(s).

95. The Bond Team shall work on a cooperative basis (a) to educate and expand the market among underwriters and investors for the nuclear asset-recovery bonds and (b) to create the greatest possible participation and competition among underwriters and investors in order to ensure that the statutory cost objectives and the lowest overall cost standard are achieved.

96. DEF asserts that it will have primary securities law liability with respect to the transaction. DEF should be the sole decision maker in all aspects of the structuring, marketing and pricing of the nuclear asset-recovery bonds that, in the sole view of DEF would expose DEF or the SPE to securities law or other potential liability (*i.e.*, such as, but not limited to, the making of any untrue statement of a material fact or omissions to state a material fact required to be stated therein or necessary in order to make the statements made not misleading) or contractual law liability (*e.g.*, including but not limited to terms and conditions of the underwriting agreement(s)).

97. No later than 5:00 p.m. Eastern time on the second business day following pricing, this Commission's financial advisor shall deliver to this Commission an opinion letter consistent with the terms of its contract as to whether the structuring, marketing and pricing of the nuclear asset-recovery bonds achieved: (1) the statutory cost objectives; (2) the lowest nuclear asset-recovery charges consistent with prevailing market conditions at the time of pricing, terms and conditions and terms of this Financing Order, and other applicable law; and (3) the greatest possible customer protections. That opinion letter shall include a report of any action or inaction which this Commission's financial advisor believes might have caused the transaction not to achieve the statutory cost objectives, the lowest nuclear asset-recovery charges, and/or the greatest possible customer protections regardless of whether the reason for action or inaction by DEF was the result of DEF's sole view that the action or inaction would expose DEF or the SPE to securities law or other potential liability, The report of any such action or inaction which this Commission's financial advisor believes might have caused the transaction not to achieve the statutory cost objectives, the lowest nuclear asset-recovery charges, and/or the greatest possible customer protections, regardless of whether the reason for action or inaction by DEF was the result of DEF's sole view that the action or inaction would expose DEF or the SPE to securities law or other potential liability, shall be treated as a material qualification to the opinion letter of this Commission's financial advisor. Such opinion letter may be provided to this Commission on a confidential basis subject to the ability of parties to this proceeding to review it on a confidential basis.

XII. ISSUANCE ADVICE LETTER PROCEDURE

98. DEF shall file with this Commission a draft of an Issuance Advice Letter ("IAL") and Form of True-Up Adjustment Letter ("TUAL") (combined into one document) in the form of Appendix C hereto at least two weeks prior to the expected pricing of the nuclear asset-recovery

bonds based upon the best information available at that time. Other aspects of the certifications may be modified to describe the particulars of the nuclear asset-recovery bonds and the actions that were taken during the transaction. Such draft shall include drafts of any certifications of DEF to be provided in connection with the filing of the final IAL/TUAL. Such certifications may be provided to this Commission on a confidential basis. Within one week of receiving the proposed form of combined IAL/TUAL, the members of the Bond Team representing this Commission shall provide comments and recommendations to DEF regarding the adequacy of information proposed to be provided. This Commission, acting directly, or though this Commission's staff designee, may agree to waive the prescribed time period for submission and review of the draft IAL/TUAL and any failure to provide written comments to the draft IAL/TUAL within the prescribed time period will conclusively evidence a waiver of any objections. Prior to the submission of the first draft of the IAL/TUAL and through the period ending with the issuance of the nuclear asset-recovery bonds, DEF will provide the Bond Team with timely information so that this Commission's representatives on the Bond Team can participate fully and in advance regarding all aspects relating to the structuring, marketing and pricing of the nuclear asset-recovery bonds.

99. DEF shall file a combined IAL/TUAL in final form with this Commission no later than 5:00 pm Eastern time 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. As shown in the form of IAL/TUAL in Appendix C, the combined IAL/TUAL shall include the following information: the actual structure of the nuclear asset-recovery bond issuance; the expected and final maturities of the nuclear asset-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 nuclear asset-recovery bonds and estimates of debt service and other ongoing financing costs for the first Remittance Period; a statement of the actions taken by the Bond Team and/or DEF 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 investors that placed the orders (on a confidential basis); and other information deemed necessary by the members of the Bond Team representing this Commission after review of the draft combined IAL/ITUAL, provided that such other information is consistent with the terms of this Financing Order; and a statement setting forth DEF's observations as to efforts made to assist the Bond Team in achieving the lowest overall cost standard. Finally, the combined IAL/TUAL shall include certifications from DEF if required, that the structuring, pricing and financing costs of the nuclear asset-recovery bonds achieved the statutory cost objectives.

100. The opinion letter from this Commission's financial advisor required pursuant to Finding of Fact paragraph 97 should be provided no later than 5:00 p.m. on the second business day after pricing. The members of the Bond Team will review this information on the second business day after pricing. If the IAL/TUAL and all required certifications and statements have been delivered and the transaction complies with applicable law and this Financing Order, and if this Commission's financial advisor has delivered an opinion letter pursuant to Finding of Fact paragraph 97 concluding without material qualification that the structuring, marketing and pricing of the nuclear asset-recovery bonds achieved: (1) the statutory cost objectives; (2) the

lowest overall cost standard; and (3) the greatest possible customer protections, then the transaction shall be allowed to proceed without the need for further action of this Commission and without the need to hold the previously noticed Commission meeting. If, however, this Commission's financial advisor has delivered an opinion letter that contains material qualifications, or if the Commission's financial advisor has not delivered an opinion letter, then at the meeting previously noticed for the third business day after pricing, the members of the Bond Team will present to this Commission the results of their review. Despite there being material qualifications in the opinion letter from the Commission's financial advisor, this Commission retains discretion to allow the transaction to be completed if, after taking into account the opinion letter, if any, of the Commission's financial advisor, the views of other members of the Bond Team, and any other facts and circumstances, except for a change in market conditions after the moment of pricing, this Commission determines that the requirements of Section 366.95, F.S., and the Financing Order have been satisfied, and the transaction is otherwise in the best interests of customers. This Commission expects that any stop order will invite DEF to restructure, remarket and/or reprice the nuclear asset-recovery bonds so as to mitigate some or all of the concerns identified in the opinion letter of the Commission's financial advisor.

101. No adjustment is necessary for the deferred tax liability. However, consistent with paragraph 5(j) of the RRSSA, the deferred tax liability will be excluded for earnings surveillance purposes.

102. The Issuance Advice Letter process described above is reasonable and consistent with the statutory financing cost objective contained in Section 366.95(2)(c)2.b., F.S.

103. DEF will retain sole discretion regarding whether or when to assign, sell or otherwise transfer any rights concerning nuclear asset-recovery property arising under this Financing Order, or to cause the issuance of any nuclear asset-recovery bonds authorized in this Financing Order; *provided*, that any issuance must satisfy the statutory financing cost objective. Subject to the Issuance Advice Letter procedures described above, SPE will issue the nuclear asset-recovery bonds on or after the fifth business day after pricing of the nuclear asset-recovery bonds.

Highlight by Witness

CONCLUSIONS OF LAW

I. JURISDICTION

1. We have jurisdiction over this matter pursuant to Chapter 366, F.S., including Sections 366.04, 366.05, 366.06, and 366.95, F.S.

II. STATUTORY REQUIREMENTS

2. Based on the statutory criteria and procedures, the record in this proceeding, and other provisions of this Financing Order, the statutory requirements for issuance of a financing order have been met, specifically that the issuance of the nuclear asset-recovery bonds and the imposition of nuclear asset-recovery charges authorized by this Financing Order have a significant likelihood of resulting in lower overall costs or would avoid or significantly mitigate rate impacts to customers as compared with the traditional method of financing and recovering nuclear asset-recovery costs.

III. NUCLEAR ASSET-RECOVERY BONDS

3. Each SPE will be an "assignee" as defined in Section 366.95(1)(b), F.S., when an interest in nuclear asset-recovery property is transferred, other than as security, to that SPE.

4. The holders of nuclear asset-recovery bonds, the indenture trustee, any collateral agent, and the counterparty to any hedging contract, interest rate lock contract, interest rate swap contract or other ancillary agreement in respect of some or all of the nuclear asset-recovery bonds will each be a "financing party" as defined in Section 366.95(1)(g), F.S.

5. Each SPE may issue nuclear asset-recovery bonds in accordance with this Financing Order.

6. As provided in Section 366.95, F.S., the rights and interests of DEF or its successor or assignees under this Financing Order, including the right to impose, bill, collect, and receive the nuclear asset-recovery charges authorized in this Financing Order, are assignable and become nuclear asset-recovery property when the nuclear asset-recovery property is transferred to an SPE.

7. The rights, interests, and property conveyed to an SPE in the Nuclear Asset-Recovery Property Purchase and Sale Agreement and the related Bill of Sale, including without limitation the irrevocable right to impose, bill, collect, and receive the nuclear asset-recovery charges and the revenues and collections from the nuclear asset-recovery charges are "nuclear asset-recovery property" within the meaning of Section 366.95, F.S.

8. All revenues and collections resulting from the nuclear asset-recovery charges will constitute proceeds only of the nuclear asset-recovery property arising from this Financing Order.

Highlight by Witness

9. Upon the transfer by DEF of the nuclear asset-recovery property to an SPE, that SPE will have all of the rights, title and interest of DEF with respect to such nuclear asset-recovery property, including the right to impose, bill, collect, and receive the nuclear asset-recovery charge authorized by this Financing Order.

10. The nuclear asset-recovery bonds issued pursuant to this Financing Order will be "nuclear asset-recovery bonds" within the meaning of Section 366.95(1)(i), F.S., and the nuclear asset-recovery bonds and holders thereof will be entitled to all of the protections provided under Section 366.95, F.S.

11. Pursuant to Section 366.95(2)(c)2.d. and (2)(c)4., F.S., the servicer of the nuclear asset-recovery property will file for standard true-up adjustments to the nuclear asset-recovery charges at least every six months to ensure the recovery of revenues are sufficient to provide for the timely payment of the principal of and interest on the nuclear asset-recovery bonds and of all of the ongoing financing costs payable by the SPE in respect of nuclear asset-recovery bonds as approved under this Financing Order. We conclude that these true-up adjustments, together with the State Pledge, will Guarantee the timely payment of nuclear asset-recovery bonds.

12. The methodology approved in this Financing Order to true-up the nuclear asset-recovery charges satisfies the requirements of Section 366.95, F.S. In implementing the formula-based True-Up Mechanism for making expeditious periodic adjustments in the nuclear asset-recovery charges pursuant to Section 366.95(2)(c)1.d., F.S., the nuclear asset-recovery charge shall be adjusted as necessary to Guarantee the timely payment of (a) nuclear asset recovery costs, (b) financing costs, and (c) other required amounts and charges payable in connection with the nuclear asset-recovery bonds.

13. For so long as nuclear asset-recovery bonds are outstanding and the related nuclear asset-recovery costs and financing costs have not been paid in full, the nuclear asset-recovery charges authorized in this Financing Order to be imposed and collected are "nonbypassable" pursuant to Sections 366.95(11)(b)1. and 366.95(2)(c)2.c., F.S. — that is, the nuclear asset-recovery charges shall be paid by all existing and future customers receiving electric transmission or distribution service from DEF 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 DEF transfers to an SPE the right to impose, bill, collect, and receive the nuclear asset-recovery charge and to issue nuclear asset-recovery bonds, the servicer will be entitled to recover the nuclear asset-recovery charge associated with such nuclear asset-recovery property only for the benefit of that SPE and the holders of the nuclear asset-recovery bonds in accordance with the Servicing Agreement.

15. The issuance of nuclear asset-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 nuclear asset-recovery bonds, other than in their capacity as consumers of electricity.

IV. NUCLEAR ASSET-RECOVERY PROPERTY

16. Nuclear asset-recovery property is not a receivable or a pool of receivables. Rather, nuclear asset-recovery property consists of: (1) all rights and interests of DEF or any successor or assignee of DEF under this Financing Order, including the right to impose, bill, collect, and receive nuclear asset-recovery charges authorized in this Financing Order and to obtain periodic adjustments to such nuclear asset-recovery charges as provided in this Financing 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.

17. Nuclear asset-recovery property is not a financial asset in that it only represents a legally-enforceable regulatory property right under Section 366.95 to bill and collect nuclear asset-recovery charges from persons who receive electric transmission and distribution services from the electric utility or its successors or assignees.

18. The creation of nuclear asset-recovery property pursuant to this Financing Order is conditioned upon, and shall be simultaneous with, the sale or other transfer of the nuclear asset-recovery property to the SPE and the pledge of the nuclear asset-recovery property to secure nuclear asset-recovery bonds.

19. The nuclear asset-recovery property shall constitute an existing, present property right or interest therein, notwithstanding that the imposition and collection of nuclear asset-recovery charges depends on DEF performing its servicing functions relating to the collection of nuclear asset-recovery charges and on future electricity consumption. Such property shall exist regardless of whether 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 DEF or its successors or assignees.

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

21. The nuclear asset-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 nuclear asset-recovery property, and in the revenue and collections arising from that property, is not subject to setoff, counterclaim, surcharge, or defense by DEF or any other person or in connection with the reorganization, bankruptcy, or other insolvency of DEF or any other entity. Section 366.95(5)(a)(5), F.S.

22. The creation, attachment, granting, perfection, priority and enforcement of liens and security interests in nuclear asset-recovery property are governed by Section 366.95(5)(b), F.S.

23. Pursuant to Section 366.95(5)(b)5., F.S., the priority of any lien and security interest in the nuclear asset-recovery property arising from this Financing Order shall not be considered impaired by any later modification of this Financing Order or nuclear asset-recovery property or by the commingling of the funds arising from nuclear asset-recovery property with any other funds.

24. When DEF transfers nuclear asset-recovery property to an SPE pursuant to this Financing 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 366.95(5)(c), F.S., that transfer shall constitute an absolute transfer and true sale and not a secured transaction or other financing arrangement, and title (both legal and equitable) to the nuclear asset-recovery property shall immediately pass to the SPE. After such a transfer, the nuclear asset-recovery property shall not be subject to any claims of DEF or its creditors, other than creditors holding a properly perfected prior security interest in the nuclear asset-recovery property perfected under Section 366.95, F.S.. As provided by Section 366.95(5)(c)2., F.S., the characterization of the sale, conveyance, assignment, or transfer of nuclear asset-recovery property as a true sale or other 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 nuclear asset-recovery property with other amounts; (2) the retention by DEF of a partial or residual interest, including an equity interest, in the nuclear asset-recovery property, whether direct or indirect, or whether subordinate or otherwise; (3) any recourse that the transferee may have against DEF other than any such recourse created, contingent upon, or otherwise occurring or resulting from one or more of DEF's customers' inability to timely pay all or a portion of the nuclear asset-recovery charge; (4) any indemnification, obligations, or repurchase rights made or provided by DEF, other than indemnity or repurchase rights based solely upon DEF's customers' inability or failure to timely pay all or a portion of the nuclear asset-recovery charge; (5) the responsibility of DEF to collect nuclear asset-recovery 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 nuclear asset-recovery bonds a preferred right to the nuclear asset-recovery property or credit enhancement by DEF or its affiliates with respect to the nuclear asset-recovery bonds.

25. If DEF defaults on any required remittance of amounts collected in respect of nuclear asset-recovery property specified in this Financing 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 nuclear asset-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 DEF or its successors or assignees.

V. STATE PLEDGE

26. In Section 366.95(11)(b), F.S., the State pledges to and agrees with the Bondholders, the owners of the nuclear asset-recovery property, and other financing parties that the State will not:

a. Alter the provisions of Section 366.95, F.S., which make the nuclear asset-recovery charges imposed by this Financing Order irrevocable, binding, and nonbypassable charges;

b. Take or permit any action that impairs or would impair the value of nuclear asset-recovery property or revises the nuclear asset-recovery costs for which recovery is authorized; or

c. Except as allowed under Section 366.95, F.S., reduce, alter, or impair nuclear asset-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 nuclear asset-recovery bonds have been paid and performed in full. This Commission finds that this State Pledge will constitute a contract with the Bondholders, the owners of nuclear asset-recovery property, and other financing parties.

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 nuclear asset-recovery charges collected pursuant to this Financing Order and of the holders of nuclear asset-recovery bonds and any assignee or financing party entering into a contract with DEF. Section 366.95(11), F.S.

28. The broad nature of the State pledge under Section 366.95(11), F.S., constitutes a contract with the Bondholders, the owners of nuclear asset-recovery property, and other financing parties that the State will not: (1) alter the provisions of this Section 366.95 which make the nuclear asset-recovery charges imposed by this Financing Order irrevocable, binding, and nonbypassable charges; (2) take or permit any action that impairs or would impair the value of nuclear asset-recovery property or revises the nuclear asset-recovery costs for which recovery is authorized; or (3) except as authorized under Section 366.95, reduce, alter, or impair nuclear asset-recovery charges that are to be imposed, collected, and remitted for the benefit of the owners of DEF's nuclear asset-recovery bonds 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 nuclear asset-recovery bonds have been paid and performed in full.

VI. EFFECT OF THIS ORDER

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

30. Upon the issuance of nuclear asset-recovery bonds authorized hereby, this Commission's obligations under this Financing Order relating to the nuclear asset-recovery

bonds, including the specific actions this Commission guarantees to take, are direct, explicit, irrevocable, and unconditional, and are legally enforceable against this Commission, a United States public sector entity.

31. Pursuant to Section 366.95(2)(c)6., subsequent to the earlier of the transfer of nuclear asset-recovery property to SPE or the issuance of nuclear asset-recovery bonds authorized hereby, this Financing Order is irrevocable and, except as provided in Section 366.95(2)(c)4. and (2)(d), F.S., this Commission may not amend, modify, or terminate this Financing Order by any subsequent action or reduce, impair, postpone, terminate, or otherwise adjust nuclear asset-recovery charges approved herein.

32. As provided in Section 366.95(2)(c)6., F.S., DEF retains sole discretion regarding whether to assign, sell, or otherwise transfer nuclear asset-recovery property or to cause the nuclear asset-recovery bonds to be issued, including the right to defer or postpone such assignment, sale, transfer or issuance.

33. After the issuance of a Financing Order, if DEF decides not to cause nuclear asset-recovery bonds to be issued, then as provided in Section 366.95(2)(c)6., F.S., DEF may not recover financing costs, as defined in Section 366.95(1)(e), F.S., from customers.

34. The electric bills of DEF must explicitly reflect that a portion of the charges on such bill represents nuclear asset-recovery charges approved in this Financing Order and must include a statement to the effect that the SPE is the owner of the rights to nuclear asset-recovery charges and that DEF is acting as a servicer for the SPE. The tariff applicable to customers must indicate the nuclear asset-recovery charge and the ownership of that charge. Any failure of DEF to comply with this paragraph shall not invalidate, impair, or affect this Financing Order, or any nuclear asset-recovery property, nuclear asset-recovery charge, or nuclear asset-recovery bonds, but shall subject DEF to penalties under Section 366.095, F.S.

35. This Financing Order and the nuclear asset-recovery charges authorized hereby shall remain in effect until the nuclear asset-recovery bonds have been paid in full and this Commission-approved financing costs have been recovered in full, provided that the charges may not be imposed after a date the close of the last billing cycle for the 276th month from the inception of the nuclear asset-recovery charge. This Financing Order shall remain in effect and unabated notwithstanding the reorganization, bankruptcy, or other insolvency proceedings of DEF or its successors or assignees. Any successor to DEF, 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 Financing Order as, DEF in the same manner and to the same extent as DEF, including collecting and paying to the person entitled to receive the revenues, collections, payments, or proceeds of the nuclear asset-recovery property.

36. All tasks performed by any consultant or counsel at the request of this Commission or Commission staff pursuant to this Financing Order shall be treated as performed for the purpose of assisting or enabling this Commission to perform the responsibilities of

Highlight by Witness

Sections 366.95(2)(c)2. and 366.95(2)(c)5., F.S., 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 nuclear asset-recovery charges.

37. This Commission, acting on its own behalf, has authority to enforce all provisions of this Financing Order and all provisions of the nuclear asset-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 Nuclear Asset-Recovery Property Purchase and Sale Agreement.

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

ORDERING PARAGRAPHS

Based on the foregoing, it is

1. ORDERED by the Florida Public Service Commission that the proposed process for structuring, marketing, and pricing of the nuclear asset-recovery bonds has a significant likelihood of resulting in lower overall costs or would avoid or significantly mitigate rate impacts to customers as compared with the traditional method of financing and recovering nuclear asset-recovery costs and is approved. It is further

2. ORDERED that DEF's Petition for a Financing Order authorizing the issuance of nuclear asset-recovery bonds in one or more series is granted, subject to the terms set forth in the body of this Financing Order. DEF is hereby authorized to issue nuclear asset-recovery bonds secured by the pledge of nuclear asset-recovery property, in one or more series in an aggregate principal amount not to exceed the Securitizable Balance (as of the date the nuclear asset-recovery bonds are issued). The proceeds are to be used to finance the equivalent of (i) recovery of nuclear asset-recovery costs, in the form of the CR3 Regulatory Asset as determined pursuant to Docket No. 150148-EI plus (ii) recovery of the estimated upfront bond issuance costs associated with the issuance of the nuclear asset-recovery bonds plus (iii) carrying charges accruing at 6.0% per annum on the CR3 Regulatory Asset balance from December 31, 2015 through the date of issuance of the nuclear asset-recovery bonds. Upfront bond issuance costs are subject to update, adjustment and approval pursuant to the terms of this Financing Order and the Issuance Advice Letter procedures as provided by this Financing Order. It is further

3. ORDERED that DEF is authorized to impose, bill, collect, and adjust from time to time (as described in this Financing Order) a nuclear asset-recovery charge, to be collected on a per kWh basis from all applicable customer rate classes until the nuclear asset-recovery bonds are paid in full and all financing costs and other costs of the bonds have been recovered in full, provided that the charges shall not be imposed following a date which is the close of the last billing cycle for the 276th month from the inception of the nuclear asset-recovery charge. Such nuclear asset-recovery charges shall be in amounts sufficient to ensure the timely recovery of DEF's nuclear asset-recovery costs and financing costs (upfront and ongoing) detailed in this Financing Order (including payment of principal of and interest on the nuclear asset-recovery bonds). Although DEF might incur liability if there is a failure of its representations, warranties, or covenants in the Sale Agreement, the Servicing Agreement, or the Administration Agreement, or if DEF negligently, willfully, or in bad faith fails to perform its duties under any of those agreements, this provision is not intended to establish DEF as a guarantor of payments on the nuclear asset-recovery bonds. It is further

4. ORDERED that the creation of nuclear asset-recovery property as described in this Financing Order is approved and, upon transfer of the nuclear asset-recovery property to an SPE, shall be created, and shall consist of: (1) all rights and interests of DEF or successor or assignee of DEF under this Financing Order, including the right to impose, bill, collect, and receive nuclear asset-recovery charges authorized in this Financing Order and to obtain periodic adjustments to such charges as provided in this Financing 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 nuclear asset-recovery property is conditioned upon, and shall be simultaneous with, the sale or other transfer of the nuclear asset-recovery property to an SPE and the pledge of the nuclear asset-recovery property to secure nuclear asset-recovery bonds. The nuclear asset-recovery property shall continue to exist until the nuclear asset-recovery bonds are paid in full and all financing costs and other costs of the nuclear asset-recovery bonds have been recovered in full. For the period specified in the preceding sentence, the imposition and collection of nuclear asset-recovery charges authorized in this Financing Order shall be paid by all existing and future customers receiving transmission or distribution service from DEF 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 nuclear asset-recovery charge shall be collected in a manner that will not cause any of the then current credit ratings of the nuclear asset-recovery bonds to be suspended, withdrawn or downgraded. It is further

5. ORDERED that prior to implementing the initial nuclear asset-recovery charges, DEF 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, DEF shall furnish draft tariff sheets at least five (5) business days in advance of the public offering of nuclear asset-recovery bonds. It is further

6. ORDERED that the nuclear asset-recovery charge shall be allocated to the customer rate classes in accordance with the allocation methodology adopted in the RRSSA approved on November 12, 2013 in Order No. PSC-13-0598-FOF-EI. It is further

7. ORDERED that the approved allocation methodology for DEF is the 12CP and 1/13 AD. Spelled out, that means twelve-thirteenths of the revenue requirement is allocated based on 12 monthly coincident peaks (or demand) and one-thirteenth is allocated based on average demand (or energy). It is further

8. ORDERED that the electric bills of DEF must explicitly reflect that a portion of the charges on such bill represents nuclear asset-recovery charges approved in this Financing Order and must include a statement to the effect that the SPE is the owner of the rights to nuclear asset-recovery charges and that DEF is acting as a servicer for that SPE. The tariff applicable to customers must indicate the nuclear asset-recovery charge and the ownership of that charge. DEF shall identify amounts owed with respect to the nuclear asset-recovery property as a separate line item on individual electric bills. The failure of DEF to comply with this paragraph shall not invalidate, impair, or affect any financing order, nuclear asset-recovery property, nuclear asset-recovery charge, or nuclear asset-recovery bonds but shall subject DEF to penalties under Section 366.095, F.S. It is further

Highlight by Witness

9. ORDERED that this Financing Order and the charges authorized hereby shall remain in effect until the nuclear asset-recovery bonds and all financing costs (including tax liabilities) related thereto have been paid or recovered in full. This Financing Order shall remain in effect and unabated notwithstanding the reorganization, bankruptcy, or other insolvency proceedings of DEF or its successors or assignees. Any successor to DEF, 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 Financing Order as, DEF in the same manner and to the same extent as DEF, including collecting and paying to the person entitled to receive the revenues, collections, payments, or proceeds of the nuclear asset-recovery property. It is further

10. ORDERED that the SPE issuing nuclear asset-recovery bonds is authorized, pursuant to Section 366.95(11)(c), F.S., and this Financing Order, to include the State of Florida pledge with respect to nuclear asset-recovery property and nuclear asset-recovery charges in the bonds and related documentation as provided for in Section 366.95(11)(b), F.S. It is further

11. ORDERED that the proposed Transaction Structure for the nuclear asset-recovery bonds is approved as set forth in the body of this Financing Order. It is further

12. ORDERED that DEF is authorized to sell the nuclear asset-recovery property to an SPE,, or to more than one SPE if separate SPEs are required by the rating agencies to achieve the highest possible credit ratings. It is further

13. ORDERED that, in accordance with the terms of this Financing Order and subject to the criteria and procedures described herein, the SPE(s) are authorized to issue nuclear asset-recovery bonds in an aggregate principal amount not to exceed the Securitizable Balance (as of the date the nuclear asset-recovery bonds are issued) and may pledge to an indenture trustee, as collateral for payment of the nuclear asset-recovery bonds, the nuclear asset-recovery property, including the SPE's right to receive the related nuclear asset-recovery charges as and when collected, the SPE's rights under the Servicing Agreement and other collateral described in the Indenture. As provided in Section 366.95(2)(c)6., F.S., DEF retains sole discretion regarding whether to assign, sell, or otherwise transfer nuclear asset-recovery property or to cause the nuclear asset-recovery bonds to be issued, including the right to defer or postpone such assignment, sale, transfer or issuance. It is further

14. ORDERED that after the issuance of a Financing Order, if DEF decides not to cause nuclear asset-recovery bonds to be issued, then as provided in Section 366.95(2)(c)6., F.S., DEF may not recover financing costs, as defined in Section 366.95(1)(e), F.S., from customers. It is further

15. ORDERED that, pursuant to Section 366.95(3)(b), F.S., if DEF elects not to use nuclear asset-recovery bonds to finance its nuclear asset-recovery costs after the issuance of this Financing Order, DEF may seek to recover such nuclear asset-recovery costs in an otherwise permissible fashion. It is further

16. ORDERED that DEF shall be responsible to structure the nuclear asset-recovery bond transaction in a way that complies with the "safe harbor" provisions of IRS Revenue Procedure 2005-62. It is further

17. ORDERED that DEF is authorized to form an SPE to be structured as discussed in this Financing Order, or more than one SPE if separate SPEs are required by the rating agencies to achieve the highest possible credit ratings. DEF is authorized to execute one or more LLC Agreements, consistent with the terms and conditions of this Financing 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 Financing Order. The capital contribution by DEF to the SPE shall be funded by DEF and not from the proceeds of the sale of nuclear asset-recovery bonds. DEF shall be permitted to earn a rate of return on its invested capital in the SPE equal to the rate of interest payable on the longest maturing tranche of nuclear asset-recovery bonds, and this return on invested capital shall be a component of the Periodic Payment Requirement. It is further

18. ORDERED that DEF is authorized to enter into one or more Nuclear Asset-Recovery Property Purchase and Sale Agreements, Administration Agreements, and Nuclear Asset-Recovery Property Servicing Agreements and other transaction documents contemplated by such agreements. It is further

19. ORDERED that nuclear asset-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 Financing Order, provided that DEF shall not create more than one SPE unless separate SPEs are required by the rating agencies to achieve the highest possible credit ratings. Subject to compliance with the requirements of this Financing Order, DEF and each SPE shall be afforded flexibility in establishing the terms and conditions of the nuclear asset-recovery bonds, repayment schedules, term, debt service payment dates, collateral, redemption provisions, credit enhancement, required debt service, reserves, interest rates, indices and other financing costs. DEF may utilize floating rate securities and interest rate swaps if, pursuant to the process set forth in Finding of Fact paragraphs 42 through 50 it is determined that their use will achieve the lowest overall cost standard. It is further

20. ORDERED that we approve the true-up adjustment process described in the body of this Financing Order and in the testimony of DEF's witnesses. It is further

21. ORDERED that DEF or its assignee is authorized to recover the Periodic Payment Requirement and shall file with this Commission at least every six months (and at least every three months after the last scheduled debt service payment date of the nuclear asset-recovery bonds) a True-Up Adjustment Letter as described in this Financing Order. It is further

22. ORDERED that we hereby authorize the use of the formula-based True-Up Mechanism approved in the body of this Financing Order to compute and adjust from time to time the nuclear asset-recovery charge. It is further

23. ORDERED that the True-Up Mechanism identified in Appendix B to this Financing Order is reasonable and shall be applied at least every six months (and at least quarterly after the last scheduled debt service payment date of the nuclear asset-recovery bonds). It is further

24. ORDERED that DEF as servicer, and any successor servicer, shall file True-Up Adjustment Letters (as described in the body of this Financing Order) at least every six months (and at least quarterly after the last scheduled debt service payment date of the nuclear asset-recovery bonds) consistent with Section 366.95(2)(c)4., F.S., and as frequently as necessary as required in the Servicing Agreement. It is further

25. ORDERED that any True-Up Adjustment Letter shall be based upon the cumulative differences, regardless of the reason, between the Periodic Payment Requirement and the actual and expected amount of nuclear asset-recovery charge remittances to the indenture trustee for the series of nuclear asset-recovery bonds during the Remittance Period. It is further

26. ORDERED upon the filing of a True-Up Adjustment Letter made pursuant to this Financing Order, Commission staff shall either administratively approve the requested true-up calculation in writing or inform the servicer of any mathematical errors in its calculation as expeditiously as possible but no later than 60 days following the servicer'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 the servicer's true-up filing. If no action is taken within 60 days of the true-up filing, the true-up calculation shall be deemed approved. 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. It is further

27. ORDERED that in addition to the semi-annual true-up adjustment, DEF, as servicer (or a successor servicer) is hereby authorized to make optional interim true-up adjustments at any time for any reason to ensure timely payment of the Periodic Payment Requirement, which adjustment shall be implemented based upon the same time frames as the semi-annual true-ups. It is further

28. ORDERED that upon any change to customer rates and charges stemming from these procedures, DEF shall file appropriately-revised tariff sheets with this Commission, provided, however, that approval of the nuclear asset-recovery charges shall not be delayed or otherwise adversely impacted by this Commission's decision with respect to the tariff. It is further

29. ORDERED that the method of assignment and allocation of nuclear asset-recovery charge collections set forth in the body of this Financing Order is approved. It is further

30. ORDERED that the form of the tariff schedule as shown in Exhibit 32 is approved. It is further

31. ORDERED that, in accordance with Section 366.95(2)(c)5., F.S., within 120 days after the issuance of nuclear asset-recovery bonds, DEF shall file with this Commission supporting information on the actual upfront bond issuance costs, for the categories of costs as reflected in Exhibit 79. This Commission shall review such costs to determine compliance with Section 366.95(2)(c)5., F.S. As part of this review, this Commission shall only consider actual upfront bond issuance costs, but not ongoing financing costs, interest rate, or pricing of the bonds. This Commission may not make adjustments to the nuclear asset-recovery charges as a result of this review. DEF shall pay the fee of any Commission financial advisor (and any consultants and legal counsel) who assist this Commission in performing its responsibilities under Section 366.95(2)(c)2. and 5., F.S., as upfront bond issuance costs, and such costs are deemed consistent with the statutory cost objectives and the lowest overall cost standard. It is further

32. ORDERED that if the actual upfront bond issuance costs are in excess of the amount appearing in the final Issuance Advice Letter filed within one business day after actual pricing of the nuclear asset-recovery bonds, this Commission authorizes DEF to collect such excess amounts through the capacity cost recovery clause, if prudently incurred. It is further

33. ORDERED that if the actual upfront bond issuance costs are less than the amount appearing in the final Issuance Advice Letter filed within one business day after actual pricing of the nuclear asset-recovery bonds, the difference shall be deposited to the Collection Account and used to reduce the next Periodic Payment Requirement. It is further

34. ORDERED that this Commission authorizes DEF to enter into a Servicing Agreement with each SPE and to perform the servicing duties approved in this Financing Order. Without limiting the foregoing, in its capacity as initial servicer of the nuclear asset-recovery property, DEF is authorized to calculate, bill, collect and receive for the account of each SPE, the nuclear asset-recovery charges initially authorized in this Financing Order, as adjusted from time to time to meet the Periodic Payment Requirement 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 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 (i) the annual servicing fee payable to DEF while it is serving as servicer (or to any other servicer affiliated with DEF) shall be 0.05 percent of the original principal amount of the series of nuclear asset-recovery bonds. The annual servicing fee payable to any other servicer not affiliated with DEF shall not at any time exceed 0.60 percent of the original principal amount of the series of nuclear asset-recovery bonds, unless such higher rate is approved by this Commission pursuant to the following Ordering Paragraph. It is further

35. ORDERED that upon the occurrence of an event of default under the Servicing Agreement relating to the servicer's performance of its servicing functions with respect to the nuclear asset-recovery charges, the indenture trustee may, and upon the instruction of the requisite holders of the outstanding nuclear asset-recovery bonds shall, replace DEF 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 this Commission. It is further

36. ORDERED that no entity shall replace DEF as the servicer in any of its servicing functions with respect to the nuclear asset-recovery charges and the nuclear asset-recovery property authorized by this Financing Order, if the replacement would cause any of the then current credit ratings of the nuclear asset-recovery bonds to be suspended, withdrawn, or downgraded. It is further

37. ORDERED that the parties to the Nuclear Asset-Recovery Property Servicing Agreement, Administration Agreement, Indenture, and Nuclear Asset-Recovery Property Purchase and Sale Agreement may amend the terms of such agreements solely in accordance with the terms of such agreements. It is further

38. ORDERED that DEF, its structuring advisor, and designated Commission staff and its financial advisor shall serve on the Bond Team. It is further

39. ORDERED that one designated representative of DEF and one designated representative of this Commission shall be joint decision makers in all aspects of the structuring, marketing and pricing of the nuclear asset-recovery bonds except for those recommendations that in the sole view of DEF would expose DEF or the SPE to securities law and other potential liability (*i.e.*, such as, but not limited to, the making of any untrue statement of a material fact or omissions to state a material fact required to be stated therein or necessary in order to make the statements made not misleading) or contractual law liability (*e.g.*, including but not limited to terms and conditions of the underwriter agreement(s)). It is further

40. ORDERED that this Commission's designated staff and financial advisor shall be visibly involved, in advance, in all aspects of the structuring, marketing, and pricing of the nuclear asset-recovery bonds. It is further

41. ORDERED that all Bond Team members shall actively participate in the design of the marketing materials for the transactions as well as in the development and implementation of the marketing and sales plan for the bonds. It is further

42. ORDERED that DEF and this Commission's staff and its financial advisor as Bond Team members, excluding DEF's structuring advisor, shall have equal rights on the hiring

decisions for the underwriters and counsel to the underwriters. However, DEF shall have sole right to select and engage all counsel for DEF and the SPE. It is further

43. ORDERED that the final structure of the transaction, including pricing, shall be subject to review by this Commission for the limited purpose of ensuring that all requirements of law and this Financing Order have been met. It is further

44. ORDERED that together with the Bond Team's involvement in the structuring, marketing and pricing of the nuclear asset-recovery bonds, and the Issuance Advice Letter process, this Commission shall be able to fully review the pricing of the bonds as this Commission determines whether to issue a stop order no later than 5:00 pm Eastern time on the third business day following pricing. It is further

45. ORDERED that the servicer shall remit collections of the nuclear asset-recovery charges to the SPE or the indenture trustee for SPE's account either on a daily basis based on estimated daily collections or on a monthly basis if conditions to be determined by the Bond Team can be satisfied. This Commission expects the Bond Team to determine these conditions after consultation with the rating agencies to achieve and maintain the targeted "AAA/Aaa" rating on the bonds and to address investor concerns in the marketing and pricing of the bonds. If remittances are not daily, each month the servicer shall remit estimated earnings on collections pending remittance. The calculation of earnings shall be consistent with the methodology for calculating interest on over- and under-collections associated with DEF's cost recovery clauses. It is further

46. ORDERED that this Commission authorizes DEF to enter into an Administration Agreement with each SPE and to perform the administration duties approved in this Financing Order. DEF shall be entitled to collect administration fees and expenses in accordance with the provisions of the Administration Agreement, provided that (i) the aggregate annual administration fee payable to DEF while it is serving as administrator (or to any other administrator affiliated with DEF) for SPEs shall be $50,000 per year, payable annually in arrears. It is further

47. ORDERED that partial payments shall be allocated to the nuclear asset-recovery charge in the same proportion that such charge bears to the total bill. It is further

48. ORDERED that to the extent that any interest in the nuclear asset-recovery property created by this Financing Order is assigned, sold, or transferred to an assignee, DEF shall enter into a contract with that assignee that requires DEF to continue to operate its transmission and distribution system in order to provide electric services to DEF's customers; but this provision shall not prohibit DEF 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 DEF's customers. It is further

49. ORDERED that following repayment of the nuclear asset-recovery bonds and financing costs authorized in this Financing Order and release of the funds by the indenture

trustee, the SPE shall distribute the final balance of the Collection Account and DEF shall credit other electric rates and charges by a like amount, less the amount of the Capital Subaccount and any unpaid return on invested capital due to DEF as set forth in the body of this Financing Order. DEF shall similarly credit customers an aggregate amount equal to any nuclear asset-recovery charges subsequently received by the SPE or its successor in interest to the nuclear asset-recovery property. It is further

50. ORDERED that DEF or any assignee may apply for one or more new financing orders pursuant to Section 366.95, F.S. Each SPE may issue nuclear asset-recovery bonds approved in this Financing 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 nuclear asset-recovery bonds of the SPE to be suspended, withdrawn, or downgraded; provided, however, that DEF shall only create separate SPEs if they are required by the rating agencies to achieve the highest possible credit ratings. It is further

51. ORDERED that this Commission, as represented by designated Commission staff, this Commission's financial advisor, and this Commission's outside legal counsel, shall be actively involved in the bond issuance, subject to Ordering Paragraphs 66 and 67, as part of a Bond Team that also includes DEF, its structuring advisor or underwriter(s), and its outside counsel(s), in all aspects of the structuring, marketing, and pricing of each series of nuclear asset-recovery bonds to ensure that customers are represented in the transaction process and that the lowest overall cost standard is achieved. As a member of the Bond Team, this Commission's financial advisor will advise and represent this Commission on all matters relating to the structuring, marketing, and pricing of the nuclear asset-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 nuclear asset-recovery bonds as discussed in the body of this Order. Cooperation among DEF and this Commission will promote transparency in the nuclear asset-recovery bond pricing process, thereby promoting the integrity of the issuance process. It is further

52. 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. It is further

53. 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 this Commission, as such arrangements may be modified by any amendment entered into at this Commission's sole discretion, shall qualify as financing costs and be paid from proceeds of nuclear asset-recovery bonds. Such costs shall be payable upon closing in immediately available funds. It is further

54. ORDERED that this Commission's financial advisor and its outside legal counsel will assist this Commission at this Commission's sole discretion. It is further

55. ORDERED that the members of the Bond Team shall work cooperatively to achieve the statutory cost objectives and the lowest overall cost standard. It is further

56. ORDERED that DEF 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 this Commission's financial advisor as needed to enable this Commission's financial advisor to fulfill its obligation to advise this Commission and to deliver its opinion letter as set forth in Ordering Paragraphs 74 and 75. It is further

57. ORDERED that DEF on a timely basis shall provide to each member of the Bond Team all information such member reasonably needs to fulfill its obligations under the Financing Order. It is further

58. ORDERED that the role of this Commission's financial advisor will include, among other things, advising this Commission and its staff whether or not DEF's proposed structuring, marketing, pricing and financing costs of nuclear asset-recovery bonds meet all statutory requirements, including the statutory cost objectives, as well as the lowest overall cost standard. At the direction of this Commission staff, such financial advisor may represent this Commission as an active participant in the actual pricing process in real time. The financial advisor shall promptly inform this Commission's staff of any items that, in the financial advisor's opinion, are not reasonable or are not consistent with applicable statutory requirements, the statutory cost objectives, or the lowest overall cost standard so that such concerns can be brought to the attention of DEF in real time. It is further

59. ORDERED that this Commission's financial advisor shall not have any financial interest in the nuclear asset-recovery bonds nor participate in the underwriting or secondary market trading of the nuclear asset-recovery bonds. Any ongoing financing costs (*i.e.,* costs associated with this Commission's review of the actual costs of the nuclear asset-recovery bond issuance under Section 366.95(2)(c)5., F.S.) associated with this Commission's financial advisor and with this Commission's consultants and any 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 nuclear asset-recovery bonds issued pursuant to this Financing Order. It is further

60. ORDERED that DEF, in consultation with the other members of the Bond Team, subject to Ordering Paragraph 67, shall determine whether issuing a series of nuclear asset-recovery bonds through a negotiated sale or a competitive sale or combination thereof will achieve the statutory cost objectives and the lowest overall cost standard. It is further

61. ORDERED that subject to the process set forth in Ordering Paragraph 67, the Bond Team shall oversee the development of the competitive solicitation and selection of some or all underwriters, underwriters' counsel, trustee services and other transaction arrangements as deemed appropriate by the Bond Team, other than DEF's counsel and issuer's counsel to ensure

that the processes are competitive, will provide the greatest value for customers, and will result in the selection of transaction participants that have experience and the ability to achieve the lowest overall cost standard. It is further

62. ORDERED that subject to Ordering Paragraph 67, the Bond Team shall review the nuclear asset-recovery bond transaction documents to ensure that the transaction documents reflect the terms of this Financing Order and otherwise to ensure that the greatest possible customer protections are included. It is further

63. ORDERED that all transaction documents and subsequent amendments associated with the nuclear asset-recovery bonds shall be reviewed by the Bond Team before becoming operative to ensure that the lowest overall cost standard is achieved, to ensure that the transaction documents reflect the terms of this Financing Order, and to ensure that the greatest possible customer protections are included. It is further

64. ORDERED that all legal opinions associated with the nuclear asset-recovery bonds shall be submitted to this Commission automatically without requiring this Commission to specifically request the documents. It is further

65. ORDERED that all legal opinions related to the nuclear asset-recovery bond transaction shall be provided to the Bond Team for review. It is further

66. ORDERED that DEF shall be the sole decision maker in all aspects of the structuring, marketing and pricing of the nuclear asset-recovery bonds that, in the sole view of DEF would expose DEF or the SPE to securities law or other potential liability (*i.e.*, such as, but not limited to, the making of any untrue statement of a material fact or omissions to state a material fact required to be stated therein or necessary in order to make the statements made not misleading) or contractual law liability (*e.g.*, including but not limited to terms and conditions of the underwriting agreement(s). It is further

67. ORDERED that a Commissioner will be designated to resolve any issue as to which the DEF and Commission staff joint decision makers are unable to reach agreement. Any such matter shall be presented by the DEF and Commission staff joint decision makers to the Commissioner by email or in other writing. The Commissioner shall announce his or her decision on each matter presented by email or other writing to the DEF and Commission staff joint decision makers as soon as reasonably possible. As agreed upon by the parties to this proceeding, the decision of the Commissioner on all such matters shall be final and not subject to review by this Commission. It is further

68. ORDERED that, subject to Ordering Paragraph 67 the Bond Team shall have the opportunity to review the presentations to the rating agencies and to make recommendations in furtherance of achieving the lowest overall cost standard; provided, however, that DEF shall be the sole decision maker in all aspects of the structuring, marketing and pricing of the nuclear asset-recovery bonds that, in the sole view of DEF would expose DEF or the SPE to securities law or other potential liability (*i.e.*, such as, but not limited to, the making of any untrue

statement of a material fact or omissions to state a material fact required to be stated therein or necessary in order to make the statements made not misleading) or contractual law liability (*e.g.*, including but not limited to terms and conditions of the underwriting agreement(s). It is further

69. ORDERED that, subject to Ordering Paragraphs 66 and 67, the Bond Team shall work on a cooperative basis (a) to educate and expand the market among underwriters and investors for nuclear asset-recovery bonds and (b) to create the greatest possible participation and competition among underwriters and investors in order to ensure that the statutory cost objectives and the lowest overall cost standard are achieved. It is further

70. ORDERED that, subject to Ordering Paragraph 67 and subject to a possible stop order of this Commission issued no later than 5:00 p.m. Eastern time on the third business day following pricing, DEF and the Bond Team shall be afforded flexibility in determining the final terms of each series of the nuclear asset-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 nuclear asset-recovery bonds through either one SPE or multiple SPEs, except as otherwise provided in this Financing Order. It is further

71. ORDERED that the combined IAL/TUAL in substantially the form of Appendix C hereto is approved. It is further

72. ORDERED that DEF shall file for review and comment by the Bond Team a draft combined IAL/TUAL substantially in the form of Appendix C hereto at least two weeks prior to the expected pricing of the nuclear asset-recovery based upon the best information available at that time. Other aspects of the certifications may be modified to describe the particulars of the nuclear asset-recovery bonds and the actions that were taken during the transaction. Such draft shall include drafts of any certifications of DEF to be provided in connection with the filing of the final IAL/TUAL. Such certifications may be provided to this Commission on a confidential basis. Within one week of receiving the proposed form of combined IAL/TUAL, the members of the Bond Team representing this Commission shall provide comments and recommendations to DEF regarding the adequacy of information proposed to be provided. This Commission, acting directly, or though this Commission's staff designee, may agree to waive the prescribed time period for submission and review of the draft IAL/TUAL and any failure to provide written comments to the draft IAL/TUAL within the prescribed time period shall conclusively evidence a waiver of any objections. Prior to the submission of the first draft of the IAL/TUAL and through the period ending with the issuance of the nuclear asset-recovery bonds, DEF shall provide the Bond Team with timely information so that this Commission can participate fully and in advance regarding all aspects relating to the structuring, pricing and financing costs of the nuclear asset-recovery bonds. It is further

73. ORDERED that DEF shall file a combined IAL/TUAL in final form with this Commission no later than 5:00 pm Eastern time 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. As shown in the form of IAL/TUAL in

Appendix C, the combined IAL/TUAL shall include the following information: the actual structure of the nuclear asset-recovery bond issuance; the expected and final maturities of the nuclear asset-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 nuclear asset-recovery bonds and estimates of debt service and other ongoing financing costs for the first Remittance Period; a statement of the actions taken by the Bond Team and/or DEF 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 investors that placed the orders (on a confidential basis); and other information deemed necessary by the members of the Bond Team representing this Commission after review of the draft combined IAL/ITUAL, provided that such other information is consistent with the terms of this Financing Order; and a statement setting forth DEF's observations as to efforts made to assist the Bond Team in achieving the lowest overall cost standard. Finally, the combined IAL/TUAL shall include certifications from DEF if required, that the structuring, pricing and financing costs of the nuclear asset-recovery bonds achieved the statutory cost objectives. It is further

74. ORDERED that no later than 5:00 p.m. Eastern time on the second business day following pricing, this Commission's financial advisor shall deliver to this Commission an opinion letter consistent with the terms of its contract as to whether the structuring, marketing and pricing of the nuclear asset-recovery bonds achieved: (1) the statutory cost objectives; (2) the lowest nuclear asset-recovery charges consistent with prevailing market at the time of pricing, terms and conditions and terms of this Financing Order, and other applicable law; and (3) the greatest possible customer protections. That opinion letter shall include a report of any action or inaction which this Commission's financial advisor believes might have caused the transaction not to achieve the statutory cost objectives, the lowest nuclear asset-recovery charges, and/or the greatest possible customer protections, regardless of whether the reason for action or inaction by DEF was the result of DEF's sole view that the action or inaction would expose DEF or the SPE to securities law or other potential liability. The report of any such action or inaction which this Commission's financial advisor believes might have caused the transaction not to achieve the statutory cost objectives, the lowest nuclear asset-recovery charges, and/or the greatest possible customer protections, regardless of whether the reason for action or inaction by DEF was the result of DEF's sole view that the action or inaction would expose DEF or the SPE to securities law or other potential liability shall be treated as a material qualification to the opinion letter of this Commission's financial advisor. Such opinion letter may be provided to this Commission on a confidential basis subject to the ability of parties to this proceeding to review it on a confidential basis. It is further

75. ORDERED that members of the Bond Team shall review this information on the second business day after pricing. If all required certifications and statements have been delivered and the transaction complies with applicable law and this Financing Order, and if this Commission's financial advisor has delivered an opinion letter concluding without material qualification that the structuring, marketing and pricing of the nuclear asset-recovery bonds achieved: (1) the statutory cost objectives; (2) the lowest overall cost standard; and (3) the greatest possible customer protections, then the transaction shall proceed without the need for

further action of this Commission and without the need to hold the previously noticed Commission meeting. If, however, this Commission's financial advisor has delivered an opinion letter that contains material qualifications, or if the Commission's financial advisor has not delivered an opinion letter, then at the meeting previously noticed for the third business day after pricing, the members of the Bond Team will present to this Commission the results of their review. Despite there being material qualifications in the opinion letter from the Commission's financial advisor, this Commission retains discretion to allow the transaction to be completed if, after taking into account the opinion letter, if any, of the financial advisor, the views of other members of the Bond Team, and any other facts and circumstances, except for a change in market conditions after the moment of pricing, this Commission determines that the requirements of Section 366.95, F.S. and the Financing Order have been satisfied. It is further

76. ORDERED that, if this Commission does not, prior to 5:00 p.m. Eastern Time on the third business day after pricing, issue a stop order, 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 DEF and SPE to execute the issuance of the proposed series of nuclear asset-recovery bonds on the terms set forth in the Issuance Advice Letter, (ii) approved DEF's recovery of the upfront bond issuance costs proposed to be financed from the proceeds of the nuclear asset-recovery bonds subject to review pursuant to Section 366.95(2)(c)5., F.S., and (iii) determined that all standards, procedures, conditions, requirements, and objectives set forth in this Financing Order have been satisfied and that the requirements of Section 366.95, F.S. have been met. It is further

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

78. ORDERED that the Bond Team may require some or all underwriters of the nuclear asset-recovery bonds to deliver periodic reports on a confidential basis to members of the Bond Team presenting independently derived indicative pricing levels for the nuclear asset-recovery bonds before any public offering of the nuclear asset-recovery bonds is launched. The Bond Team may also request one or more of the bookrunning underwriters to deliver an opinion letter as to whether the structuring, marketing, and pricing of the nuclear asset-recovery bonds achieved the lowest overall cost standard. It is further

79. ORDERED that, upon the request of any member of the Bond Team, the bookrunning underwriter(s) of the nuclear asset-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 nuclear asset-recovery bonds, together with documentary verification that these marketing materials received a broad distribution to potential investors most likely to accept the lowest yields on the nuclear asset-recovery bonds. It is further

80. ORDERED that DEF shall credit back to customers through the capacity cost recovery clause all periodic servicing fees in excess of DEF's or an affiliate of DEF's incremental cost of performing the servicer function until the next rate case when costs and revenues associated with the servicing fees will be included in the cost of service; and DEF shall

credit back to customers through the capacity cost recovery clause all periodic administration fees in excess of DEF's or an affiliate of DEF's incremental cost of performing the administration function until the next rate case when costs and revenues associated with the administration fees will be included in the cost of service. It is further

81. ORDERED that this Commission guarantees that it will act pursuant to this Financing Order as expressly authorized by Section 366.95(2)(c)2.d. and 4., F.S., to ensure that nuclear asset-recovery charge revenues are sufficient to timely pay principal of and interest on the nuclear asset-recovery bonds issued pursuant to this Financing Order and other costs, including fees and expenses, in connection with the nuclear asset-recovery bonds. It is further

82. 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 nuclear asset-recovery charges associated with the nuclear asset-recovery property and other financing costs that are the subject of the Petition are granted. This Financing Order constitutes a legal financing order for DEF under Section 366.95, F.S. This Financing Order complies with Section 366.95(2)(c)1., F.S. A financing order gives rise to rights, interests, obligations, and duties as expressed in Section 366.95, F.S. It is this Commission's express intent to give rise to those rights, interests, obligations, and duties by issuing this Financing Order. It is further

83. ORDERED that, if DEF proceeds pursuant to this Financing Order, DEF and any other servicer of nuclear asset-recovery bonds authorized hereby are permitted to take all actions as are required to effectuate the transactions approved in this Financing Order, subject to the compliance with Section 366.95, F.S., and with this Financing Order. It is further

84. ORDERED that this Financing Order is a final order, any appeal of which is to be conducted pursuant to Section 366.95(2)(e), F.S. The finality of this Financing Order is not impacted, in any manner, by the actions or inactions taken by this 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. It is further

85. ORDERED that this docket shall remain open through completion of this Commission's review of the actual costs of the nuclear asset-recovery bond issuance conducted pursuant to Section 366.95(2)(c)5., F.S.

Highlight by Witness

By ORDER of the Florida Public Service Commission this 19th day of November, 2015.

hk14-0,1LE.

CARLOTTA S. STAUFFE
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399
(850) 413-6770
www.floridapsc.com

Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

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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 Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water and/or wastewater utility by filing a notice of appeal with the Office of Commission Clerk, 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. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

Highlight by Witness

SUMMARY OF CALCULATION OF DEF'S SECURITIZABLE BALANCE

Estimated CR3 Regulatory Asset, including carrying charges through 12/31/15	$1,283,012,000
Estimated carrying costs subsequent to 12/31/15 through bond issuance date*	18,826,920
Estimated upfront bond issuance costs	11,700,000
Estimated Principal Amount of Nuclear-Asset Recovery Bonds	$1,313,538,920

* through March 31, 2016

Highlight by Witness

ORDER NO. PSC-15-0537-FOF-EI
DOCKET NOS. 150148-EI, 150171-EI
PAGE 65

APPENDIX B

DUKE ENERGY FLORIDA
Nuclear Asset-Recovery Charge True-Up Mechanism Form
For the period , 20 through 20,

		Description	Calculation of the True-up (1)	Projected Revenue Requirement to be Billed and Collected (2)	Revenue Requirement for Projected Remittance Period (1)+(2)=(3)
1		**Nuclear Asset-Recovery Bond Repayment Charge (remitted to SPE)**			
2					
3		True-up for the Prior Remittance Period Beginning __ and Ending __:			
4		Prior Remittance Period Revenue Requirements			
5		Prior Remittance Period Actual Cash Receipt Transfers Interest income:			
6		Cash Receipts Transferred to the SPE			
7		Interest income on Subaccounts at the SPE			
8		Total Current Period Actual Daily Cash Receipts Transfers and Interest Income (Line 6 + 7)	-		
9		(Over)/Under Collections of Prior Remittance Period Requirements (Line 4+8)	-		
10		Cash in Excess Funds Subaccount	-		
11		Cumulative (Over)/Under Collections through Prior Remittance Period (Line 9+10)	$ -		$
12					
13					
14		Current Remittance Period Beginning and Ending			
15		Principal			
16		Interest			
17		Servicing Costs			
18		Other On-Going Costs			
19		Total Current Remittance Period Revenue Requirement (Line 15+16+17+18)	$ -		
20					
21		Current Remittance Period Cash Receipt Transfers and Interest Income:			
22		Cash Receipts Transferred to SPE	(A)	(B)	
23		Interest Income on Subaccounts at SPE	(A)	(B)	
24		Total Current Remittance Period Cash Receipt Transfers and Interest Income (Line 22+23)	$ -	$ -	
25		Estimated Current Remittance Period (Over)/Under Collection (Line 19+24)	$ -	$ -	$
26					
27					
28		Projected Remittance Period Beginning and Ending			
29		Principal			
30		Interest			
31		Servicing Costs			
32		Other On-Going Costs			
33		Projected Remittance Period Revenue Requirement (Line 29+30+31+32)		$ -	$
34					
35		Total Revenue Requirements to be Billed During Projected Remittance Period (Line 11+25+33)			$
36		Forecasted KWh Sales for the Projected Remittance Period (adjusted for uncollectibles)			
37		Average Retail Nuclear Asset-Recovery Charge per kWh (Line 35/36)			(C) 0
38					
39					
40					
41		Notes:			
42		(A) Amounts are based on a billed and collected basis.			
43		(B) Includes estimated amounts for ___ through ___.			
44		(C) Allocation of this amount to each rate class is addressed by Ms. Olivier in her testimony.			

Highlight by Witness

DUKE ENERGY FLORIDA

Form of Issuance Advice Letter

[Letterhead of Duke Energy Florida, LLC]

[, 20]

[ ]

Office of Commission Clerk

Florida Public Service Commission

2540 Shumard Oak Boulevard

Tallahassee, Florida 32399-0850

Re: Duke Energy Florida's Petition for Issuance of a Nuclear Asset-Recovery Financing Order; Docket No. [ ]; Issuance Advice Letter and Form of True-Up Adjustment Letter

Dear [ ]:

Pursuant to the financing order in the above-captioned Docket ("Financing Order"), Duke Energy Florida, LLC (the "Company") hereby transmits for filing this combined Issuance Advice Letter and Form of True-Up Adjustment Letter. Any terms not defined herein shall have the meanings ascribed thereto in the Financing Order or Section 366.95, Florida Statutes.

In the Financing Order, the Commission requires the Company to file a combined Issuance Advice Letter and Form of True-Up Adjustment Letter following pricing of a series of Nuclear Asset-Recovery Bonds.

The terms of pricing and issuance of the first series of Nuclear Asset-Recovery Bonds are as follows:

Name of Nuclear Asset-Recovery Bonds: Senior Secured Bonds, Series [ ]

Name of SPE: [DEF SPE] LLC

Name of Trustee: The Bank of New York Mellon

Expected Closing Date: [ ]

Preliminary Bond Ratings: Moody's, [ ]; Standard & Poor's, [ ]; Fitch, [ ]

(final ratings to be received prior to closing)

Total Principal Amount of Nuclear Asset-Recovery Bonds to be Issued (i.e., Amount of Nuclear Asset-Recovery Costs and Up-Front Bond Issuance Costs to be Financed):

$[ ] (See Attachment 1)

Estimated Up-Front Bond Issuance Costs: $[ ] (See Attachment 2)

Interest Rates and Expected Amortization Schedule: (See Attachment 3)

Distributions to Investors: Semiannually

Weighted Average Coupon Rate[3]: [ ]%

Annualized Weighted Average Yield[4]: [ ]%

Initial Balance of Capital Subaccount: $[ ]

Estimated/Actual Ongoing Costs for first year of Nuclear Asset-Recovery Bonds: $[ ] (See Attachment 4)

The initial Nuclear Asset-Recovery Repayment Charge (the "Initial Charge") has been calculated in accordance with the methodology described in the Financing Order and based upon the structuring and pricing terms of the Nuclear Asset-Recovery Bonds set forth in this combined Issuance Advice Letter and Form of True-Up Adjustment Letter.

Attachment 5 provides the Revenue Requirements for calculating the Initial Charge. Attachment 6 calculates the Initial Charge based upon the cost allocation formula approved in the Financing Order. Attachment 7 provides the estimated savings to customers when compared to the traditional method of cost recovery. Also attached are the calculations and supporting data for such tables. The Company's certification is Attachment 8.

Pursuant to the Financing Order, the transaction may proceed and the Initial Charge will take effect unless [**a stop order is issued by the Commission at the meeting to be held [, 20] (3 days after pricing)**]; and the Company, as servicer, or any successor servicer and on behalf of the trustee as assignee of the SPE, is required to apply at least every six months for mandatory periodic adjustment to the Nuclear Asset-Recovery Repayment Charges. The

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[3] Weighted by modified duration and principal amount of each class.
[4] Weighted by modified duration and principal amount, calculated including selling commissions.

Highlight by Witness

Initial Charge shall remain in effect until changed in accordance with the provisions of finding of fact [ ] of the Financing Order.

The Company's certification required by the Financing Order is set forth on Attachment 8, which also includes the statement of the actions taken by the Bond Team as required by finding of fact [ ] of the Financing Order.

Respectfully submitted,

Duke Energy Florida, LLC

By: _____

Highlight by Witness

ATTACHMENT 1

Attachment 1

TOTAL PRINCIPAL AMOUNT OF NUCLEAR ASSET-RECOVERY BONDS TO BE ISSUED (TOTAL AMOUNT OF NUCLEAR ASSET-RECOVERY COSTS AND UP-FRONT BOND ISSUANCE COSTS TO BE FINANCED)

CR3 Regulatory Asset, as of December 31, 2015	$
Carry charges on the CR3 Regulatory Asset, subsequent to December 31, 2015	
Estimated Up-front Bond Issuance Costs (refer to attachment	$
2) Total Costs Subject to Nuclear Asset-Recovery Financing	$
Total Nuclear Asset-Recovery Bond Issuance (rounded up)	**$**

Highlight by Witness

ATTACHMENT 2

Attachment 2[1]

ESTIMATED UP-FRONT BOND ISSUANCE COSTS

Underwriters' Fees and Expenses	$
Servicer Set-up Fee (including Information Technology Programming Costs)	$
Legal Fees	$
Rating Agency Fees	$
Commission's Financial Advisor Fees	$
Auditors Fees	$
DEF Structuring Advisor Fee	$
SEC Fees	$
SPE Set-up Fee	$
Marketing and Miscellaneous Fees and Expenses	$
Printing / Edgarizing Expenses	$
Trustee/Trustee Counsel Fee and Expenses	$
Original Issue Discount	$
Other Ancillary Agreements	$
TOTAL ESTIMATED UP-FRONT BOND ISSUANCE COSTS	**$**

[1] Pursuant to Section 366.95(2)(c)5. and the Financing Order, the Company is required to file with the Commission the actual Up-Front Bond Issuance Costs within 120 days of the Closing Date. The Commission may not make adjustments to the Nuclear Asset-Recovery Charges for any such excess Up-Front Bond Issuance Costs.

Attachment 3

EXPECTED AMORTIZATION SCHEDULE

A. General Terms

Tranche	Price	Coupon	Fixed/ Floating	Average Life	Expected Final Maturity	Legal Final Maturity

B. Scheduled Amortization Requirement

Series [ ], Tranche [A-1]					
Payment Date	Beginning Principal Balance	Interest	Principal	Total Payment	Ending Principal Balance

Highlight by Witness

ATTACHMENT 3

Series [ ], Tranche [A-2]

Highlight by Witness

Payment Date	Beginning Principal Balance	Interest	Principal	Total Payment	Ending Principal Balance

Attachment 4

ESTIMATED ANNUAL ONGOING FINANCING COSTS

	Annual Amount
Servicing Fee[1]	$
Return on Invested Capital	$
Administration Fee	$
Auditor Fees	$
Regulatory Assessment Fees	$
Legal Fees	$
Rating Agency Surveillance Fees	$
Trustee Fees	$
Independent Manager Fees	$
Miscellaneous Fees and Expenses	$
TOTAL ESTIMATED ANNUAL ONGOING FINANCING COSTS	$

1 Low end of the range assumes DEF is the servicer (0.05%). Upper end of the range reflects an alternative servicer (0.60%)

Attachment 5

REVENUE REQUIREMENT AND INPUT VALUES

Initial Payment Period from [, 20]to [, 20]	**Bond Repayment**	**Total**
Forecasted retail kWh sales		
Percent of billed amounts expected to be charged-off		%
Forecasted % of billings paid in the applicable period		%
Forecasted retail kWh sales billed and collected		
Nuclear Asset-Recovery Bond principal payment	$	$
Nuclear Asset-Recovery Bond interest payment	$	$
Forecasted ongoing financing costs (excluding principal and interest)	$	$
Total collection requirement for applicable period	$	$

Attachment 6

Rate Cass	I: Nuclear Asset-Recovery 12CP & 1/13 AD Allocation Factors Requirement (%)	12: Revenue S	;3: Effective kWh @ Secondary Level (000)	{1: Charge Before Gross-ups (c/Kwh)	; 5; Gross-up for U ncollecti be Accounts`" Fee 94,	i 6; Gross-up for Regulatory Assessment 96	1[7]; Nuclear Asset-Recovery Charge (c/Kwh)
Residential							
RS-1, RST-1, RSL-1, RSL-2,RSS-1							
Secondary	60259%	561.552.710	19.495.155	0.316	0.28436	0.072%	0.317
General Service Non-Demand							
GS-1, GST-1							
Secondary			1.575.881	0.255	0.28.6	0.07296	(1256
Prirary			8.616	0.252	0.28.6	0.07296	0.253
Trans r-iss;on			3.564	0.250	0.284%	0.072%	0.251
TOTA L GS	4.010%	51.056.685	1,588,044				
ripnpral Sp rvicp							
GS-2 Secondary	0.28496	5287.695	15.610	0.174	0.28436	0.072%	0.175
fienpralService Demand							
GSD-1, GSDT-1, 55-1							
Secondary			12,03,676	0.218	0.28434	0.07296	0.219
Primary			2,384.319	0.216	0.28.6	0.07296	0:1217
Transmission			10,895	0.214	0.28436	0.07296	(1214
TOTALGSD	30.991%	531.3/6.736	14,408,890				
Curtailable							
CS-1,CST1, CS-2, CST-2, CS-3, CST-3,55-3							
Secondary			-	0.148	0.28436	0.072%	(1149
Prir-ark.			121.778	0.147	0.284%	0.07296	a 147
Trans r-ission				0.145	olus	0.072%	11146
TOTAL CS	0.17896	5180.385	121.778				
jnterruprible							
IS-1, 6T-1, 15-2, 6T-2, SS-2							
Secondary			.382	0.178	0.284)6	0.072%	11179
Primary			1.33s,s41	0.176	0.284%	0.072)6	0.177
Tra r* miss, or			316.913	0.174	0.284%	0.07296	11175
TOTAL 5	3.501%	53.511.168	1,995436				
Lighting							
LS-1 Secondary	0.173%	5174,966	385.378	0.045	0.28436	0.07296	(1045
Total	100.00036	5101.156.514	38.159.991	0.265	0.284%	0.07236	(1266

Uncollectible accounts percentage wm approved in Order No. PSC-10-0131-F0E- El

Highlight by Witness

Attachment 7

ESTIMATED SAVINGS

Based on current market conditions, the total estimated cumulative revenue requirement would be $708 million lower, on an undiscounted basis, than the total estimated cumulative revenue requirement under the traditional recovery method the Company is entitled to recover under the Revised and Restated Stipulation and Settlement Agreement approved by the Commission pursuant to its order (No. PSC-13-0598-FOF-EI) issued on November 13, 2013, detail for which is shown in the table below.

[Workpapers to be attached]

Attachment 8

Form of Company Certification

[Letterhead of Duke Energy Florida, LLC]

[, 20]

TO: Florida Public Service Commission

2540 Shumard Oak Boulevard

Tallahassee, Florida 32399-0850

Re: Attachment 8; Company Certification

Duke Energy Florida, LLC (the "Company") submits this Certification pursuant to an ordering paragraph of the Financing Order on page [ ] in *Petition for issuance of a nuclear asset-recovery financing order by Duke Energy Florida, LLC,* Docket No. [ ] (the "Financing Order"). All capitalized terms not defined in this letter shall have the meanings ascribed to them in the Financing Order.

In its issuance advice and form of true-up adjustment letter dated [, 20], the Company has set forth the following particulars of the Nuclear Asset-Recovery Bonds:

Name of Nuclear Asset-Recovery Bonds: Senior Secured Bonds, Series [ ]

Name of SPE: [DEF SPE] LLC

Name of Trustee: The Bank of New York Mellon

Expected Closing Date: [, 20]

Preliminary Bond Ratings: Moody's, [ ]; Standard & Poor's, [ ]; Fitch, [ ] (final ratings to be received prior to closing)

Total Principal Amount of Nuclear Asset-Recovery Bonds to be Issued: $ (See Attachment 1)

Estimated Up-Front Bond Issuance Costs: $ (See Attachment

2) Interest Rates and Expected Amortization Schedule: (See Attachment 3)

Distributions to Investors: Semiannually

Weighted Average Coupon Rate[5]: %

Annualized Weighted Average Yield[6]: %

Initial Balance of Capital Subaccount: $

Estimated/Actual Financing Ongoing Costs for first year of Nuclear Asset-Recovery Bonds: $[ ]

As required by the Financing Order, a Bond Team comprised of representatives of the Company, the Commission and their designated advisors and legal counsel was established to ensure that the structuring, pricing and financing costs of the nuclear asset-recovery bonds have a significant likelihood of resulting in lower overall costs or would avoid or significantly mitigate rate impacts to customers as compared with the traditional method of cost recovery.

Beginning in [ ] of 2015, the Bond Team began meeting to address the details of the nuclear asset-recovery bond issuance in accordance with the terms of the Commission's Financing Order. [**ADD DESCRIPTION OF BOND TEAM MEETINGS**]

In accordance with the standards, procedures and conditions set forth in the Financing Order, the following actions were taken by the Bond Team in connection with the structuring, pricing and financing costs of the nuclear asset-recovery bonds in order to satisfy the statutory cost objectives and the lowest overall cost standard:

- [include relevant actions]

Based upon information known or reasonably available to the Company, its officers, agents and employees: (i) the structuring, pricing and financing costs of the nuclear asset-recovery bonds and the imposition of the proposed nuclear asset-recovery charges have a significant likelihood of resulting in lower overall costs or significantly mitigate rate impacts to customers as compared with the traditional method of financing and recovering nuclear asset-recovery costs and (ii) on a reasonably comparable basis, the costs incurred in the issuance of the nuclear asset-recovery bonds resulted in the lowest overall costs that were reasonably consistent with market conditions at the time of the issuance and the terms of the financing order.

This certification is being provided to the Commission by the Company in accordance with the terms of the Financing Order, and no one other than the Commission shall be entitled to rely on the certification provided herein for any purpose.

---

[5] Weighted by modified duration and principal amount of each class.
[6] Weighted by modified duration and principal amount, calculated including selling commissions.

Highlight by Witness

ATTACHMENT 8

Duke Energy Florida, LLC

By: _____

Name:

Title:

Highlight by Witness

DUKE ENERGY FLORIDA

Form of Standard True-Up Letter

[name]

[Title]

Florida Public Service Commission

2540 Shumard Oak Boulevard

Tallahassee, Florida 32399-0850

Re: Docket No. 150171-EI
Routine Nuclear Asset-Recovery Charge True-Up Adjustment Request

Dear [_____]:

Pursuant to Section 366.95, F.S., and Order No. [ ], known as the "Financing Order," Duke Energy Florida, LLC (DEF) as Servicer of the [insert description] ("nuclear asset-recovery bonds") hereby gives notice of an adjustment to the nuclear asset-recovery bond charges ("nuclear asset-recovery charges").

This adjustment is intended to satisfy Section 366.95(2)(c), F.S., and the Financing Order, which requires that the nuclear asset-recovery charges recover amounts sufficient to timely provide all payments of debt service and other required amounts and charges in connection with the nuclear asset-recovery bonds during the upcoming Remittance Period. The calculation of the revised factors is in accordance with the Financing Order.

This filing modifies the variables used in the nuclear asset-recovery charges and provides the resulting adjusted nuclear asset-recovery charges. Attachment A-l shows the resulting values of the nuclear asset-recovery charges for each class of customers, as calculated in accordance with the Financing Order, such charges to be effective as of [insert date], the first day of the billing cycle. Pursuant to 366.95(2)(c), F.S., the allocation of nuclear asset-recovery charges has been made in accordance with the Financing Order dated as of [insert order issue date]. The calculations and supporting data for charges are appended to Attachment A-1.

Highlight by Witness

Consistent with the Financing Order, the proposed adjustments to the charges will be effective on [insert date], the first day of the billing cycle (i.e., 60 days after the filing of this routine nuclear asset-recovery charge true-up adjustment request).

DEF is also submitting for administrative approval the [TBD] Revised Sheet No. 6.105, which reflects the revised Nuclear Asset-Recovery Bond Repayment Charge factors. Attachment A-2 includes this tariff sheet in clean and legislative formats. Consistent with Commission practice, the administratively approved tariff sheet should be returned to Javier Portuondo, DEF's Director of Rates & Regulatory Strategy, 299 1st Avenue North, St. Petersburg, Florida 33701.

If you have any questions regarding this filing, please do not hesitate to contact me at [insert]. Thank you for your assistance.

Respectfully submitted,

DUKE ENERGY FLORIDA, LLC

By: _____

Name: _____

Title:

Attachments

Asset Securitization report
The Premier Guide to Asset and Mortgage-Backed Securitization
www.asreport.com

PUBLISHED BY THOMSON MEDIA VOL. 3 / NUMBER 29 JULY 21, 2003

WHISPERS

In a restructuring within the bank, **Banc of America Securities** named managing director **Pat Augustine** head of a new product group overseeing ABS, MBS, investment-grade debt and non-leveraged loan operations. The group is called "Debt Operating Committee," of which all of its members report to committee chair **Ed Brown**. The 11-member committee oversees all aspects of fixed-income operations, according to a memo.

- CONTINUED ON PAGE 4 -

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RRB sector leader Texas aims to set best practices

CenterPoint plans largest-ever stranded cost ABS

CenterPoint Energy, which hopes to bring the largest ever stranded cost offering next year, has taken steps,at the request of regulators to increase transparency in its deals, hopefully leading to a sector-wide trend. Interestingly, several past issuers have de-registered, or suspended filings, on their outstanding transactions. Using programmatic ABS issuers such as **Sallie Mae** as a benchmark, CenterPoint voluntarily committed to expand the data reported in quarterly filings and begin reporting additional performance and collections data on its Web site, sources said.

The move comes as CenterPoint is in the planning stages of a $4 billion to $6 billion offering via **Morgan Stanley** and the **Public Utility Commission of Texas** (PUCT). The commission aims to differentiate the state as the most investor-friendly in the stranded asset universe. The state also claims it will ensure the lowest electricity rates to electricity consumers.

Together, CenterPoint, the PUCT and its financial advisor **Saber Partners LLC** are pushing to set a best-practices standard for RRB

- SEE **RRB** ON PAGE 5 -

Welcome Break restructuring

Welcome Break plc, the U.K.-based motorway operator, was back in the market negotiating yet another round of refinancing in an attempt to save its securitization from falling into junk oblivion.

The ratings saga for this operating company securitization began last year, with **Fitch Ratings** taking action on the deal after keeping it on watch for nearly a year (see *ASR* 3/4/02). The class A1, A2 and A3 notes were all downgraded to 'BBB+' from 'A', and a class B tranche was downgraded to 'BB' from 'BBB'. At the time, analysts noted that future sale/lease-backed transactions executed by the company could result in further rating volatility. Fitch decided to keep

- SEE **WELCOME** ON PAGE 20 -

Brazil cross-border picks up

After months of the occasional cross-border saunter, Brazil is now moving at a rhythm worthy of samba. Hot on the heels of credit card processor **Visanet**, three issuers from the Latin giant have descended on cross-border investors over the last two weeks for a total of US$447 million, according to sources. Two of those transactions — **Gerdau/Acominas** and **Companhia Siderurgica Nacional** (CSN) — were in the steel sector, whereas the third was by **Banco Itau**, a bank.

CSN priced a US$142 million, seven-year final 144A at 485 basis points over Treasurys via **BNP Paribas**, while Acominas issued a US$105 million, seven-year final pri-

- SEE **BRAZIL** ON PAGE 18 -

***RRB** CONTINUED FROM COVER PAGE*

issuers, even though, by nature, energy producers are not reliant on the ABS market for funding. The goal is an unusual one for these issuers — to assure the lowest cost to the consumer, according to PUCT Chairwoman **Rebecca Klein**.

Despite the unique strengths, such as a legislatively mandated periodic true-up mechanism and an inability of consumers to avoid payment — both of which are pointed out repeatedly by researchers — the sector pays a liquidity premium versus other fixed-rate asset classes. Outstanding Texas RRBs, however, are the tightest in the sector, frequently pricing in line with more liquid credit card ABS.

Due to the off-the-run status, these typically one-off deals have been forgotten by some issuers following pricing and are viewed by some as "orphaned children." In fact, of the 21 deals to price since 1997, eight have been either de-registered, pursuant to Rule 15-15D, or have seen filings stop altogether, for no apparent reason, according to filings with the Securities and Exchange Commission. Texas regulators, with the help of Saber, hope to change that.

Imagine the investor reaction if **Ford Motor Credit**, for example, de-registered and ceased reporting on its outstanding ABS. The trouble, notes Saber CEO **Joseph Fichera**, is that stranded cost issuers aim to price at levels comparable to others within the sector, rather than the benchmark issuers in other sectors of the ABS market. "RRBs are an asset class with a unique form of credit enhancement, the true-up. Imagine if a credit card issuer could ensure losses of less than 1%, as the true-up allows."

"At a time when the quality of information available to the market on some [issuer-specific] credit card-backed bonds and similar securities is getting worse, the CenterPoint/PUCT effort to create a new best practice should enhance liquidity of CenterPoint's outstanding transition bonds," Fichera added. "Ratepayer costs on new CenterPoint issues, if any, could be lower as a result."

Currently, Texas is viewed in the top tier of states from which RRBs have been issued (see *ASR* 6/23/03). In addition to the current initiatives, as reported in *ASR* sister publication *Investment Dealers' Digest*, the PUCT has mandated that issuers hold competitive bidding for underwriters to win lead mandates. This is all in an effort to "ensure the lowest possible cost to Texas customers," added the PUCT's Klein.

Already the leader among RRB-issuing states, Texas originated RRBs have historically priced roughly 11 basis points through other states' bonds for three-year, 15 basis points through for seven-year and 20 basis points through for 10-year paper, traders said. Researchers have cited the favorable legal environment for energy concerns, as well as constituent support for utility holding companies — the leading employers — within the state.

"Of all the states involved in stranded cost securitization, Texas recognizes the timing issues and secondary liquidity importance to investors," Fichera summed up. "Most [RRB] issuers are not as concerned about the all-in cost of issuance, because it is easily and unequivocally passed on to the consumer. — *KD*

THE VANISHING DATA GAME

No filing - no explanation

Issue	*State*	*Pricing*	*Filing*	*Date Filed*
PSNH Funding 2001-1	NH	Apr-01	8-K	5/7/01
PSNH Funding 2002-1	NH	Jan-02	8-K	2/7/02
WMECO Funding 2001-1	MA	May-01	8-K	5/24/01

Deregistered under Rule 15-15D

Issue	*State*	*Pricing*	*Filing*	*Date Filed*
ConEd Funding LLC	IL	Dec-98	15-15D	5/13/99
Illinois Power 1998-1	IL	Dec-98	15-15D	5/17/99
BEC Funding 1999-1	MA	Jul-99	15-15D	5/8/00
Peco Energy 2000-A	PA	Apr-00	15-15D	1/29/02
CPL Tran. Funding 2002-1	TX	Jan-02	15-15D	1/22/03

Source: Securities and Exchange Commission

subsidiary] **Hann Financial** is required to maintain on behalf of the origination trust contingent and excess liability insurance which provides primary and/or excess coverage of at least $5 million combined single limit coverage per occurrence and an umbrella insurance policy which provides coverage up to $20 million per occurrence. Susquehanna has guaranteed to cover tortuous liability claims up to $25 million," noted Moody's pre-sale report.

"The event risk of all the protections failing is small," Moody's Lawrence said. "And should any case be on appeal for two years, as the Rhode Island case is, this transaction would be almost all paid down." The longest dated tranche in the deal is three years and over 71% of the leases in the pool are roughly three years in term.

The vicarious liability law, signed into effect in 1924, has led many auto finance companies to cease auto leasing activity in New York as of July 1, after the state legislature failed to eradicate or cap liabilities prior to its summer recess. While the state Senate passed A-1042, which would have repealed vicarious liability, the bill stalled in the state Assembly. — *KD*

Oncor Electric

Revitalizing an entire asset class

Oncor Electric's first stranded cost securitization was a landmark for the stranded cost sector, which at the time had yet to fully mature. While roughly three years old, stranded cost ABS, or rate reduction bonds (RRBs), had been brought primarily by non-programmatic issuers, with the intention of never returning. And although called rate reduction bonds, most issuers were more concerned with recovering costs associated with prior investments made in a pre-deregulated environment.

With the combined efforts of **Public Utilities Commission of Texas** (PUCT), and advisory firm **Saber Partners**, Oncor changed the stranded cost ABS landscape — creating investor reporting standards. Issuers in Texas — the state with the most potential supply — must allow investors to fully understand and gauge performance of this relatively new asset class. The goal of the PUCT, Oncor and Saber was to achieve the most inexpensive all-in cost for the issuer, and in turn keep charges to the consumer as low as possible.

In addition to increasing transparency for investors through reporting, Oncor utilized an unheard of "performance based" underwriting fee, rewarding lead and co-managers for broadening investor distribution and tightening spreads.

Joseph Fichera, CEO of Saber Partners calls the performance-based compensation "revolutionary."

"In Oncor's offering we created additional relative value through the structure, increased disclosure and transparency and broader liquidity by expanding the buyer base," Fichera said. "For the bookrunners and co-managers, we tied compensation to performance on price and distribution so that everyone's incentives were aligned — the investor buying the bonds and the ratepayer paying for the bonds received the best deal possible at the time."

The result was broad distribution to non-traditional ABS investors, with heavy corporate overlap. Also, Oncor priced at the tightest levels the sector had seen to date through secondary RRB spreads, pricing just behind the largest and most liquid asset classes of the ABS market, rather than a "one-off" collateral type. Moreover, in the weeks following Oncor's pricing, the entire $30 billion stranded cost sector tightened four to 10 basis points, depending on maturity, and has remained at those levels throughout the year.

"The concept is essentially investment bankers earning their compensation during the underwriting and sales process, as opposed to being guaranteed compensation before a single bond is sold," Fichera added. "We wanted an incentive-based compensation plan that prevented the bookrunners from controlling everything while giving the co-managers a greater incentive to work."

Cendant's Terrapin: ABS technology comes together

A close runner-up to Oncor,

THE DEALS

ONCOR TRANSITION BOND LLC 2003-1

Date: 8/14/2003 | **Seller: Oncor Electric Delivery Co.** | **Amount: $500 million** | **Collateral: stranded cost**

Class	*Amount*	*MDY/S&P/FTC*	*Avg. Life*	*Benchmark*	*Guidance*	*Spread*	*Coupon*	*Price*	*Yield*
A1	$103.0	Aaa/AAA/AAA	2.00y	Swaps	+8-10bp	+7bp	2.26%	99.9827	2.269%
A2	$122.0	Aaa/AAA/AAA	5.00y	Swaps	+8-10bp	+7bp	4.03%	99.9872	4.033%
A3	$130.0	Aaa/AAA/AAA	8.00y	Swaps	+16-18bp	+16bp	4.95%	99.9683	4.955%
A4	$145.0	Aaa/AAA/AAA	10.8y	Swaps	+20-22bp	+19bp	5.42%	99.9768	5.423%

Credit Enhancement: sr/sub | **Manager: Lehman Brothers, Morgan Stanley**

Notes: Settles: 08/21/03; Co-mgrs: Goldman Sachs, Merrill Lynch

TERRAPIN FUNDING LLC

Date: 7/18/2003 | **Seller: Cendant Corp.** | **Amount: $377.43 million** | **Collateral: auto fleet lease**

Class	*Amount*	*MDY/S&P/FTC*	*Avg. Life*	*Benchmark*	*Guidance*	*Spread*	*Coupon*	*Price*	*Yield*
A1	$187.3	Aa2/AA/NR	3.00y	1ML	+60bp A	+75bp	+75bp	100.0	n/a
B1	$80.58	A2/A/NR	3.00y	1ML	+130bp A	+130bp	+130bp	100.0	n/a
B2	$50.0	A2/A/NR	5.00y	1ML	+150bp A	+150bp	+150bp	100.0	n/a
C1	$44.0	Baa2/BBB/NR	3.00y	1ML	+225bp A	+225bp	+225bp	100.0	n/a
C2	$15.55	Baa2/BBB/NR	5.00y	1ML	+250bp A	+250bp	+250bp	100.0	n/a

Credit Enhancement: sr/sub | **Manager: Lehman Brothers**

ASSET-BACKED ALERT
The Weekly Update on Worldwide Securitization
www.ABAlert.com

SEPTEMBER 5, 2003

2 Money Manager Launches CP Entity
3 New CDO Issuer Enters Fray
3 Rabobank Shops Multi-Asset Deal
3 Chevy Chase Charting Return
6 South African Conduit in the Works
6 RBC Beefing Up in Canada
9 Robust Card Payments Offset Losses
10 CALENDAR

THE GRAPEVINE

... From Page 1

Secondary-market spreads are tightening for utility-fee bonds, thanks to a $500 million securitization by Dallas-based **Oncor Electric Delivery** last month that brought in the tightest-ever pricing for an issue of its kind. Five-year utility-fee securities, for example, were changing hands at 9 bp over swaps this week, compared to 14 bp over swaps in early August. Oncor, a unit of **TXU Electric**, is planning an $800 million deal for January as well.

Klein Exhibit 4
DOCKET NO. E-2, Sub 1262
DOCKET NO. E-7, Sub 1243

June 16, 2016

Florida Public Service Commission
Saber Partners, LLC
c/o Saber Partners, LLC
44 Wall Street
New York, New York 10005
Attention: Joseph S. Fichera
Chief Executive Officer &
Senior Managing Director
Duke Energy Florida, LLC
Duke Energy Florida Project Finance, LLC
550 South Tryon Street, DEC 40A
Charlotte, North Carolina 28202
Attention: Treasurer

Duke Energy Florida, LLC
Duke Energy Florida Project Finance, LLC
Series A Senior Secured Bonds

Ladies and Gentlemen:

In Docket No. 150171-EI, the Florida Public Service Commission (the "Commission") issued its Financing Order dated November 19, 2015 (the "Financing Order"). The Financing Order authorized a wholly-owned subsidiary of Duke Energy Florida, LLC (the "Company"), Duke Energy Florida Project Finance, LLC (the "Issuer"), to issue nuclear asset-recovery bonds as defined in the Financing Order. This certificate is being delivered pursuant to Ordering Paragraph 78 of the Financing Order which states: "The Bond Team may also request one or more of the bookrunning underwriters to deliver an opinion letter as to whether the structuring, marketing, and pricing of the nuclear asset-recovery bonds achieved the lowest overall cost standard."

[redacted] (the "Underwriter") serves as a joint-lead bookrunning underwriter for $1,294,290,000 aggregate principal amount of the Issuer's Series A Senior Secured Bonds (the "Series A Bonds") proposed to be issued pursuant to the Financing Order. Attached as Appendix A is the Pricing Term Sheet delivered by the Company in connection with the issuance of the Series A Bonds. This Pricing Term Sheet includes a schedule setting forth the principal amount, any original issue premium or discount, the interest rate, and the resulting net proceeds to the Issuer (before expenses) for each weighted average life designation of Series A Bonds.

Since the date the Underwriter was first retained to serve as a joint-lead bookrunning underwriter in connection with the issuance of the Series A Bonds, the Underwriter has offered Saber Partners, LLC ("Saber Partners"), as the Commission's financial advisor in connection with the Series A Bonds, the opportunity to participate fully and in advance in all negotiations in which the Underwriter has participated regarding all aspects of the structuring, marketing, and pricing of the Series A Bonds. The Series A Bonds were priced at 1:59 PM New York Time on June 15, 2016 (the "Pricing Time"), when a syndicate of underwriters, jointly led by the

Underwriter, agreed to purchase the Series A Bond in accordance with the terms of the Underwriting Agreement, dated June 15, 2016.

Based on the Underwriter's experience and on market conditions and other information reasonably available to the Underwriter through the Pricing Time, we hereby certify, in our opinion, that:

1. Competitive sales are not customary in the market in which nuclear asset-recovery bonds typically are marketed, nor are they generally considered to be the most effective manner in which to market securities such as the Series A Bonds.

2. The Issuer would not have achieved a lower net cost of funds to the Issuer for any or all weighted average life designations of the Series A Bonds through a competitive bidding process than through the negotiated sale of all the Series A Bonds to the syndicate of underwriters jointly led by the Underwriter.

3. The structure of the Series A Bonds reflected in the Preliminary Prospectus filed with the United States Securities and Exchange Commission on June 15, 2016 and in the transaction documents described and/or contemplated therein, when viewed in the aggregate, resulted in the lowest overall net cost of funds to the Issuer in respect of the Series A Bonds.

4. The marketing and pricing of the Series A Bonds resulted in (a) the lowest overall net cost of funds to the Issuer in respect of the Series A Bonds in the aggregate, and (b) the lowest net cost of funds to the Issuer in respect of each weighted average life designation of Series A Bonds.

Based on the foregoing, on the Underwriter's experience and on market conditions and other information reasonably available to the Underwriter through the Pricing Time, we hereby certify, in our opinion, that the Issuer achieved (a) the lowest overall net cost of funds to the Issuer in respect of the Series A Bonds, and (b) given the schedule of weighted average life designations of the Series A Bonds, the lowest net cost of funds to the Issuer in respect of each weighted average life designation of Series A Bonds.

For purposes of this certificate, "net cost of funds" to the Issuer" means the yield payable by the Issuer on each weighted average life designation of the Series A Bonds plus the annualized cost, expressed as a percentage, of the underwriter's discount and any external credit enhancement attributable to that weighted average life designation.

For purposes of this certificate, "marketing" means all aspects of presenting the Series A Bonds to the public capital markets and offering the Series A Bonds for sale to investors, including but not limited to targeting particular investors or classes of investors and selecting methods of communicating with investors.

We are delivering this certificate (i) to Saber Partners to assist Saber Partners in determining whether to notify the Company and the Commission that the structuring, marketing, and pricing of the Series A Bonds complies with the criteria established in the Financing Order, (ii) to the Company to assist it in executing and delivering its Issuance Advice Letter, and (iii) to the Commission to assist it in determining whether to issue an order pursuant to Ordering Paragraph 75 or Ordering Paragraph 76 of the Financing Order, or whether to allow the Series A Bonds to be issued without further action by the Commission pursuant to Ordering Paragraphs 75 and 76 . Except for references to this letter (a) in the Company's certification to the Commission and Saber Partners, (b) in any certification or other writing or oral communication provided by Saber Partners to the

Commission or to the Commission's staff relating to the Series A Bonds, or (c) by the Commission or its staff to Saber Partners or to the Commission's outside legal counsel, without our written permission, neither this letter nor its substance nor any such certification or other writing or oral communication concerning this letter may be disclosed, published in any document or referred to in any manner, including any certification, other writings or oral communications, nor may any of them be furnished to, used by or relied upon by any other person or for any other purpose unless otherwise required by applicable law. Nothing in this paragraph shall prevent the Company, the Commission or Saber Partners from disclosing, publishing or referring to any certification or other writing or communication of the Company or of Saber Partners that refers to this certificate if all direct references to the Underwriter as a joint bookrunning underwriter are redacted or otherwise omitted from the text of such certification or other writing or communication of the Company or of Saber Partners.

Respectfully submitted,

[redacted]
as Underwriter

[redacted]

[redacted]
Senior Managing Director

APPENIDX A

Pricing Term Sheet

Free Writing Prospectus Filed under Rule 433 Relating to Preliminary Prospectus dated June 15, 2016 File Nos. 333-209196 and 333-209196-01

Duke Energy Florida Project Finance, LLC
(Issuing Entity)

Pricing Term Sheet
June 15, 2016

$1,294,290,000
Series A Senior Secured Bonds

Joint Book-Running Managers: [redacted]

Senior Co-Managers [redacted]

Provisional Ratings: "Aaa(sf)" / "AAA(sf)" / "AAAsf" by Moody's, S&P and Fitch, respectively(1)

Closing Date / Settlement Date: June 22, 2016(2)

Interest Payment Dates: March 1 and September 1 of each year, and on the final maturity date, commencing on March1, 2017

Applicable Time: 1:59PM (Eastern time) on June 15, 2016

Proceeds: The total price to the public is $1,294,238,713. The total amount of the underwriting discounts and commissions is $6,789,530. The total amount of proceeds to Duke Energy Florida Project Finance, LLC before deduction of expenses (estimated to be $9,163,470) is $1,287,449,183.

Series A Bonds	Expected Weighted Average Life (Years)	Principal Amount Issued	Scheduled Final Payment Date	Final Maturity Date	Interest Rate	Initial Price to Public(3)	Underwriting Discounts and Commissions	Proceeds to Issuer (Before Expenses)
Series A 2018	2.0	$ 183,000,000	March 1, 2020	March 1, 2022	1.196%	99.999%	0.25%	$ 182,540,670
Series A 2021	5.0	$ 150,000,000	September 1, 2022	September 1, 2024	1.731%	99.998%	0.40%	$ 149,397,000
Series A 2026	10.0	$ 436,000,000	September 1, 2029	September 1, 2031	2.538%	99.996%	0.50%	$ 433,802,560
Series A 2032	15.2	$ 250,000,000	March 1, 2033	March 1, 2035	2.858%	99.995%	0.65%	$ 248,362,500
Series A 2035	18.7	$ 275,290,000	September 1, 2036	September 1, 2038	3.112%	99.994%	0.70%	$ 273,346,453

(1) A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

(2) It is expected that the bonds will be delivered against payment for the bonds on or about June 22, 2016, which will be the fifth business day following the date of pricing of the bonds. Since trades in the secondary market generally settle in three business days, purchasers who wish to trade bonds on the date of pricing or the succeeding two business days will be required, by virtue of the fact that the bonds initially will settle in T+5, to specify alternative settlement arrangements to prevent a failed settlement.

(3) Interest on the bonds will accrue from June 22, 2016 and must be paid by the purchaser if the bonds are delivered after that date.

Series A Bonds	Benchmark Treasury	Benchmark Treasury Price and Yield	Spread to Benchmark Treasury
Series A 2018	UST 0.875% due May 31, 2018	100-9+, 0.726%	47 bps
Series A 2021	UST 1.375% due May 31, 2021	101-5+, 1.131%	60 bps
Series A 2026	UST 1.625% due May 15, 2026	100-5, 1.608%	93 bps
Series A 2032	UST 1.625% due May 15, 2026	100-5, 1.608%	125 bps
Series A 2035	UST 2.500% due February 15, 2046	101-20+, 2.422%	69 bps

Duke Energy Florida Project Finance, LLC and Duke Energy Florida, LLC have filed a registration statement (including a prospectus) with the Securities and Exchange Commission ("SEC") for the offering to which this communication relates. Before you invest, you should read the prospectus in that registration statement and other documents Duke Energy Florida Project Finance, LLC and Duke Energy Florida, LLC have filed with the SEC for more complete information about Duke Energy Florida Project Finance, LLC and the offering. You may get these documents for free by visiting EDGAR on the SEC web site at www.sec.gov. Alternatively, Duke Energy Florida Project Finance, LLC, any underwriter or any dealer participating in the offering will arrange to send you the prospectus if you request it by calling [redacted].

	Series A 2018	Series A 2021	Series A 2026	Series A 2032	Series A 2035
CUSIP:	26444G AA1	26444G AB9	26444G AC7	26444G AD5	26444G AE3
ISIN:	US26444GAA13	US26444GAB95	US26444GAC78	US26444GAD51	US26444GAE35

Expected Sinking Fund Schedule

Semi-Annual Payment Date	Series A 2018 Principal Balance	Series A 2021 Principal Balance	Series A 2026 Principal Balance	Series A 2032 Principal Balance	Series A 2035 Principal Balance
Closing Date	$ 183,000,000	$ 150,000,000	$ 436,000,000	$ 250,000,000	$ 275,290,000
March 1, 2017	147,300,000	150,000,000	436,000,000	250,000,000	275,290,000
September 1, 2017	120,300,000	150,000,000	436,000,000	250,000,000	275,290,000
March 1, 2018	91,968,362	150,000,000	436,000,000	250,000,000	275,290,000
September 1, 2018	66,819,301	150,000,000	436,000,000	250,000,000	275,290,000
March 1, 2019	38,167,849	150,000,000	436,000,000	250,000,000	275,290,000
September 1, 2019	12,697,061	150,000,000	436,000,000	250,000,000	275,290,000
March 1, 2020		133,721,958	436,000,000	250,000,000	275,290,000
September 1, 2020		107,883,912	436,000,000	250,000,000	275,290,000
March 1, 2021		78,473,209	436,000,000	250,000,000	275,290,000
September 1, 2021		52,163,338	436,000,000	250,000,000	275,290,000
March 1, 2022		22,276,781	436,000,000	250,000,000	275,290,000
September 1, 2022			431,486,993	250,000,000	275,290,000
March 1, 2023			401,419,122	250,000,000	275,290,000
September 1, 2023			374,328,724	250,000,000	275,290,000
March 1, 2024			343,548,495	250,000,000	275,290,000
September 1, 2024			315,736,958	250,000,000	275,290,000
March 1, 2025			284,226,703	250,000,000	275,290,000
September 1, 2025			255,676,143	250,000,000	275,290,000
March 1, 2026			223,417,756	250,000,000	275,290,000
September 1, 2026			194,109,843	250,000,000	275,290,000
March 1, 2027			161,084,768	250,000,000	275,290,000
September 1, 2027			131,000,718	250,000,000	275,290,000
March 1, 2028			97,189,941	250,000,000	275,290,000
September 1, 2028			66,310,505	250,000,000	275,290,000
March 1, 2029			31,694,550	250,000,000	275,290,000
September 1, 2029				250,000,000	275,290,000
March 1, 2030				214,357,231	275,290,000
September 1, 2030				181,556,335	275,290,000
March 1, 2031				144,928,619	275,290,000
September 1, 2031				111,133,282	275,290,000
March 1, 2032				73,491,827	275,290,000
September 1, 2032				38,669,301	275,290,000
March 1, 2033					275,290,000
September 1, 2033					239,255,018
March 1, 2034					199,408,169
September 1, 2034					162,192,506
March 1, 2035					121,146,581
September 1, 2035					82,613,161
March 1, 2036					40,324,274
September 1, 2036					

Duke Energy Florida Project Finance, LLC is obligated to pay fees to the servicer of $647,145 per annum (so long as the servicer is Duke Energy Florida, LLC) payable in installments on each payment date, plus reimbursable expenses.

On the Closing Date, Duke Energy Florida, LLC will deposit $6,471,450 into the capital subaccount as a capital contribution to Duke Energy Florida Project Finance, LLC, which is equal to 0.5% of the initial principal balance of the bonds.

The Duke Energy Florida, LLC return on invested capital is $201,392 per annum.

Subject to the terms and conditions in the underwriting agreement among Duke Energy Florida Project Finance, LLC, Duke Energy Florida, LLC and the underwriters, for whom [redacted] are acting as representatives, Duke Energy Florida Project Finance, LLC has agreed to sell to the underwriters, and the underwriters have severally agreed to purchase, the principal amount of the bonds listed opposite each underwriter's name below:

Underwriter	Series A 2018 Bonds	Series A 2021 Bonds	Series A 2026 Bonds	Series A 2032 Bonds	Series A 2035 Bonds	Total
[redacted]	$ 73,200,000 $	60,000,000 $	174,401,000 $	100,001,000 $	110,117,000 $	517,719,000
	73,200,000	60,000,000	174,401,000	100,001,000	110,117,000	517,719,000
	6,100,000	5,000,000	14,533,000	8,333,000	9,176,000	43,142,000
	6,100,000	5,000,000	14,533,000	8,333,000	9,176,000	43,142,000
	6,100,000	5,000,000	14,533,000	8,333,000	9,176,000	43,142,000
	6,100,000	5,000,000	14,533,000	8,333,000	9,176,000	43,142,000
	6,100,000	5,000,000	14,533,000	8,333,000	9,176,000	43,142,000
	6,100,000	5,000,000	14,533,000	8,333,000	9,176,000	43,142,000
Total	$ 183,000,000 $	150,000,000 $	436,000,000 $	250,000,000 $	275,290,000 $	1,294,290,000

The underwriters may allow, and dealers may reallow, a discount not to exceed the percentage listed below for each tranche.

	Selling Concession	Reallowance Discount
Series A 2018	0.150%	0.050%
Series A 2021	0.240%	0.080%
Series A 2026	0.300%	0.100%
Series A 2032	0.390%	0.130%
Series A 2035	0.420%	0.140%

The costs of issuance of the Series A Senior Secured Bonds and other initial costs of the transaction, net of underwriting discounts and commissions, are expected to be approximately $9,163,470. An aggregate of approximately $455,000 of such costs are payable to the servicer in connection with set-up costs, including costs incurred in connection with establishing the issuing entity and building the necessary information technology systems, processes and reports.

CHARLES N. ATKINS II

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New York, New York 10128
Email: charles@atkinscapitalstrategies.com Cell: 917-690-9535

ATKINS CAPITAL STRATEGIES LLC **2020 - Present**

Chief Executive Officer

Strategic consultant to companies and regulatory commissions in the utility, power and energy sectors, as well as investment banking and financial sponsor institutions. Focus on utility, contract monetization, whole business and other non-traditional securitizations. Corporate and structured credit analysis, rating agency negotiations. Currently serving Duke Energy as a co-financial advisor in connection with 2 utility securitizations in North Carolina

GUGGENHEIM SECURITIES, LLC **2017 - 2020**

Senior Advisor, Structured Products Origination Group, Investment Banking Division

Focus on utility, power and energy securitizations and recapitalizations, as well as new structured product development across industry sectors. Serving as an expert witness, testified before the New Mexico utility commission in connection with a proposed utility securitization

ATKINS CAPITAL STRATEGIES LLC /
MAROON CAPITAL GROUP LLC **2013 – 2017**

Chief Executive Officer/Partner

Strategic consultant to investment banking and financial sponsor institutions, power, utility, service and industrial companies, as well as emerging U.S. and U.K. enterprises. Testified as an expert witness 3 times before utility commissions in Louisiana and West Virginia in connection with utility securitizations

- Utility securitizations
- Wireless spectrum securitizations
- Recapitalization and capital allocation
- Balance sheet optimization
- Corporate and structured credit analysis, rating agency negotiations
- Enhanced capital markets access
- Emerging enterprise business plan development and execution

MORGAN STANLEY & CO. LLC **1990 - 2013**

Executive Director, Global Capital Markets, Securitization Group

Principal focus on improving corporate capital structures, creating equity value by recapitalizing, enhancing access to the debt capital markets and lowering capital costs

- Team leader for the development of legal and credit structures for first-time structured solutions for financial sponsor and corporate clients
- Industry's leading utility securitization and corporate reorganization (ring-fencing) banker, serving as advisor and/or a lead underwriter for 24 transactions since 1997 totaling $22.6 BN for AEP, CenterPoint, Entergy, Constellation Energy, Baltimore Gas and Electric, Oncor, West Penn, Atlantic City Electric, SDG&E and PG&E.
- Testified 11 times as a utility company expert witness before regulatory commissions in Arkansas, Louisiana, Maryland, New Mexico, Texas and West Virginia
- Structured five International Financing Review "Deal of the Year" transactions
    - $965.4MM Louisiana Utilities Restoration Corporation (Entergy) – 2008 (off-balance sheet, off-credit electric system capital cost recovery)
    - $1.9BN Crown Castle – 2005 (wireless tower company recapitalization)
    - $418MM Global Signal – 2004 (wireless tower company recapitalization)
    - $800MM PPL Electric – 2001 (off-credit reorganization/recapitalization)
    - $290MM Arby's Franchise – 2000 (restaurant company recapitalization)

Developed and executed significant recapitalizations, reorganizations and acquisition financings for financial sponsor and corporate clients including

- Corporate reorganization of Constellation Energy in connection with the $4.5 BN nuclear JV with Electricite de France, uplifting subsidiary Baltimore Gas and Electric's (BGE) ratings, removing BGE's debt from Constellation's rating agency credit ratios (off-credit)
- Restructuring and $838MM debt recapitalization of leading security business Monitronics International, uplifting debt ratings from B1/B+ to Baa2/BBB-, lowering capital costs (an Abry Partners portfolio company)
- Restructuring and $290MM debt recapitalization of restaurant business Arby's, uplifting ratings from B1/B+ to A3/BBB-, lowering capital costs (a Trian portfolio company)
- Restructurings and $1.9BN, $418MM debt recapitalizations of wireless tower businesses, Crown Castle and Global Signal, uplifting debt ratings from B1/B+ to as high as Aaa/AAA, lowering capital costs (Global Signal - a Fortress portfolio company)
- Restructuring and $800MM debt recapitalization of PPL, issuing incremental electric transmission and distribution subsidiary debt, taking $3BN of subsidiary debt off-credit for parent rating purposes, without changing subsidiary or parent ratings
- Structuring and executing $800MM permanent acquisition financing for TimberStar Southwest, obtaining debt ratings to as high as Aaa/AAA/AAA, lowering capital costs (an I-Star Financial/Perry Capital/MSD Capital/York Capital portfolio company)
- Structuring and executing $315MM permanent financing for the Staples Center arena, based upon sports team and arena revenue contracts, obtaining A ratings and lowering capital costs (an Anschutz Entertainment Group subsidiary)
- Structuring a $33 BN student loan industry-sponsored ABCP conduit utilizing credit and liquidity support from the U.S. Government, to finance existing and newly originated federally guaranteed student loans (Straight-A Funding, LLC)

PREVIOUS EXPERIENCE:

LEHMAN BROTHERS INC. / E.F. HUTTON INC. **1985 - 1990**
Senior Vice President

OFFICE OF U.S. SENATOR DAVID L. BOREN (D-OK) **1983, 1985**
Legislative Counsel

MONDALE-FERRARO PRESIDENTIAL CAMPAIGN **1984**
Deputy National Campaign Manager, VP Campaign

DEMOCRATIC NATIONAL COMMITTEE **1983 - 1984**
Deputy Director, Platform Committee

THE WHITE HOUSE **1980**
Associate Assistant to the President

AKIN, GUMP, STRAUSS, HAUER & FELD **1978 -79, 1981 - 83**
Attorney, Washington, D.C. Office

OTHER:

METROPOLITAN MUSEUM OF ART **2013-Present**
Board of Trustees, Elective Trustee
Audit Committee
External Affairs Committee
Director Search Committee (Search Completed)
Digital, Education, Publications, Imaging, Libraries and Live Arts Committee
Diversity Committee
Digital Visiting Committee
Modern and Contemporary Visiting Committee
American Wing Visiting Committee

AMERICAN FOLK ART MUSEUM **2014-2018**
Board of Trustees, Member

AMERICAN SECURITIZATION FORUM **2003 - 2006**
Board of Directors, Alternate Board Member

U. S. EXPORT-IMPORT BANK **1997 -1998**
Presidential Appointment, Advisory Committee

PRESIDENTIAL TRANSITION COMMITTEE **1992 -1993**
U.S. Department of Housing and Urban Development

DISTRICT OF COLUMBIA BAR **1978 - Present**
Member (Inactive)

HOWARD UNIVERSITY **1974-1975**
Board of Trustees, Undergraduate Trustee

EDUCATION:

HARVARD LAW SCHOOL, J.D. **1978**

- Class of 1978 Committee Representative, elected by classmates

HOWARD UNIVERSITY, College of Arts and Sciences B.A. **1975**

- *Magna Cum Laude*
- Honors Program
- Phi Beta Kappa (Junior year)
- Major: Political Science / Double Minor: Math and Economics
- Howard University Board of Trustees, Undergraduate Trustee, elected by the several Undergraduate College student bodies
- College of Arts and Sciences Student Council, elected Sophomore Representative

Part III. Administrative, Procedural, and Miscellaneous

26 CFR 601.201: Rulings and determination letters. (Also: §§ 61, 451 and 1001.)

Rev. Proc. 2005–61

SECTION 1. PURPOSE

This revenue procedure amplifies Rev. Proc. 2005–3, 2005–1 I.R.B. 118, which sets forth areas of the Internal Revenue Code in which the Internal Revenue Service will not issue advance rulings or determination letters.

SECTION 2. BACKGROUND

.01 Section 3 of Rev. Proc. 2005–3 sets forth a list of those areas of the Internal Revenue Code under the jurisdiction of the Associate Chief Counsel (Corporate), the Associate Chief Counsel (Financial Institutions & Products), the Associate Chief Counsel (Income Tax & Accounting), the Associate Chief Counsel (Passthroughs & Special Industries), the Associate Chief Counsel (Procedure and Administration), and the Division Counsel/Associate Chief Counsel (Tax Exempt and Government Entities) relating to issues on which the Internal Revenue Service will not issue letter rulings or determination letters.

.02 In Rev. Proc. 2005–62, page 507, this Bulletin, the Service provides a safe harbor with respect to the tax treatment of certain cost recovery transactions by regulated investor owned utility companies.

SECTION 3. PROCEDURE

Rev. Proc. 2005–3 is amplified by adding the following to section 3.01: Sections 61, 451 and 1001. Gross Income Defined; General Rule for Taxable Year of Inclusion; Determination of Amount and Recognition of Gain or Loss. Whether, under authorization by an appropriate State agency to recover certain costs pursuant to State specified cost recovery legislation, any investor-owned utility company realizes income upon: (1) the creation of an intangible property right; (2) the transfer of that intangible property right; or (3) the securitization of the intangible property right.

SECTION 4. EFFECT ON OTHER DOCUMENTS

Rev. Proc. 2005–3 is amplified.

SECTION 5. EFFECTIVE DATE

This revenue procedure applies to all ruling requests pending or submitted after September 12, 2005.

SECTION 6. DRAFTING INFORMATION

The principal author of this revenue procedure is Thomas M. Preston of the Office of Associate Chief Counsel (Financial Institutions & Products). For further information regarding this revenue procedure, contact Mr. Preston at (202) 622–3970 (not a toll-free call).

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26 CFR 601.105: Examination of returns and claims for refund, credit, or abatement; determination of correct tax liability. (Also: Part 1, §§ 61, 451, 1001.)

Rev. Proc. 2005–62

SECTION 1. PURPOSE

This revenue procedure sets forth the manner in which a public utility company may treat the issuance of a financing order by a State agency authorizing the recovery of certain specified costs incurred by the utility and the securitization of the rights created by that financing order.

SECTION 2. BACKGROUND

Revenue Procedure 2002–49, 2002–2 C.B. 172, provides a safe-harbor regarding the treatment of legislatively authorized transactions entered into by investor-owned electric utilities to recover transition costs resulting from the restructuring of the electric utility industry and the institution of a competitive marketplace. Some States enacted legislation to allow the recovery of these transition costs through a non-bypassable surcharge to customers within a utility's historic service area.

Utilities continue to operate in wholly or partially regulated environments and maintain exclusive distribution networks for customers in their historic service areas. Rates charged for these operations are determined by local authorities to allow for the recovery of costs and an appropriate return on capital. Some States have enacted legislation that allows utilities to recover certain specified costs through a surcharge based on consumption by customers within the utilities' historic service areas and also authorizes securitization of the surcharge. These statutes are unique to regulated utilities. Accordingly, the tax treatment allowed by this revenue procedure for these transactions is peculiar to this situation. See Revenue Procedure 2005–61, page 507, this Bulletin, which adds certain related issues to areas in which rulings or determination letters will not be issued.

SECTION 3. CHANGES

The scope of Revenue Procedure 2002–49 was limited to transition costs that resulted from the deregulation of the generation operations of electric utility companies. This revenue procedure expands the scope of Revenue Procedure 2002–49 to all public utility companies, and costs that are recoverable through a securitization mechanism are not limited to transition costs. Additionally, this revenue procedure eliminates certain requirements in section 4.04(3) of Revenue Procedure 2002–49 relating to level payments and now requires that payments be made on a quarterly or semiannual basis.

SECTION 4. SCOPE

This revenue procedure applies to investor-owned public utility companies that, pursuant to specified cost recovery legislation, receive an irrevocable financing order from an appropriate State agency that determines the amount of certain specified costs the utility will be permitted to recover through qualifying securitization of an intangible property right created by the special legislation.

SECTION 5. DEFINITIONS

.01 PUBLIC UTILITY

For purposes of this revenue procedure, the terms "public utility" or "utility" refer to any investor owned utility company (electric or non-electric) that is subject to the regulatory authority of a State public utility commission or other appropriate State agency.

.02 SPECIFIED COST RECOVERY LEGISLATION

For purposes of this revenue procedure, specified cost recovery legislation is legislation that—

(1) Is enacted by a State to facilitate the recovery of certain specified costs incurred by a public utility company;

(2) Authorizes the utility to apply for, and authorizes the public utility commission or other appropriate State agency to issue, a financing order determining the amount of specified costs the utility will be allowed to recover;

(3) Provides that pursuant to the financing order, the utility acquires an intangible property right to charge, collect, and receive amounts necessary to provide for the full recovery of the specified costs determined to be recoverable, and assures that the charges are non-bypassable and will be paid by customers within the utility's historic service territory who receive utility goods or services through the utility's transmission and distribution system, even if those customers elect to purchase these goods or services from a third party;

(4) Guarantees that neither the State nor any of its agencies has the authority to rescind or amend the financing order, to revise the amount of specified costs, or in any way to reduce or impair the value of the intangible property right, except as may be contemplated by periodic adjustments authorized by the specified cost recovery legislation;

(5) Provides procedures assuring that the sale, assignment, or other transfer of the intangible property right from the utility to a financing entity that is wholly owned, directly or indirectly, by the utility will be perfected under State law as an absolute transfer of the utility's right, title, and interest in the property; and

(6) Authorizes the securitization of the intangible property right to recover the fixed amount of specified costs through the issuance of bonds, notes, other evidences of indebtedness, or certificates of participation or beneficial interest that are issued pursuant to an indenture, contract, or other agreement of a utility or a financing entity that is wholly owned, directly or indirectly, by the utility.

.03 SPECIFIED COSTS

For purposes of this revenue procedure, specified costs are those costs identified by the State legislature as appropriate for recovery through the securitization mechanism of the specified cost recovery legislation.

.04 QUALIFYING SECURITIZATION

For purposes of this revenue procedure, a qualifying securitization is an issuance of any bonds, notes, other evidences of indebtedness, or certificates of participation or beneficial interests that—

(1) Is secured by the intangible property right to collect charges for the recovery of specified costs and such other assets, if any, of the financing entity that is wholly owned, directly or indirectly, by the utility;

(2) Is issued by a financing entity that is wholly owned, directly or indirectly, by the utility that is initially capitalized by the utility in such a way that equity interests in the financing entity are at least 0.5 percent of the aggregate principal amount of the non-equity instruments issued; and

(3) Provides for payments on a quarterly or semiannual basis.

SECTION 6. APPLICATION

.01 The utility will be treated as not recognizing gross income upon—

(1) The receipt of a financing order that creates an intangible property right in the amount of the specified costs that may be recovered through securitization;

(2) The receipt of cash or other valuable consideration in exchange for the transfer of that property right to a financing entity that is wholly owned, directly or indirectly, by the utility; or

(3) The receipt of cash or other valuable consideration in exchange for securitized instruments issued by the financing entity that is wholly owned, directly or indirectly, by the utility.

.02 The securitized instruments described in Section 5.04 will be treated as obligations of the utility.

.03 The non-bypassable charges are gross income to the utility recognized under the utility's usual method of accounting.

SECTION 7. EFFECT ON OTHER DOCUMENTS

This document modifies, amplifies, and supersedes Rev. Proc. 2002–49.

SECTION 8. EFFECTIVE DATE

This revenue procedure is effective September 12, 2005.

SECTION 9. DRAFTING INFORMATION

The principal author of this revenue procedure is Thomas M. Preston of the Office of Associate Chief Counsel (Financial Institutions & Products). For further information regarding this revenue procedure, contact Mr. Preston at (202) 622–3970 (not a toll-free call).

Utility Securitization Transactions, 1997 – 2019

#	Issuer	Deal Amount ($)	Pricing Date
1	AEP Texas Restoration Funding LLC	$235,282,000	9/11/2019
2	Public Service New Hampshire Funding Llc.	635,663,200	5/1/2018
3	Duke Energy Florida Project Finance LLC	1,294,290,000	6/15/2016
4	Entergy New Orleans Storm Recovery Funding I	98,730,000	7/14/2015
5	Dept. of Business, Economic Development, and Tourism / Hawaii Electric	150,000,000	11/13/2014
6	Louisiana Utilities Restoration Corporation Project/ELL	243,850,000	7/29/2014
7	Louisiana Local Government System Restoration/EGSL	71,000,000	7/29/2014
8	Consumers 2014 Securitization Funding LLC	378,000,000	7/14/2014
9	Appalachian Consumer Rate Relief Funding LLC	380,300,000	11/6/2013
10	Ohio Phase-In-Recovery Funding LLC	267,408,000	7/23/2013
11	FirstEnergy Ohio PIRB Special Purpose Trust	444,922,000	6/12/2013
12	AEP Texas Central Funding III	800,000,000	3/7/2012
13	Centerpoint Energy Transmission Bond Co. IV	1,695,000,000	1/11/2012
14	Entergy Louisiana Investment Recovery Funding I, LLC	207,156,000	9/15/2011
15	Entergy Arkansas Energy Restoration Funding LLC	124,100,000	8/11/2010
16	Louisiana Utilities Restoration Corporation Project/ELL	468,900,000	7/15/2010
17	Louisiana Utilities Restoration Corporation Project/EGSL	244,100,000	7/15/2010
18	MP Environmental Funding LLC	64,380,000	12/16/2009
19	PE Environmental Funding LLC	21,510,000	12/16/2009
20	CenterPoint Energy Restoration Bond	664,859,000	11/18/2009
21	Entergy Texas Restoration Funding	545,900,000	10/29/2009
22	Louisiana Public Facilities Authority	278,400,000	8/20/2008
23	Louisiana Public Facilities Authority	687,700,000	7/22/2008
24	Cleco Katrina/Rita Hurricane Recovery Funding LLC 2008	180,600,000	2/28/2008
25	CenterPoint Energy Transition Bond Company III	488,472,000	1/29/2008
26	Entergy Gulf States Reconstruction Funding I, LLC	329,500,000	6/22/2007
27	RSB BondCo LLC (BG&E sponsor)	623,200,000	6/22/2007
28	FPL Recovery Funding LLC	652,000,000	5/15/2007
29	MP Environmental Funding LLC	344,475,000	4/3/2007
30	PE Environmental Funding, LLC	114,825,000	4/3/2007
31	AEP Texas Central Transition Funding II	1,739,700,000	10/4/2006
32	JCP&L Transition Funding II	182,400,000	8/4/2006
33	Centerpoint Energy Series A	1,851,000,000	12/9/2005
34	PG&E Energy Recovery Funding LLC Series 2005-2	844,461,000	11/3/2005
35	West Penn Power	115,000,000	9/22/2005
36	PSE&G 2005-1	102,700,000	9/9/2005
37	Massachusetts RRB Special Purpose Trust 2005-1	674,500,000	2/15/2005

#	Issuer	Deal Amount ($)	Pricing Date
38	PG&E Energy Recovery Funding LLC Series 2005-1	1,887,864,000	2/3/2005
39	Rockland Electric Company	46,300,000	7/28/2004
40	Oncor (TXU) 2004-1	789,777,000	5/28/2004
41	Atlantic City Electric	152,000,000	12/18/2003
42	Oncor 2003-1	500,000,000	8/14/2003
43	Atlantic City Electric	440,000,000	12/11/2002
44	JCP&L Transition Funding LLC	320,000,000	6/4/2002
45	CPL Transition Funding LLC	797,334,897	1/31/2002
46	PSNH Funding LLC 2	50,000,000	1/16/2002
47	Consumers Funding LLC	468,592,000	10/31/2001
48	CenterPoint Energy Transition Bond Company I	748,987,000	10/17/2001
49	Western Mass Electric	155,000,000	5/14/2001
50	PSNH Funding LLC	525,000,000	4/20/2001
51	CL&P Funding LLC	1,438,400,000	3/27/2001
52	Detroit Edison 2001-1	1,750,000,000	3/2/2001
53	PECO 2001-A	805,500,000	2/15/2001
54	PSE&G 2001-A	2,525,000,000	1/25/2001
55	PECO 2000-A	1,000,000,000	4/27/2000
56	West Penn Power	600,000,000	11/3/1999
57	Pennsylvania Power & Light	2,420,000,000	7/29/1999
58	Boston Edison	725,000,000	7/27/1999
59	Sierra Pacific Power	24,000,000	4/8/1999
60	PECO Energy	4,000,100,000	3/18/1999
61	Montana Power	64,000,000	12/22/1998
62	Illinois Power	864,000,000	12/10/1998
63	Commonwealth Edison	3,400,000,000	12/7/1998
64	San Diego Gas & Electric	657,900,000	12/4/1997
65	Southern California Edison	2,463,000,000	12/4/1997
66	Pacific Gas & Electric	2,901,000,000	11/25/1997
Total		**$50,763,038,097**	

Source: Guggenheim Securities; SEC Registration Statements

Preliminary Transaction Structures

DEC Assumptions	
Total Debt	$230,800,000
Scheduled Maturity (year)	14.7
Legal Final (year)	16.7
Annual Servicing Fee	$115,400
Ongoing Expenses	$266,379
Allocated Trust Expenses	$52,937
Payment Frequency	Semi-Annual

DEC Capital Structure[1][2][3]

Class	Balance ($)	Benchmark	Benchmark Rate[4]	Spread	Coupon	WAL (yrs)	Prin Wind. (yrs)	Sch Mat (yrs)	Legal Final (yrs)
A-1	$24,200,000	1yr UST	0.13%	+20	0.33%	1.4	0.7 - 2.2	2.2	4.2
A-2	30,700,000	3yr UST	0.19%	+40	0.59%	3.2	2.2 - 4.2	4.2	6.2
A-3	71,800,000	7yr UST	0.54%	+55	1.09%	6.5	4.2 - 8.7	8.7	10.7
A-4	52,400,000	10yr UST	0.78%	+70	1.48%	10.4	8.7 - 11.7	11.7	13.7
A-5	51,700,000	10yr UST	0.78%	+85	1.63%	13.5	11.7 - 14.7	14.7	16.7
Total / WA	**$230,800,000**		**0.56%**	**+59**	**1.15%**	**8.0**	**0.7 - 14.7**	**14.7**	**16.7**

DEC Revenues ($mm)[5][6]	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Yr 11	Yr 12	Yr 13	Yr 14	Yr 15
Revenue Requirement (Debt Svc & Expenses)	*18.1*	*18.1*	*18.1*	*18.1*	*18.1*	*18.1*	*18.1*	*18.1*	*18.1*	*18.1*	*18.1*	*18.1*	*18.1*	*18.1*	*9.0*
Actual Collections	18.2	18.2	18.1	18.1	18.1	18.1	18.1	18.1	18.1	18.1	18.1	18.1	18.1	18.1	9.2
Less: Servicing Fee Paid	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Less: Ongoing Expenses Paid	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.1
Less: Trust Notes Expenses Paid	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.03
Less: Excess Funds Subaccount Deposit / (Withdrawal)	0.1	0.1	0.0	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.2)
Cash Flow Available for Debt Service	**17.6**	**17.6**	**17.6**	**17.6**	**17.6**	**17.6**	**17.6**	**17.6**	**17.6**	**17.6**	**17.6**	**17.6**	**17.6**	**17.6**	**9.2**

DEC Cash Flow ($mm)	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Yr 11	Yr 12	Yr 13	Yr 14	Yr 15
Class A-1 Beginning Balance	24.2	9.7	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-1 Interest	0.1	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-1 Principal	14.5	9.7	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-1 Ending Balance	9.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Beginning Balance	30.7	30.7	25.3	10.2	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Interest	0.2	0.2	0.1	0.0	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Principal	-	5.4	15.1	10.2	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Ending Balance	30.7	25.3	10.2	-	-	-	-	-	-	-	-	-	-	-	-
Class A-3 Beginning Balance	71.8	71.8	71.8	71.8	66.8	51.5	36.0	20.3	4.5	-	-	-	-	-	-
Class A-3 Interest	0.9	0.8	0.8	0.8	0.7	0.5	0.4	0.2	0.0	-	-	-	-	-	-
Class A-3 Principal	-	-	-	5.0	15.3	15.5	15.7	15.8	4.5	-	-	-	-	-	-
Class A-3 Ending Balance	71.8	71.8	71.8	66.8	51.5	36.0	20.3	4.5	-	-	-	-	-	-	-
Class A-4 Beginning Balance	52.4	52.4	52.4	52.4	52.4	52.4	52.4	52.4	52.4	40.8	24.6	8.1	-	-	-
Class A-4 Interest	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.7	0.5	0.3	0.1	-	-	-
Class A-4 Principal	-	-	-	-	-	-	-	-	11.6	16.3	16.5	8.1	-	-	-
Class A-4 Ending Balance	52.4	52.4	52.4	52.4	52.4	52.4	52.4	52.4	40.8	24.6	8.1	-	-	-	-
Class A-5 Beginning Balance	51.7	51.7	51.7	51.7	51.7	51.7	51.7	51.7	51.7	51.7	51.7	51.7	43.0	26.0	8.7
Class A-5 Interest	1.0	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.6	0.4	0.1
Class A-5 Principal	-	-	-	-	-	-	-	-	-	-	-	8.7	17.0	17.3	8.7
Class A-5 Ending Balance	51.7	51.7	51.7	51.7	51.7	51.7	51.7	51.7	51.7	51.7	51.7	43.0	26.0	8.7	-
Total DS	**17.6**	**17.6**	**17.6**	**17.6**	**17.6**	**17.6**	**17.6**	**17.6**	**17.6**	**17.6**	**17.6**	**17.6**	**17.6**	**17.6**	**8.8**

Note: Collections less expenses and excess funds subaccount deposits / (withdrawals) may not equal Cash Flow Available for Debt Service due to rounding.

DEP Assumptions	
Total Debt	$748,000,000
Scheduled Maturity (year)	14.7
Legal Final (year)	16.7
Annual Servicing Fee	$374,000
Ongoing Expenses	$359,496
Allocated Trust Expenses	$171,563
Payment Frequency	Semi-Annual

DEP Capital Structure[1][2][3]

Class	Balance ($)	Benchmark	Benchmark Rate[4]	Spread	Coupon	WAL (yrs)	Prin Wind. (yrs)	Sch Mat (yrs)	Legal Final (yrs)
A-1	$78,500,000	1yr UST	0.13%	+20	0.33%	1.4	0.7 - 2.2	2.2	4.2
A-2	99,500,000	3yr UST	0.19%	+40	0.59%	3.2	2.2 - 4.2	4.2	6.2
A-3	232,600,000	7yr UST	0.54%	+55	1.09%	6.5	4.2 - 8.7	8.7	10.7
A-4	169,800,000	10yr UST	0.78%	+70	1.48%	10.4	8.7 - 11.7	11.7	13.7
A-5	167,600,000	10yr UST	0.78%	+85	1.63%	13.5	11.7 - 14.7	14.7	16.7
Total / WA	**$748,000,000**		**0.56%**	**+59**	**1.15%**	**8.0**	**0.7 - 14.7**	**14.7**	**16.7**

DEP Revenues ($mm)[5][6]	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Yr 11	Yr 12	Yr 13	Yr 14	Yr 15
Revenue Requirement (Debt Svc & Expenses)	*58.1*	*58.1*	*58.1*	*58.1*	*58.1*	*58.1*	*58.1*	*58.1*	*58.1*	*58.1*	*58.1*	*58.1*	*58.1*	*58.1*	*29.0*
Actual Collections	58.7	58.4	58.1	58.0	58.1	58.1	58.1	58.1	58.1	58.1	58.1	58.1	58.1	58.1	29.7
Less: Servicing Fee Paid	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.2
Less: Ongoing Expenses Paid	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.2
Less: Trust Notes Expenses Paid	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1
Less: Excess Funds Subaccount Deposit / (Withdrawal)	0.6	0.3	0.0	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	0.0	(0.0)	(0.0)	(0.0)	(0.9)
Cash Flow Available for Debt Service	**57.2**	**57.2**	**57.2**	**57.2**	**57.2**	**57.2**	**57.2**	**57.2**	**57.2**	**57.2**	**57.2**	**57.2**	**57.2**	**57.2**	**30.1**

DEP Bond Cash Flow ($mm)	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Yr 11	Yr 12	Yr 13	Yr 14	Yr 15
Class A-1 Beginning Balance	78.5	31.4	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-1 Interest	0.3	0.1	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-1 Principal	47.1	31.4	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-1 Ending Balance	31.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Beginning Balance	99.5	99.5	82.1	33.2	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Interest	0.7	0.6	0.4	0.1	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Principal	-	17.4	49.0	33.2	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Ending Balance	99.5	82.1	33.2	-	-	-	-	-	-	-	-	-	-	-	-
Class A-3 Beginning Balance	232.6	232.6	232.6	232.6	216.5	166.8	116.6	65.8	14.4	-	-	-	-	-	-
Class A-3 Interest	3.0	2.5	2.5	2.5	2.2	1.7	1.1	0.6	0.1	-	-	-	-	-	-
Class A-3 Principal	-	-	-	16.1	49.7	50.2	50.8	51.4	14.4	-	-	-	-	-	-
Class A-3 Ending Balance	232.6	232.6	232.6	216.5	166.8	116.6	65.8	14.4	-	-	-	-	-	-	-
Class A-4 Beginning Balance	169.8	169.8	169.8	169.8	169.8	169.8	169.8	169.8	169.8	132.3	79.6	26.1	-	-	-
Class A-4 Interest	2.9	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.4	1.8	1.0	0.2	-	-	-
Class A-4 Principal	-	-	-	-	-	-	-	-	37.5	52.7	53.5	26.1	-	-	-
Class A-4 Ending Balance	169.8	169.8	169.8	169.8	169.8	169.8	169.8	169.8	132.3	79.6	26.1	-	-	-	-
Class A-5 Beginning Balance	167.6	167.6	167.6	167.6	167.6	167.6	167.6	167.6	167.6	167.6	167.6	167.6	139.5	84.4	28.4
Class A-5 Interest	3.2	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.0	1.1	0.2
Class A-5 Principal	-	-	-	-	-	-	-	-	-	-	-	28.1	55.1	56.0	28.4
Class A-5 Ending Balance	167.6	167.6	167.6	167.6	167.6	167.6	167.6	167.6	167.6	167.6	167.6	139.5	84.4	28.4	-
Total DS	**57.2**	**57.2**	**57.2**	**57.2**	**57.2**	**57.2**	**57.2**	**57.2**	**57.2**	**57.2**	**57.2**	**57.2**	**57.2**	**57.2**	**28.6**

Note: Collections less expenses and excess funds subaccount deposits / (withdrawals) may not equal Cash Flow Available for Debt Service due to rounding.

SRB Securities Assumptions	
Total Debt	$978,800,000
Scheduled Maturity (year)	14.7
Legal Final (year)	16.7
Annual Servicing Fee	$0
Ongoing Expenses	$224,500
Payment Frequency	Semi-Annual

SRB Securities Capital Structure[1][2][3]									
Class	Balance ($)	Benchmark	Benchmark Rate[4]	Spread	Coupon	WAL (yrs)	Prin Wind. (yrs)	Sch Mat (yrs)	Legal Final (yrs)
A-1	$102,700,000	1yr UST	0.13%	+20	0.33%	1.4	0.7 - 2.2	2.2	4.2
A-2	130,200,000	3yr UST	0.19%	+40	0.59%	3.2	2.2 - 4.2	4.2	6.2
A-3	304,400,000	7yr UST	0.54%	+55	1.09%	6.5	4.2 - 8.7	8.7	10.7
A-4	222,200,000	10yr UST	0.78%	+70	1.48%	10.4	8.7 - 11.7	11.7	13.7
A-5	219,300,000	10yr UST	0.78%	+85	1.63%	13.5	11.7 - 14.7	14.7	16.7
Total / WA	**$978,800,000**		**0.56%**	**+59**	**1.15%**	**8.0**	**0.7 - 14.7**	**14.7**	**16.7**

SRB Securities Revenues ($mm)[5][6]	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Yr 11	Yr 12	Yr 13	Yr 14	Yr 15
DEC Collections (Debt Svc & Expenses)	17.7	17.7	17.7	17.7	17.7	17.7	17.7	17.7	17.7	17.7	17.7	17.7	17.7	17.7	8.8
DEP Collections (Debt Svc & Expenses)	57.3	57.3	57.3	57.3	57.3	57.3	57.3	57.3	57.3	57.3	57.3	57.3	57.3	57.3	28.7
Less: Ongoing Expenses Paid	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1
Cash Flow Available for Debt Service	**74.8**	**74.8**	**74.8**	**74.8**	**74.8**	**74.8**	**74.8**	**74.8**	**74.8**	**74.8**	**74.8**	**74.8**	**74.8**	**74.8**	**37.4**

SRB Securities Cash Flow ($mm)	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Yr 11	Yr 12	Yr 13	Yr 14	Yr 15
Class A-1 Beginning Balance	102.7	41.0	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-1 Interest	0.3	0.1	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-1 Principal	61.7	41.0	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-1 Ending Balance	41.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Beginning Balance	130.2	130.2	107.4	43.4	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Interest	0.9	0.8	0.5	0.2	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Principal	-	22.8	64.1	43.4	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Ending Balance	130.2	107.4	43.4	-	-	-	-	-	-	-	-	-	-	-	-
Class A-3 Beginning Balance	304.4	304.4	304.4	304.4	283.3	218.3	152.5	86.1	18.9	-	-	-	-	-	-
Class A-3 Interest	3.9	3.3	3.3	3.3	2.9	2.2	1.5	0.8	0.1	-	-	-	-	-	-
Class A-3 Principal	-	-	-	21.1	65.0	65.7	66.5	67.2	18.9	-	-	-	-	-	-
Class A-3 Ending Balance	304.4	304.4	304.4	283.3	218.3	152.5	86.1	18.9	-	-	-	-	-	-	-
Class A-4 Beginning Balance	222.2	222.2	222.2	222.2	222.2	222.2	222.2	222.2	222.2	173.1	104.2	34.2	-	-	-
Class A-4 Interest	3.8	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.2	2.3	1.3	0.3	-	-	-
Class A-4 Principal	-	-	-	-	-	-	-	-	49.1	68.9	70.0	34.2	-	-	-
Class A-4 Ending Balance	222.2	222.2	222.2	222.2	222.2	222.2	222.2	222.2	173.1	104.2	34.2	-	-	-	-
Class A-5 Beginning Balance	219.3	219.3	219.3	219.3	219.3	219.3	219.3	219.3	219.3	219.3	219.3	219.3	182.5	110.4	37.1
Class A-5 Interest	4.2	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	2.7	1.5	0.3
Class A-5 Principal	-	-	-	-	-	-	-	-	-	-	-	36.8	72.1	73.3	37.1
Class A-5 Ending Balance	219.3	219.3	219.3	219.3	219.3	219.3	219.3	219.3	219.3	219.3	219.3	182.5	110.4	37.1	-
Total DS	**74.8**	**74.8**	**74.8**	**74.8**	**74.8**	**74.8**	**74.8**	**74.8**	**74.8**	**74.8**	**74.8**	**74.8**	**74.8**	**74.8**	**37.4**

Note: Collections less expenses may not equal Cash Flow Available for Debt Service due to rounding.

Notes:

(1) Structure is preliminary and subject to change based on market conditions and rating agency requirements at the time of pricing.

(2) Structure is based in part upon information supplied by the Company, which is believed to be reliable but has not been verified. No representation or warranty is being made relating to this structure. Estimates of future performance are based on assumptions that may not be realized. Actual events may differ from those assumed and changes to any assumptions may have a material impact on any projections or estimates. Other events not taken into account may occur and may significantly affect the projections or estimates. Certain assumptions may have been made for modeling purposes only to simplify the presentation and/or calculation of any projections or estimates. No assurance can be given that any such assumptions will reflect actual future events.

(3) Assumes "AAAsf" ratings.

(4) Benchmark rates as of October 9, 2020.

Preliminary Transaction Structures - 20 year bond

Duke Energy Securitization Model
Model Output Summary / Spread & Benchmarks as of 10.09.2020

DEC Assumptions	
Total Debt	$230,800,000
Scheduled Maturity (year)	19.7
Legal Final (year)	21.7
Annual Servicing Fee	$115,400
Ongoing Expenses	$277,342
Allocated Trust Expenses	$52,937
Payment Frequency	Semi-Annual

DEC Capital Structure

Class	Balance ($)	Benchmark	Benchmark Rate	Spread	Coupon	WAL (yrs)	Prin Wind. (yrs)	Sch Mat (yrs)	Legal Final (yrs)
A-1	$24,200,000	2yr UST	0.16%	+25	0.41%	1.7	0.7 - 2.7	2.7	4.7
A-2	30,700,000	5yr UST	0.34%	+45	0.79%	4.2	2.7 - 5.7	5.7	7.7
A-3	71,800,000	10yr UST	0.78%	+65	1.43%	8.9	5.7 - 11.7	11.7	13.7
A-4	52,400,000	10yr UST	0.78%	+110	1.88%	14.1	11.7 - 16.2	16.2	18.2
A-5	51,700,000	20yr UST	1.34%	+120	2.54%	18.1	16.2 - 19.7	19.7	21.7
Total / WA	**$230,800,000**		**0.95%**	**+97**	**1.93%**	**10.8**	**0.7 - 19.7**	**19.7**	**21.7**

DEC Revenues ($mm)	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Yr 11	Yr 12	Yr 13	Yr 14	Yr 15	Yr 16	Yr 17	Yr 18	Yr 19	Yr 20
Revenue Requirement (Debt Svc & Expenses)	*14.7*	*14.7*	*14.7*	*14.7*	*14.7*	*14.7*	*14.7*	*14.7*	*14.7*	*14.7*	*14.7*	*14.7*	*14.7*	*14.7*	*14.7*	*14.7*	*14.7*	*14.7*	*14.7*	*7.4*
Actual Collections	14.8	14.8	14.7	14.7	14.7	14.7	14.7	14.7	14.7	14.7	14.7	14.7	14.7	14.7	14.7	14.7	14.7	14.7	14.7	10.7
Less: Servicing Fee Paid	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Less: Ongoing Expenses Paid	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.1
Less: Trust Notes Expenses Paid	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.03
Less: Excess Funds Subaccount Deposit / (Withdrawal)	0.1	0.1	0.0	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.2)
Cash Flow Available for Debt Service	**14.3**	**14.3**	**14.3**	**14.3**	**14.3**	**14.3**	**14.3**	**14.3**	**14.3**	**14.3**	**14.3**	**14.3**	**14.3**	**14.3**	**14.3**	**14.3**	**14.3**	**14.3**	**14.3**	**10.7**

DEC Cash Flow ($mm)	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Yr 11	Yr 12	Yr 13	Yr 14	Yr 15	Yr 16	Yr 17	Yr 18	Yr 19	Yr 20
Class A-1 Beginning Balance	24.2	14.2	3.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-1 Interest	0.1	0.0	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-1 Principal	10.0	10.7	3.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-1 Ending Balance	14.2	3.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Beginning Balance	30.7	30.7	30.7	23.5	12.7	1.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Interest	0.3	0.2	0.2	0.2	0.1	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Principal	-	-	7.2	10.8	10.9	1.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Ending Balance	30.7	30.7	23.5	12.7	1.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-3 Beginning Balance	71.8	71.8	71.8	71.8	71.8	71.8	62.7	51.5	40.2	28.8	17.2	5.4	-	-	-	-	-	-	-	-
Class A-3 Interest	1.2	1.0	1.0	1.0	1.0	1.0	0.9	0.7	0.5	0.4	0.2	0.0	-	-	-	-	-	-	-	-
Class A-3 Principal	-	-	-	-	-	9.1	11.1	11.3	11.4	11.6	11.8	5.4	-	-	-	-	-	-	-	-
Class A-3 Ending Balance	71.8	71.8	71.8	71.8	71.8	62.7	51.5	40.2	28.8	17.2	5.4	-	-	-	-	-	-	-	-	-
Class A-4 Beginning Balance	52.4	52.4	52.4	52.4	52.4	52.4	52.4	52.4	52.4	52.4	52.4	52.4	45.9	33.7	21.3	8.7	-	-	-	-
Class A-4 Interest	1.1	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	0.8	0.6	0.3	0.1	-	-	-	-
Class A-4 Principal	-	-	-	-	-	-	-	-	-	-	-	6.5	12.2	12.4	12.6	8.7	-	-	-	-
Class A-4 Ending Balance	52.4	52.4	52.4	52.4	52.4	52.4	52.4	52.4	52.4	52.4	52.4	45.9	33.7	21.3	8.7	-	-	-	-	-
Class A-5 Beginning Balance	51.7	51.7	51.7	51.7	51.7	51.7	51.7	51.7	51.7	51.7	51.7	51.7	51.7	51.7	51.7	51.7	47.5	34.4	20.9	7.0
Class A-5 Interest	1.5	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.1	0.8	0.4	0.1
Class A-5 Principal	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4.2	13.2	13.5	13.8	7.0
Class A-5 Ending Balance	51.7	51.7	51.7	51.7	51.7	51.7	51.7	51.7	51.7	51.7	51.7	51.7	51.7	51.7	51.7	47.5	34.4	20.9	7.0	-
Total DS	**14.3**	**14.3**	**14.3**	**14.3**	**14.3**	**14.3**	**14.3**	**14.3**	**14.3**	**14.3**	**14.3**	**14.3**	**14.3**	**14.3**	**14.3**	**14.3**	**14.3**	**14.3**	**14.3**	**7.1**

Note: Collections less expenses and excess funds subaccount deposits / (withdrawals) may not equal Cash Flow Available for Debt Service due to rounding.

DEP Assumptions	
Total Debt	$748,000,000
Scheduled Maturity (year)	19.7
Legal Final (year)	19.7
Annual Servicing Fee	$374,000
Ongoing Expenses	$395,026
Allocated Trust Expenses	$171,563
Payment Frequency	Semi-Annual

DEP Capital Structure

Class	Balance ($)	Benchmark	Benchmark Rate	Spread	Coupon	WAL (yrs)	Prin Wind. (yrs)	Sch Mat (yrs)	Legal Final (yrs)
A-1	$78,500,000	2yr UST	0.16%	+25	0.41%	1.7	0.7 - 2.7	2.7	4.7
A-2	99,500,000	5yr UST	0.34%	+45	0.79%	4.2	2.7 - 5.7	5.7	7.7
A-3	232,600,000	10yr UST	0.78%	+65	1.43%	8.9	5.7 - 11.7	11.7	13.7
A-4	169,800,000	10yr UST	0.78%	+110	1.88%	14.1	11.7 - 16.2	16.2	18.2
A-5	167,600,000	20yr UST	1.34%	+120	2.54%	18.1	16.2 - 19.7	19.7	21.7
Total / WA	**$748,000,000**		**0.95%**	**+97**	**1.93%**	**10.8**	**0.7 - 19.7**	**19.7**	**21.7**

DEP Revenues ($mm)	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Yr 11	Yr 12	Yr 13	Yr 14	Yr 15	Yr 16	Yr 17	Yr 18	Yr 19	Yr 20
Revenue Requirement (Debt Svc & Expenses)	*47.2*	*47.2*	*47.2*	*47.2*	*47.2*	*47.2*	*47.2*	*47.2*	*47.2*	*47.2*	*47.2*	*47.2*	*47.2*	*47.2*	*47.2*	*47.2*	*47.2*	*47.2*	*47.2*	*23.6*
Actual Collections	47.7	47.5	47.2	47.2	47.2	47.2	47.2	47.2	47.2	47.2	47.2	47.2	47.2	47.2	47.2	47.2	47.2	47.2	47.2	34.3
Less: Servicing Fee Paid	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.2
Less: Ongoing Expenses Paid	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.2
Less: Trust Notes Expenses Paid	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1
Less: Excess Funds Subaccount Deposit / (Withdrawal)	0.5	0.3	0.0	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	0.0	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	0.0	(0.7)
Cash Flow Available for Debt Service	**46.3**	**46.3**	**46.3**	**46.3**	**46.3**	**46.3**	**46.3**	**46.3**	**46.3**	**46.3**	**46.3**	**46.3**	**46.3**	**46.3**	**46.3**	**46.3**	**46.3**	**46.3**	**46.3**	**34.5**

DEP Bond Cash Flow ($mm)	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Yr 11	Yr 12	Yr 13	Yr 14	Yr 15	Yr 16	Yr 17	Yr 18	Yr 19	Yr 20
Class A-1 Beginning Balance	78.5	46.0	11.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-1 Interest	0.3	0.2	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-1 Principal	32.5	34.6	11.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-1 Ending Balance	46.0	11.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Beginning Balance	99.5	99.5	99.5	76.2	41.3	6.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Interest	0.9	0.8	0.8	0.5	0.3	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Principal	-	-	23.3	35.0	35.3	6.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Ending Balance	99.5	99.5	76.2	41.3	6.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-3 Beginning Balance	232.6	232.6	232.6	232.6	232.6	232.6	203.0	167.0	130.4	93.3	55.7	17.5	-	-	-	-	-	-	-	-
Class A-3 Interest	3.9	3.3	3.3	3.3	3.3	3.2	2.8	2.3	1.7	1.2	0.7	0.1	-	-	-	-	-	-	-	-
Class A-3 Principal	-	-	-	-	-	29.6	36.1	36.6	37.1	37.6	38.2	17.5	-	-	-	-	-	-	-	-
Class A-3 Ending Balance	232.6	232.6	232.6	232.6	232.6	203.0	167.0	130.4	93.3	55.7	17.5	-	-	-	-	-	-	-	-	-
Class A-4 Beginning Balance	169.8	169.8	169.8	169.8	169.8	169.8	169.8	169.8	169.8	169.8	169.8	169.8	148.6	109.2	69.0	28.1	-	-	-	-
Class A-4 Interest	3.7	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	2.6	1.9	1.1	0.3	-	-	-	-
Class A-4 Principal	-	-	-	-	-	-	-	-	-	-	-	21.2	39.4	40.2	40.9	28.1	-	-	-	-
Class A-4 Ending Balance	169.8	169.8	169.8	169.8	169.8	169.8	169.8	169.8	169.8	169.8	169.8	148.6	109.2	69.0	28.1	-	-	-	-	-
Class A-5 Beginning Balance	167.6	167.6	167.6	167.6	167.6	167.6	167.6	167.6	167.6	167.6	167.6	167.6	167.6	167.6	167.6	167.6	154.0	111.4	67.7	22.8
Class A-5 Interest	5.0	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	3.6	2.5	1.4	0.3
Class A-5 Principal	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	13.6	42.6	43.7	44.8	22.8
Class A-5 Ending Balance	167.6	167.6	167.6	167.6	167.6	167.6	167.6	167.6	167.6	167.6	167.6	167.6	167.6	167.6	167.6	154.0	111.4	67.7	22.8	-
Total DS	**46.3**	**46.3**	**46.3**	**46.3**	**46.3**	**46.3**	**46.3**	**46.3**	**46.3**	**46.3**	**46.3**	**46.3**	**46.3**	**46.3**	**46.3**	**46.3**	**46.3**	**46.3**	**46.3**	**23.1**

Note: Collections less expenses and excess funds subaccount deposits / (withdrawals) may not equal Cash Flow Available for Debt Service due to rounding.

SRB Securities Assumptions	
Total Debt	$978,800,000
Scheduled Maturity (year)	19.7
Legal Final (year)	21.7
Annual Servicing Fee	$0
Ongoing Expenses	$224,500
Payment Frequency	Semi-Annual

SRB Securities Capital Structure

Class	Balance ($)	Benchmark	Benchmark Rate	Spread	Coupon	WAL (yrs)	Prin Wind. (yrs)	Sch Mat (yrs)	Legal Final (yrs)
A-1	$102,700,000	2yr UST	0.16%	+25	0.41%	1.7	0.7 - 2.7	2.7	4.7
A-2	130,200,000	5yr UST	0.34%	+45	0.79%	4.2	2.7 - 5.7	5.7	7.7
A-3	304,400,000	10yr UST	0.78%	+65	1.43%	8.9	5.7 - 11.7	11.7	13.7
A-4	222,200,000	10yr UST	0.78%	+110	1.88%	14.1	11.7 - 16.2	16.2	18.2
A-5	219,300,000	20yr UST	1.34%	+120	2.54%	18.1	16.2 - 19.7	19.7	21.7
Total / WA	**$978,800,000**		**0.95%**	**+97**	**1.93%**	**10.8**	**0.7 - 19.7**	**19.7**	**21.7**

SRB Securities Revenues ($mm)	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Yr 11	Yr 12	Yr 13	Yr 14	Yr 15	Yr 16	Yr 17	Yr 18	Yr 19	Yr 20
DEC Collections (Debt Svc & Expenses)	14.3	14.3	14.3	14.3	14.3	14.3	14.3	14.3	14.3	14.3	14.3	14.3	14.3	14.3	14.3	14.3	14.3	14.3	14.3	7.2
DEP Collections (Debt Svc & Expenses)	46.4	46.4	46.4	46.4	46.4	46.4	46.4	46.4	46.4	46.4	46.4	46.4	46.4	46.4	46.4	46.4	46.4	46.4	46.4	23.2
Less: Ongoing Expenses Paid	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1
Cash Flow Available for Debt Service	**60.5**	**60.5**	**60.5**	**60.5**	**60.5**	**60.5**	**60.5**	**60.5**	**60.5**	**60.5**	**60.5**	**60.5**	**60.5**	**60.5**	**60.5**	**60.5**	**60.5**	**60.5**	**60.5**	**30.3**

SRB Securities Cash Flow ($mm)	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Yr 11	Yr 12	Yr 13	Yr 14	Yr 15	Yr 16	Yr 17	Yr 18	Yr 19	Yr 20
Class A-1 Beginning Balance	102.7	60.2	15.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-1 Interest	0.4	0.2	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-1 Principal	42.5	45.2	15.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-1 Ending Balance	60.2	15.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Beginning Balance	130.2	130.2	130.2	99.7	54.0	7.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Interest	1.2	1.0	1.0	0.7	0.3	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Principal	-	-	30.5	45.8	46.1	7.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Ending Balance	130.2	130.2	99.7	54.0	7.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-3 Beginning Balance	304.4	304.4	304.4	304.4	304.4	304.4	265.7	218.5	170.6	122.1	72.8	22.9	-	-	-	-	-	-	-	-
Class A-3 Interest	5.1	4.3	4.3	4.3	4.3	4.2	3.6	2.9	2.3	1.6	0.9	0.2	-	-	-	-	-	-	-	-
Class A-3 Principal	-	-	-	-	-	38.7	47.2	47.9	48.5	49.2	49.9	22.9	-	-	-	-	-	-	-	-
Class A-3 Ending Balance	304.4	304.4	304.4	304.4	304.4	265.7	218.5	170.6	122.1	72.8	22.9	-	-	-	-	-	-	-	-	-
Class A-4 Beginning Balance	222.2	222.2	222.2	222.2	222.2	222.2	222.2	222.2	222.2	222.2	222.2	222.2	194.4	142.9	90.3	36.8	-	-	-	-
Class A-4 Interest	4.9	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.1	3.4	2.4	1.4	0.4	-	-	-	-
Class A-4 Principal	-	-	-	-	-	-	-	-	-	-	-	27.8	51.6	52.5	53.5	36.8	-	-	-	-
Class A-4 Ending Balance	222.2	222.2	222.2	222.2	222.2	222.2	222.2	222.2	222.2	222.2	222.2	194.4	142.9	90.3	36.8	-	-	-	-	-
Class A-5 Beginning Balance	219.3	219.3	219.3	219.3	219.3	219.3	219.3	219.3	219.3	219.3	219.3	219.3	219.3	219.3	219.3	219.3	201.5	145.8	88.6	29.9
Class A-5 Interest	6.5	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	4.8	3.3	1.9	0.4
Class A-5 Principal	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	17.8	55.8	57.2	58.7	29.9
Class A-5 Ending Balance	219.3	219.3	219.3	219.3	219.3	219.3	219.3	219.3	219.3	219.3	219.3	219.3	219.3	219.3	219.3	201.5	145.8	88.6	29.9	-
Total DS	**60.5**	**60.5**	**60.5**	**60.5**	**60.5**	**60.5**	**60.5**	**60.5**	**60.5**	**60.5**	**60.5**	**60.5**	**60.5**	**60.5**	**60.5**	**60.5**	**60.5**	**60.5**	**60.5**	**30.3**

Note: Collections less expenses may not equal Cash Flow Available for Debt Service due to rounding.

Notes:

1. Structure is preliminary and subject to change based on market conditions and rating agency requirements at the time of pricing.

2. Structure is based in part upon information supplied by the Company which is believed to be reliable but has not been verified. Potential application of franchise fees and gross receipts taxes is not reflected in the ongoing cost amounts. No representation or warranty is being made relating to this structure. Estimates of future performance are based on assumptions that may not be realized. Actual events may differ from those assumed and changes to any assumptions may have a material impact on any projections or estimates. Other events not taken into account may occur and may significantly affect the projections or estimates. Certain assumptions may have been made for modeling purposes only to simplify the presentation and/or calculation of any projections or estimates. No assurance can be given that any such assumptions will reflect actual future events.

3. Assumes “AAAsf” ratings.

4. Benchmark rates as of October 9, 2020.

5. Weighted average benchmark rate, spread, and coupon weighted based on tranche balances and WALs.

6. Assumes the forecast for power consumption, customer numbers and average collection curve provided by the Companies.

7. Assumes no collections for the first two months of the transaction.