SABER PARTNERS, LLC
ADVISORS & INVESTORS

Innovative Financing for Public Policy Objectives

NARUC SUMMER CONFERENCE
SEATTLE, WASHINGTON
July 21, 2009

Joseph S. Fichera, CEO
www.saberpartners.com
212-461-2370

An Innovative Financing Technique

- Ratepayer Obligation Charge (“ROC”) Bonds
- Public interest solution to slowing the rise in energy rates and providing long-term capital at the lowest possible cost top ratepayers
- Mitigates long-term rate impact of investment decisions and government mandated costs
- Creates economic value in capital markets from Commission’s powerful regulatory authority

Starting Point: Understanding Utility "Revenue Requirements"

- **Operation Maintenance / Administrative & General**
- **Depreciation**
- **Taxes**
- **Capital Structure Supporting Rate Base**
  - % of Debt
  - % of Equity

Cost of Capital Recovery:
Traditional vs. Reality of Credit Crisis

- **Cost of equity is always vigorously contested in rate cases**
- **Cost of debt is rarely, if ever, contested in rate cases**
  - "The market is the market"
  - Not so fast
  - The Credit Crisis:
  - Waste, inefficiency and undue influence from investors and bankers on costs that are to be borne by consumers
- **Commissions need to improve oversight capabilities of ALL cost of capital issues – traditional or innovative**
- **Access to independent experts to propose or evaluate proposals**

Cap Ex Agenda Going Forward

- Environmental
- Carbon
- Renewables
- Infrastructure
- Nuclear
- Coal
- Transmission
- Smart Grid (partially subsidized)

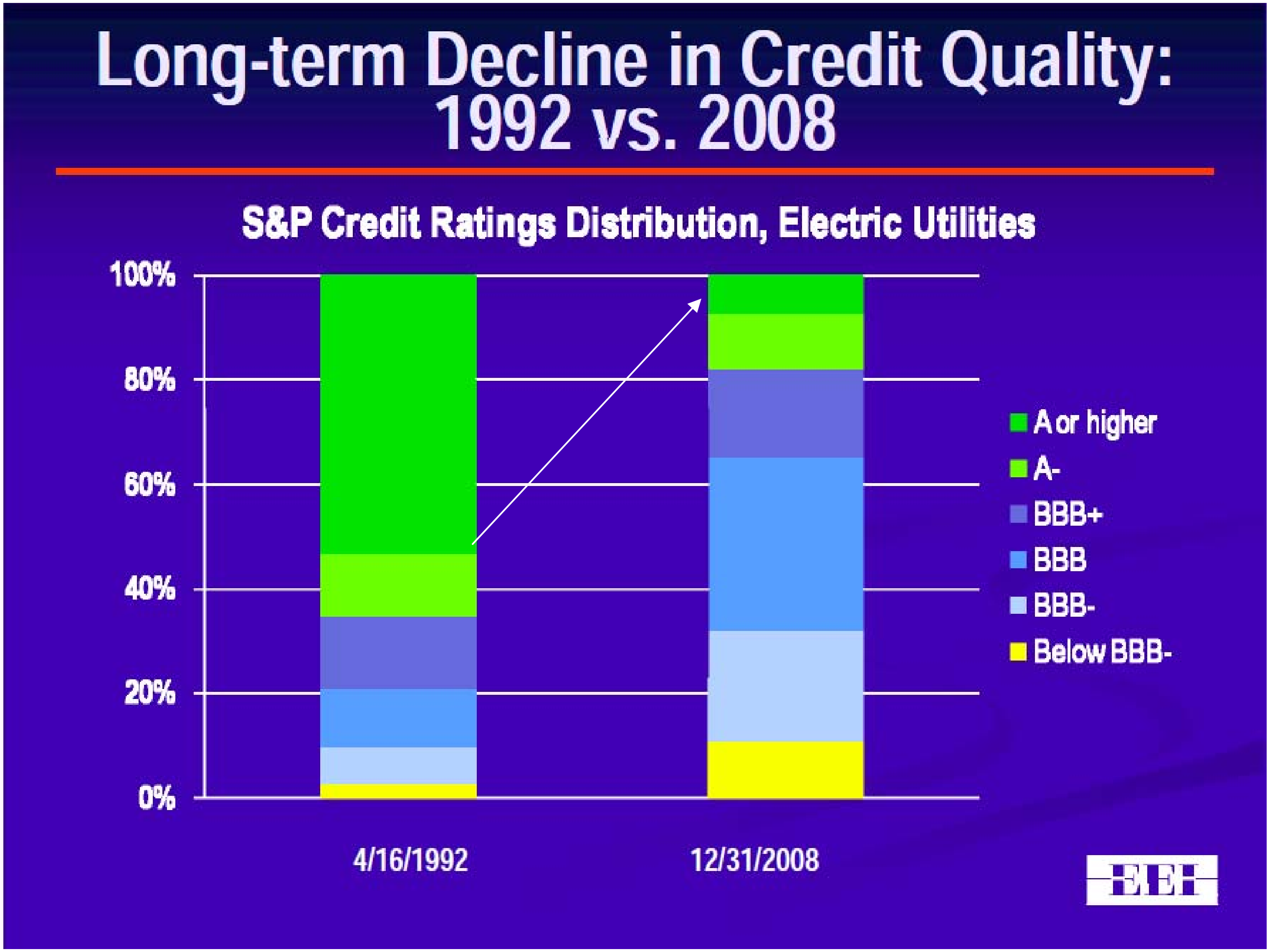
$$$$

Consumer Is In Precarious Condition

- High Unemployment
- Mortgage Foreclosures
- Delinquency on Current Utility Bills
- Outlook For Inflationary Pressures
- Not getting better anytime soon under any forecast

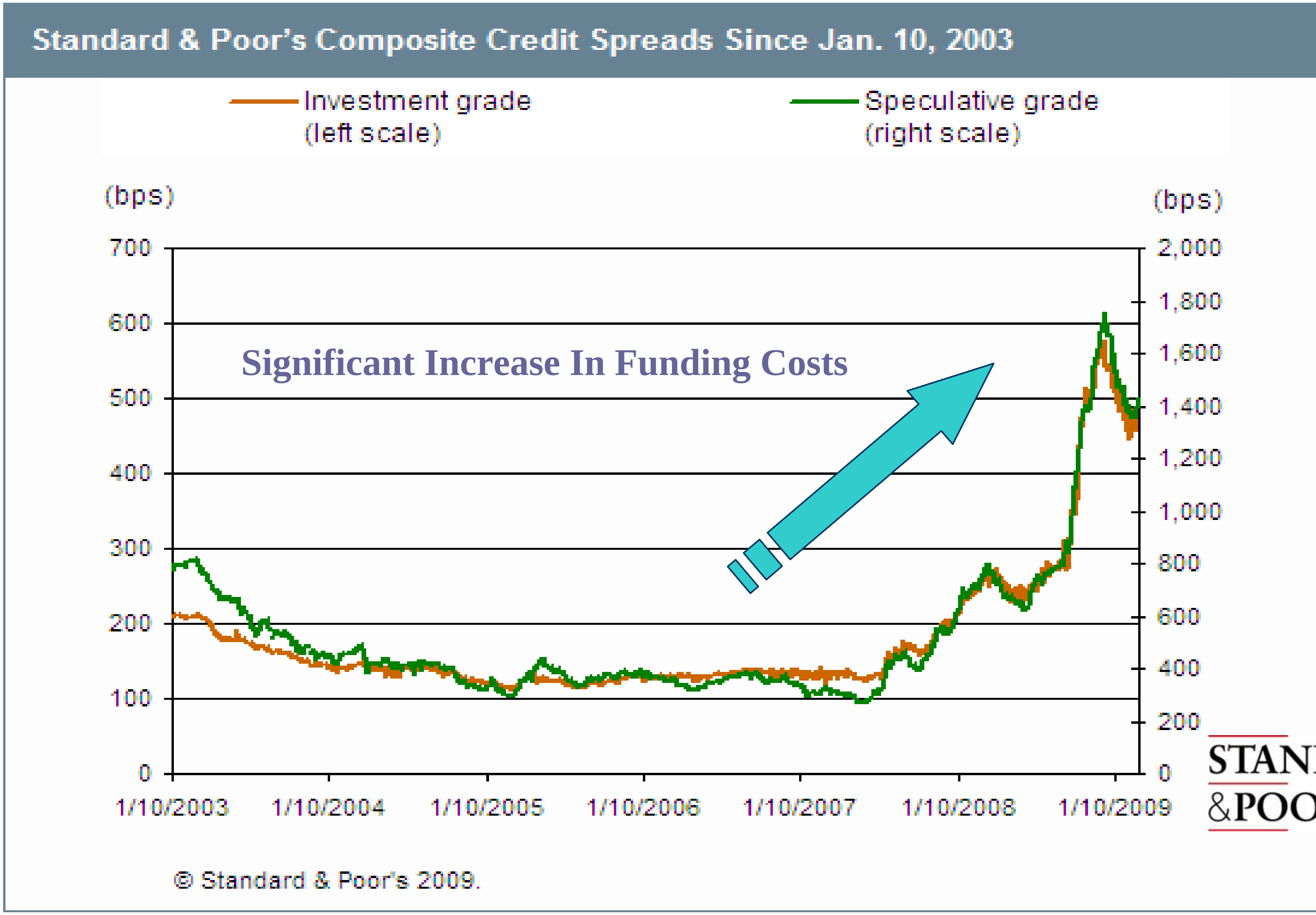
Saber Partners, LLC

Decreasing Credit Quality; Increasing Risk



Saber Partners, LLC

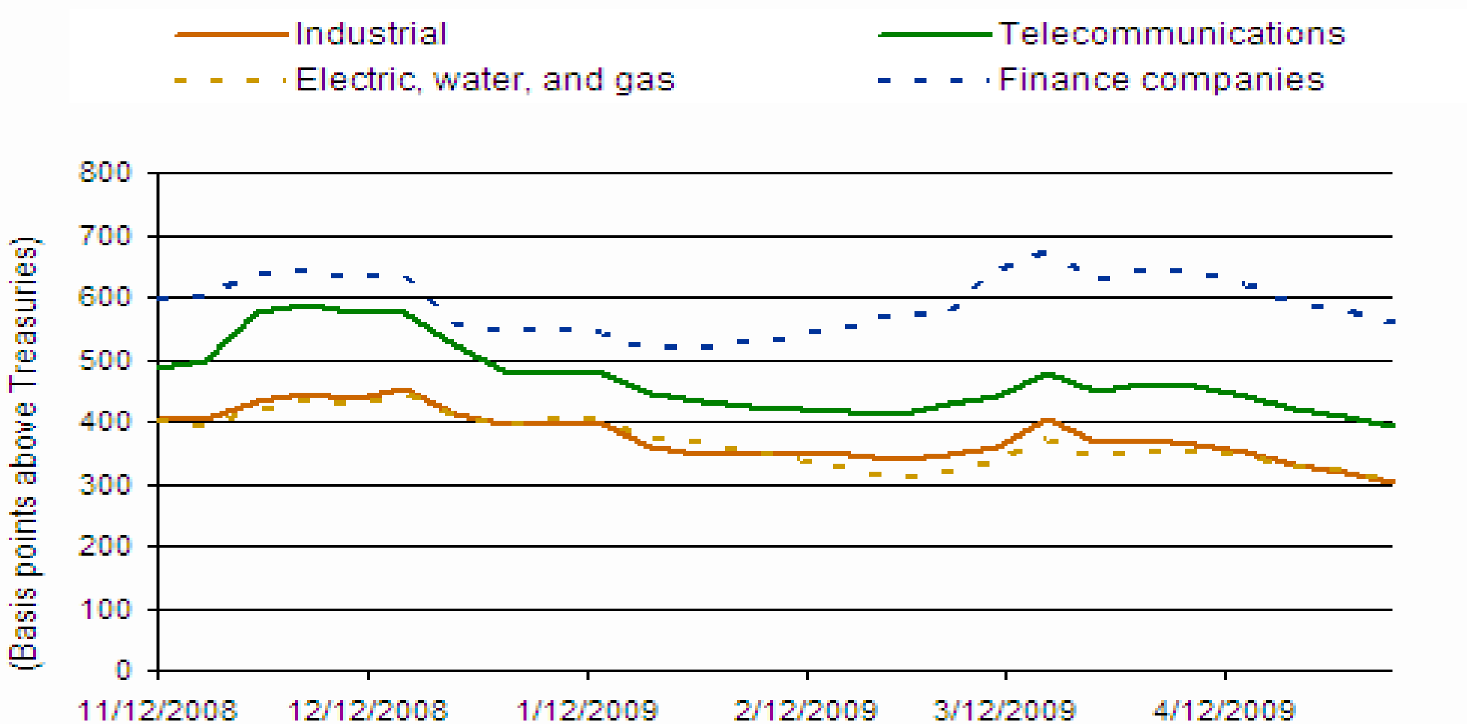
A Significant and Likely Lasting Repricing of Risk



STANDARD & POOR'S

Debt Capital Costs Are High Even in 'A' Rating Category

Sector Relative Value For The 'A' Rating Category

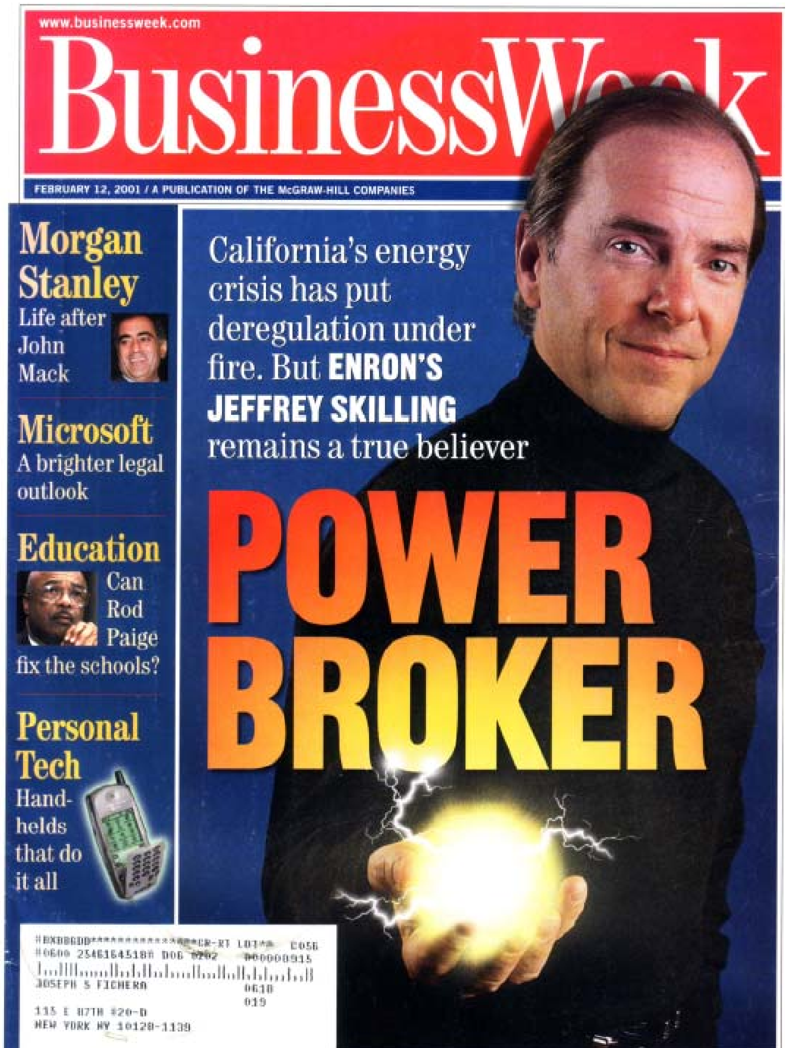


Spreads have been adjusted for expanded sector coverage. Note: Five plus years to maturity and minimum $100 million outstanding. Source: Standard & Poor's Global Fixed Income Research.

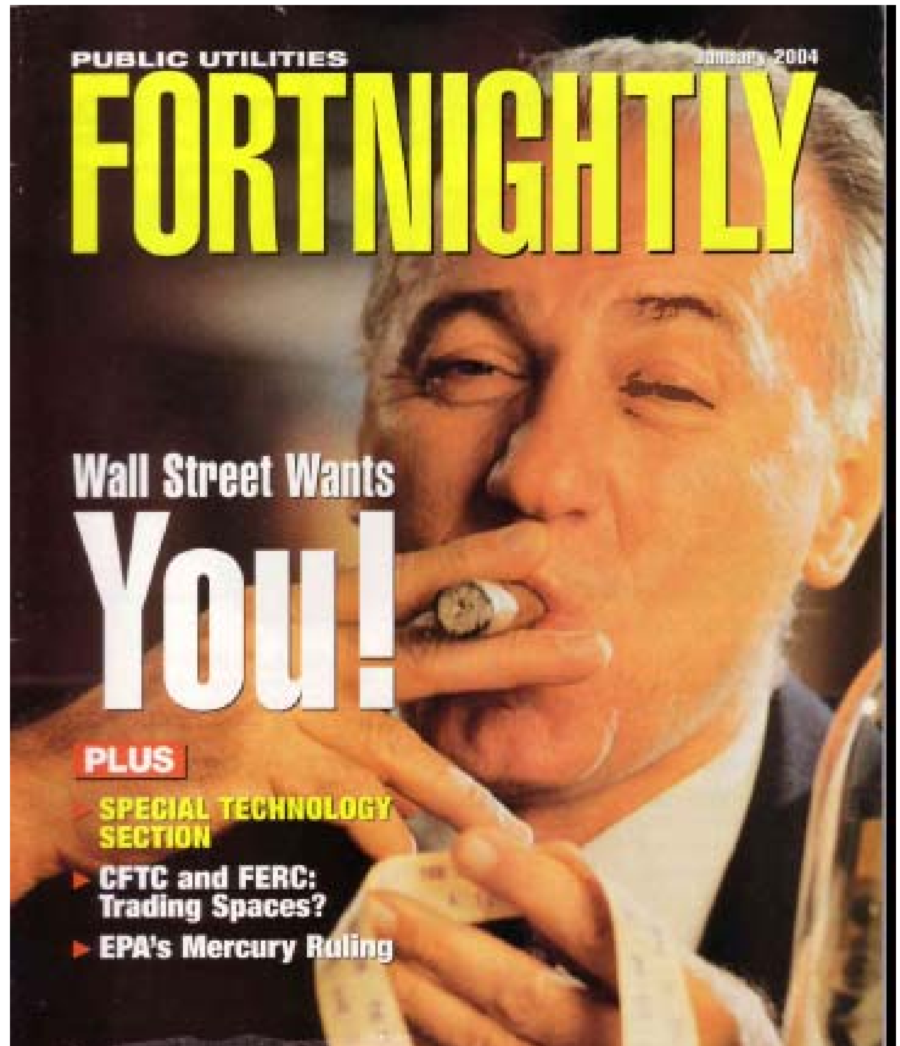
STANDARD & POOR'S

And the market beckons as it has in the past to create “innovations”…

2001



2004



"Rate Shock" coming

Regulator - Utility Policy Options

1. Cut back Cap Ex
2. Reduce mandates
3. Increase return on equity capital to attract more capital
4. Develop “innovative” financing tools

Saber Partners, LLC

No "One Size Fits All" Solution –

Collaboration And Cooperation Essential –

TARGETED APPROACH REQUIRED

Elephant in Room: Where Is The Tension? Political Realities

- **Utilities want to build “rate base” – earning assets**
- **Consumers want (and need) lower bills**
- **Regulators want to avoid “rate shock”**
- **Utilities do not want oversight on capital costs**
- **Capital must come mainly from private sector**
  - Can’t look to Feds for bailout
  - All sources of capital needed

To Handle Financial Innovation Correctly…

- Commissions must improve financial capability and oversight
- Understand capital markets - no longer just defer to them
- “Back to basics”

The "Four Letter" Word Of The Capital Markets:

- **RISK**
- **You either:**
  - Compensate for risk
  - Reduce risk
- **"After the Fact" rate case approach – with uncertainty and contesting only ROE – makes situation worse for all stakeholders**

Investors' Desire for Risk Drive Costs

- **Buy and Hold**
  - Low risk tolerance
  - Insurance Companies, Pension Funds
  - Retail
- **Traders**
  - High Risk, High Reward
  - Hedge Funds
  - Proprietary Accounts

An Exclusive Energy Sector “Innovation” to Lower Risk

- Ratepayer Obligation Charge (“ROC”) Bonds
- Created by new statutory authority for PSC
- Highly efficient RATE MITIGATION tool

Lowering Risk, Lowering Consumer Costs

- $40 billion of ROC Bonds already issued
- 15 states
- Multiple uses of proceeds
- Substantially lower costs than traditional utility finaancings
- Not affected by current Credit Crisis (See S&P Report July 09)

What is a ROC Bond?

It is not...

- ***Not* a bond issue by the Utility**
  - Non-recourse to utility, its shareholders and creditors, completely independent corporate bond
- ***Not* a Municipal Bond**
  - Not a charge against the state's taxing or budget authority
- ***Not* an Asset Backed Security**
  - No pool of receivables, financial assets or other complexities

What is a ROC Bond?

It is:

- **Direct borrowing on rate base – "ratepayer-obligation" bond – "joint and several" obligation**
- **Guaranteed by State's regulatory authority over rates – an R.O. (regulatory obligation) not G.O. (general obligation)**
- **AAA rated, top quality, lowest cost, efficient rate mitigation tool**
  - 15 year history
  - Never downgraded
  - Never even on "watch list" for downgrade

How is Risk Reduced? What Makes a Successful ROC offering

- **Active Commission oversight of, and involvement in, financing process**
  - PSC Financial Advisor to level playing field with bankers and investors – clear difference between those who get involved and those who don't
  - Collaborative effort with a "lowest cost" standard
- **Specific state statutory authorization (Generally) which includes a "State Pledge" of non-impairment (Always)**
- **Irrevocable financing order which includes an automatic adjustment mechanism (True-up/True-down)**

A Simple/Straightforward Structure

Bill Charge →	**All electric bills in T&D utility's service territory**
Collect Charge →	**Pass along daily to bond trustee of AAA bankruptcy remote entity to service debt**
Adjust Charge →	**Mandated/guaranteed solely by Gov't Regulatory Authority (True-up Mechanism)**

Revenue Requirement Savings: Savings Possible for ROC Rate Mitigation:

Present Value Revenue Requirement Savings On
$1 billion Financing
($ Millions)

	Revenue Requirements	
	Nominal	Present Value
Traditional Financing - Cummulative total	$1,895	$1,326
less ROC Financing	1,470	1,010
less Incremental ROC Transaction Costs (2.5%) [(1)]	25	25
Savings	401	291
Savings as % of Traditional Financing Revenue Requireme	**21%**	**22%**

Traditionally ALL these savings passed to ratepayer…BUT political reality may make a compromise of giving some to shareholders necessary to get their support.

(1) *In practice, incremental transaction costs are both upfront and on-going. For simplicity, here they are represented as a single upfront cost.*

Sources of Savings: Reducing Revenue Requirements: $1 Billion 10-Yr Financing

Amount ($ millions)		
Eliminate Income Tax Expense		**$245**
Debt is less expensive than equity		**149**
ROC debt is less expensive than corporate debt		**28**
Revenue Related Taxes are less		**4**
Sub-total		**426**
– *less* Incremental transaction costs	(25)	
Net Nominal Savings		**401**
Present Value Savings		**$291**

Evolution of use: 1994 - 1997

- **Introduced by Puget Power**
  - Demand side management
- **Followed by several issuances from California**
  - Finance 10% rate reduction facilitating deregulation “stranded costs”
  - Consumer groups oppose

Date	Issue	State	Size ($mm)	Purpose
Jun-95	Puget Power, Series 1995-1	Washington	202.3	Demand Side Management
1997	Puget Power, Series 1997	Washington	35.2	Demand Side Management
Nov-97	PG&E, Ser. 1997-1	California	2,901.0	Rate Reduction
Dec-97	SCE, Ser. 1997-1	California	2,463.0	Rate Reduction
Dec-97	SDG&E, Ser. 1997-1	California	658.0	Rate Reduction
		Total	$ 6,259.5	

Source: SEC Documents, Fitch.

Evolution of use: 2001 - 2003

- **Energy Crisis/Enron – PG&E goes bankrupt – ROC bonds perform without a hitch… no downgrade or even “watch list”.**
- **Texas approves but requires active and involved oversight of financing process (Saber) to “ensure lowest cost of funds”.**
- **PG&E gets bankruptcy settlement with $3 billion regulatory asset carried at WACC to improve rating – PGE & consumer groups now PROPOSE ROC bonds to refinance regulatory asset.**

Date	Issue	State	Size ($mm)	Purpose
Jan-01	PSE&G, Ser. 2001-1	New Jersey	2,525.0	Stranded Costs
Feb-01	PECO, Ser. 2001-A	Pennsylvania	805.5	Stranded Costs
Mar-01	Detroit Edison, Ser. 2001-1	Michigan	1,750.0	Stranded Costs
Mar-01	CL&P, Ser. 2001-1	Connecticut	1,438.4	Stranded Costs
Apr-01	PSNH, Ser. 2001-1	New Hampshire	525.0	Stranded Costs
May-01	WMECO, Ser. 2001-1	Massachusetts	155.0	Stranded Costs
Oct-01	CenterPoint Energy, Ser. 2001-1	Texas	748.9	Stranded Costs
Oct-01	Consumers Funding, Ser. 2001-1	Michigan	468.6	Stranded Costs
Jan-02	PSNH, Ser. 2002-1	New Hampshire	50.0	Stranded Costs
Jan-02	CPL, Ser. 2002-1	Texas	797.3	Stranded Costs
Jun-02	JCP&L 2002-1	New Jersey	320.0	Stranded Costs
Dec-02	Atlantic City Electric 2002-1	New Jersey	440.0	Stranded Costs
Aug-03	Oncor Electric 2003-1	Texas	500.0	Stranded Costs
Dec-03	Atlantic City Electric 2003-1	New Jersey	152.0	Stranded Costs
		Total	$ 10,675.7	

Source: SEC Documents.

Saber Assignment

Evolution of use: By 2005: In the News

Wall Street Journal, Weekend Edition, September 24/25, 2005

"…storm-battered utilities have begun to look for creative financing ideas to pay for their rebuilding and restoration efforts. Enter securities supported by utility tariffs…"

Utilities Find New Way to Raise Cash

By STEVEN JOHNSON
Dow Jones Newswires

With two devastating hurricanes raking the Gulf Coast in less than month, storm-battered utilities have begun to look for creative financing ideas to pay for their rebuilding and restoration efforts.

Enter securities supported by utility tariffs—until now fairly rare issues despite their reliable payment streams. They may become more plentiful in the asset-backed market—and not just because of the stormy weather.

CREDIT MARKETS

State legislatures are becoming more receptive to securitization as a means for utilities to fund programs not just for storm-related repairs, but also for pollution control and other investments. And last week, Internal Revenue Service rules came into effect that make all such securitization tax-exempt, provided utilities have legislative and regulatory approval.

For investors, an increase in utility-tariff securities could mean more access to products with high credit quality.

Until now, utility-tariff bonds were used mainly to recover stranded costs in deregulated markets. These costs occur when customers move from one utility to another, leaving the initial energy provider with lower revenue but the same fixed costs for maintaining plants, equipment and other infrastructure. By selling debt backed by tariffs, the utilities were able to raise money at favorable rates to cover these costs.

But their scope has been expanding. Utility regulators in Florida recently gave Progress Energy-Florida, a subsidiary of **Progress Energy** Inc., Raleigh, N.C., the green light to securitize a two-year surcharge to recover hurricane-related costs of $231.8 million after the legislature approved such securitizations.

Power companies in the Gulf states hit hardest by Hurricane Katrina may consider following suit. **Entergy** Corp., which estimates that repairs to its New Orleans unit could run as high as $1.1 billion, said it may consider securitization among its possible recovery initiatives. The New Orleans unit filed for bankruptcy-law protection yesterday.

A company spokeswoman said Entergy already has talked with investors to gauge appetite for future bonds.

Bonds backed by utility tariffs have been stellar performers. Fitch Ratings recently reviewed 31 transactions worth $33.5 billion issued since 1995 and found every one performed as expected, returning principal and interest to investors on schedule.

Yield Comparisons

Based on Merrill Lynch Bond Indexes, priced as of midafternoon Eastern time.

	9/23	9/22	52-WEEK HIGH	52-WEEK LOW
Corp. Govt. Master	4.56%	4.48%	4.70%	3.74%
Treasury				
1-10 yr	4.07	3.99	4.22	2.85
10+ yr	4.50	4.44	4.93	4.18
Agencies				
1-10 yr	4.35	4.26	4.48	3.13
10+ yr	4.87	4.81	5.35	4.49
Corporate				
1-10 yr High Quality	4.64	4.56	4.78	3.53
Medium Quality	5.01	4.93	5.14	4.06
10+ yr High Quality	5.47	5.42	5.76	5.08
Medium Quality	5.77	5.72	6.17	5.48
Yankee bonds (1)	4.89	4.83	5.08	4.07
Current-coupon mortgages (2)				
GNMA 4.99% (3)	5.13	5.08	5.38	4.74
FNMA 5.49%	5.40	5.34	5.49	4.83
FHLMC 5.49%	5.43	5.38	5.51	4.89
High-yield corporates	7.91	7.93	8.51	6.76
Tax-Exempt Bonds				
7-12 yr G.O. (AA)	3.69	3.66	3.90	3.33
12-22 yr G.O. (AA)	4.07	4.03	4.29	3.63
22+ yr revenue (A)	4.41	4.38	4.93	4.22

Note: High quality rated AAA-AA; medium quality A-BBB/Baa; high yield, BB/Ba-C.
(1) Dollar-denominated, SEC-registered bonds of foreign issuers sold in the U.S. (2) Reflects the 52-week high and low of mortgage-backed securities indexes rather than the individual securities shown. (3) Government guaranteed.

Treasury Bonds

Treasurys were punished, as bond investors downplayed the potential fallout from Hurricane Rita as it approached the Gulf Coast's oil refineries. That reflects the outlook that key infrastructure in Houston and Galveston, Texas, could be missed by Rita.

Should Rita pass through the oil-refining Gulf Coast region without causing too much harm, Treasurys will come under further selling pressure, said Richard Gilhooly, senior fixed-income strategist at BNP Paribas in New York. However, he cautioned, "It's not clear if the Treasury market has it right, and there could be a great deal of volatility Monday," should the hurricane cause significant damage to refining capacity.

At 4 p.m., the benchmark 10-year note was down 18/32 point, or $5.625 per $1,000 face value, at 100. Its yield rose to 4.25%, as yields move inversely to prices. The 30-year bond was down 31/32 point at 112 26/32 to yield 4.521%.

Bond Market Data Bank appears on page B13, Money Rates on page B12.

SABER PARTNERS, LLC

Evolution of use: By 2005: In the News

Wall Street Journal, Weekend Edition, September 24/25, 2005

"For investors, an increase in utility-tariff securities could mean more access to products with high credit quality."

Utilities Find New Way to Raise Cash

By STEVEN JOHNSON
Dow Jones Newswires

With two devastating hurricanes raking the Gulf Coast in less than month, storm-battered utilities have begun to look for creative financing ideas to pay for their rebuilding and restoration efforts.

Enter securities supported by utility tariffs—until now fairly rare issues despite their reliable payment streams.

CREDIT MARKETS

They may become more plentiful in the asset-backed market—and not just because of the stormy weather.

State legislatures are becoming more receptive to securitization as a means for utilities to fund programs not just for storm-related repairs, but also for pollution control and other investments. And last week Internal Revenue Service rules came into effect that make all such securitization tax-exempt, provided utilities have legislative and regulatory approval.

For investors, an increase in utility-tariff securities could mean more access to products with high credit quality.

Until now, utility-tariff bonds were used mainly to recover stranded costs in deregulated markets. These costs occur when customers move from one utility to another, leaving the initial energy provider with lower revenue but the same fixed costs for maintaining plants, equipment and other infrastructure. By selling debt backed by tariffs, the utilities were able to raise money at favorable rates to cover these costs.

But their scope has been expanding. Utility regulators in Florida recently gave Progress Energy-Florida, a subsidiary of **Progress Energy** Inc., Raleigh, N.C., the green light to securitize a two-year surcharge to recover hurricane-related costs of $231.8 million after the legislature approved such securitizations.

Power companies in the Gulf states hit hardest by Hurricane Katrina may consider following suit. **Entergy** Corp., which estimates that repairs to its New Orleans unit could run as high as $1.1 billion, said it may consider securitization among its possible recovery initiatives. The New Orleans unit filed for bankruptcy-law protection yesterday.

A company spokeswoman said Entergy already has talked with investors to gauge appetite for future bonds.

Bonds backed by utility tariffs have been stellar performers. Fitch Ratings recently reviewed 31 transactions worth $33.5 billion issued since 1995 and found every one performed as expected, returning principal and interest to investors on schedule.

Yield Comparisons

Based on Merrill Lynch Bond Indexes, priced as of midafternoon Eastern time.

	9/23	9/22	52-WEEK HIGH	52-WEEK LOW
Corp. Govt. Master	4.56%	4.48%	4.70%	3.74%
Treasury				
1-10 yr	4.07	3.99	4.22	2.85
10+ yr	4.50	4.44	4.93	4.18
Agencies				
1-10 yr	4.35	4.26	4.48	3.13
10+ yr	4.87	4.81	5.35	4.49
Corporate				
1-10 yr High Quality	4.64	4.56	4.78	3.53
Medium Quality	5.01	4.93	5.14	4.06
10+ yr High Quality	5.47	5.42	5.76	5.08
Medium Quality	5.77	5.72	6.17	5.48
Yankee bonds (1)	4.89	4.83	5.08	4.07
Current-coupon mortgages (2)				
GNMA 4.99% (3)	5.13	5.08	5.38	4.74
FNMA 5.49%	5.40	5.34	5.49	4.83
FHLMC 5.49%	5.43	5.38	5.51	4.89
High-yield corporates	7.91	7.93	8.51	6.76
Tax-Exempt Bonds				
7-12 yr G.O. (AA)	3.69	3.66	3.90	3.33
12-22 yr G.O. (AA)	4.07	4.03	4.29	3.63
22+ yr revenue (A)	4.41	4.38	4.93	4.22

Note: High quality rated AAA-AA; medium quality A-BBB/Baa; high yield, BB/Ba-C.
(1) Dollar-denominated, SEC-registered bonds of foreign issuers sold in the U.S. (2) Reflects the 52-week high and low of mortgage-backed securities indexes rather than the individual securities shown. (3) Government guaranteed.

Treasury Bonds

Treasurys were punished, as bond investors downplayed the potential fallout from Hurricane Rita as it approached the Gulf Coast's oil refineries. That reflects the outlook that key infrastructure in Houston and Galveston, Texas, could be missed by Rita.

Should Rita pass through the oil-refining Gulf Coast region without causing too much harm, Treasurys will come under further selling pressure, said Richard Gilhooly, senior fixed-income strategist at BNP Paribas in New York. However, he cautioned, "It's not clear if the Treasury market has it right, and there could be a great deal of volatility Monday," should the hurricane cause significant damage to refining capacity.

At 4 p.m., the benchmark 10-year note was down 18/32 point, or $5.625 per $1,000 face value, at 100. Its yield rose to 4.25%, as yields move inversely to prices. The 30-year bond was down 31/32 point at 112 26/32 to yield 4.521%.

Bond Market Data Bank appears on page B13, Money Rates on page B12.

Evolution of use: 2007

- West Virginia applies method to environmental facilities for the first time ever.
- Florida introduces technology for storm recovery financing and reserves followed by Texas.

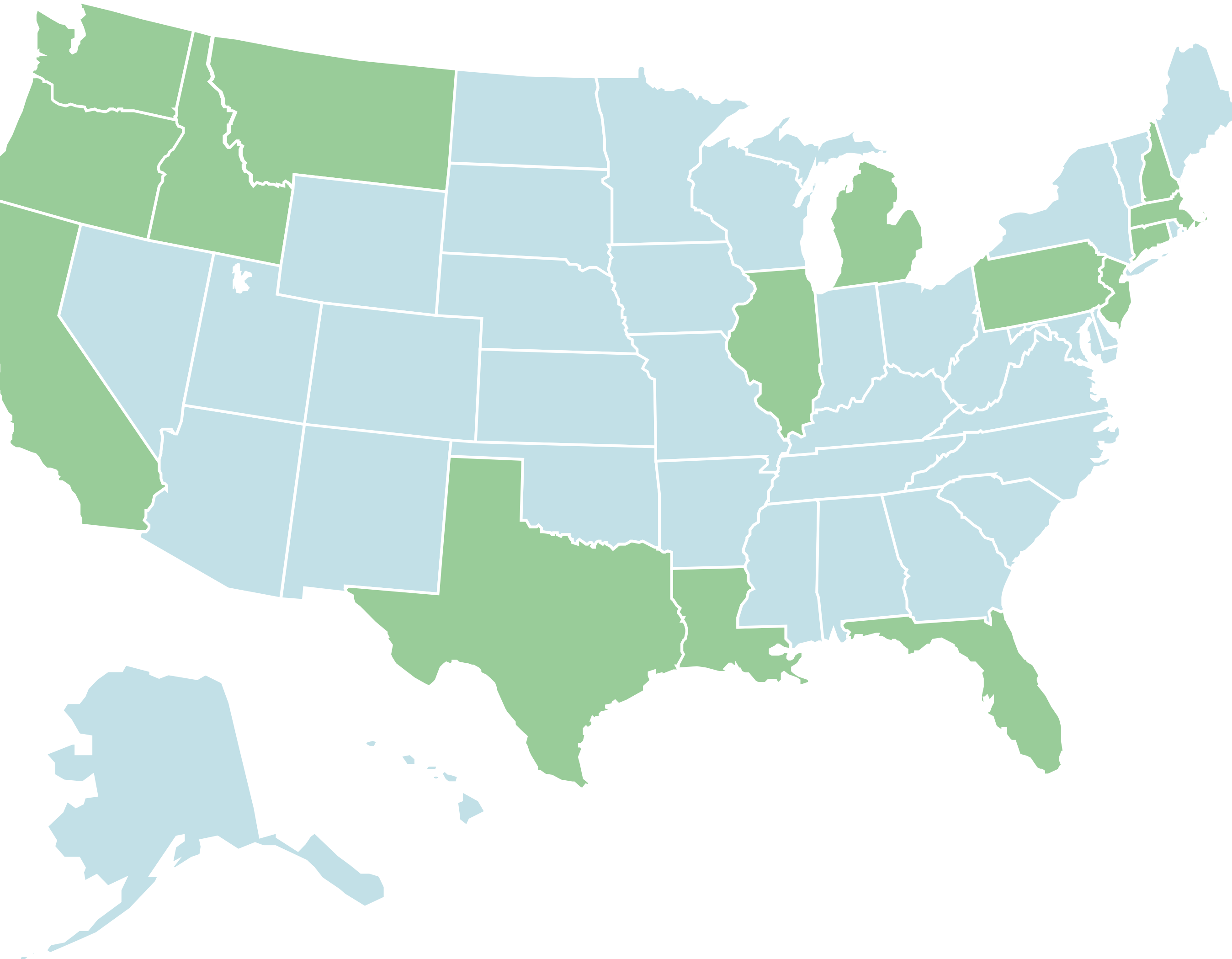
Date	Issue	State	Size ($mm)	Purpose
4/3/2007	Allegheny Power	West Virginia	459.3	Enviromental Control
5/22/2007	FPL Recovery Funding LLC	Florida	652.0	Storm Recovery
6/22/2007	Baltimore Gas & Electric (RSB BondCo LLC)	Maryland	623.2	Deferred Balances
6/22/2007	Entergy	Texas	329.5	Storm Recovery
		Total	$ 2,064.0	

Source: SEC Documents, Proposal Requests.

Saber Assignment

Saber Partners, LLC

ROC Bonds:
15 States with Experience and Some Form of Legislation



Recent Examples of Savings: Targeted Uses

West Virginia

- $459 Million Environmental Upgrades
- $130 Million Savings

Florida

- $652 million hurricane damage costs and reserve
- $135 million Savings

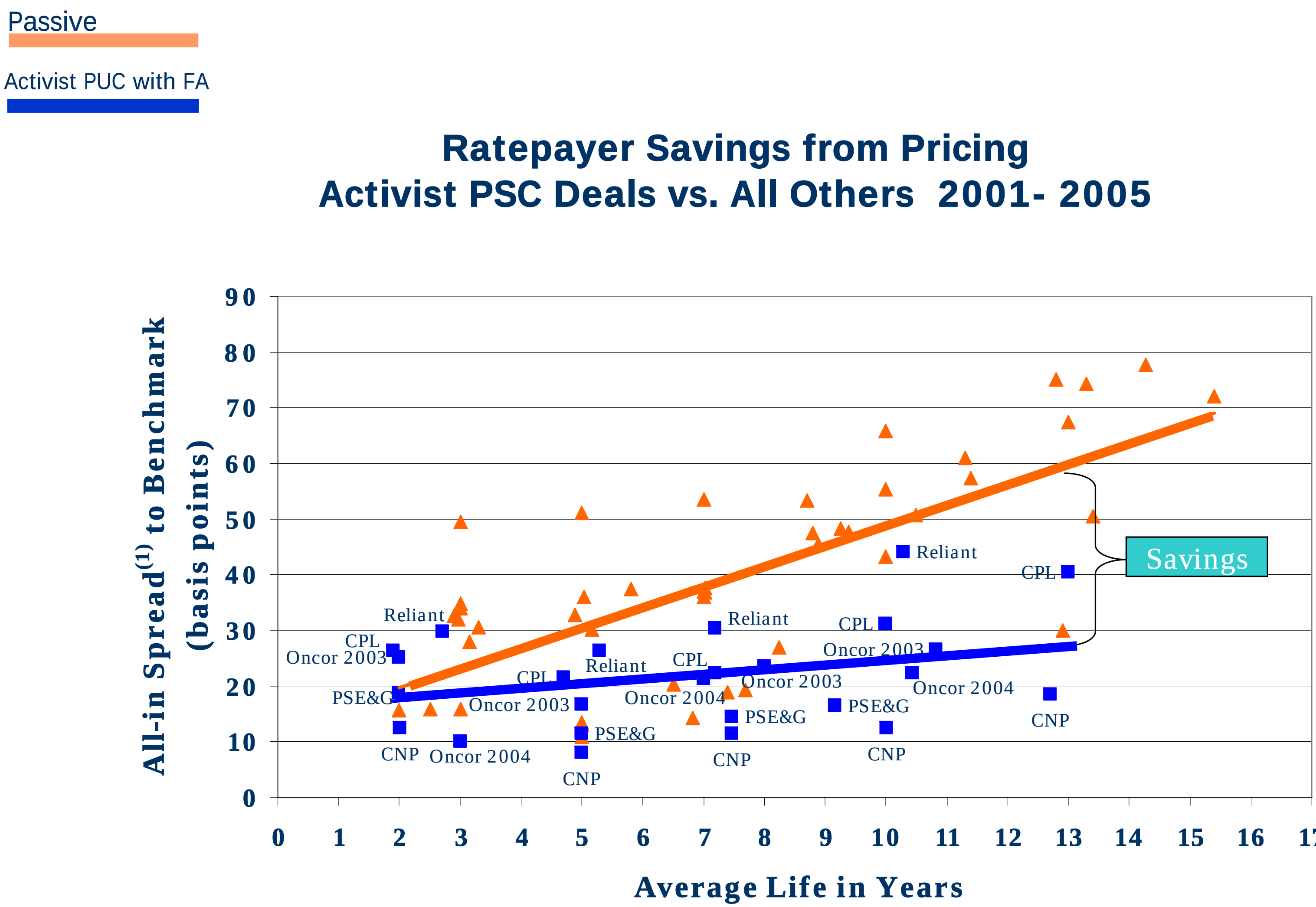
Maximum Savings Are Not Automatic
PSC Needs Improved Expertise

- **Irrevocable Order? No Post-financing Review Or Adjustments**
  - **Closer consideration of prudency, eligibility for securitization**
- **Up-front Transaction Costs, Interest Rate: Every Dollar A Ratepayer Dollar**
  - **More involved Commission and Staff and cooperation with utility throughout financing process**
- **High Transaction Costs?**
  - **Commission with state-wide, ratepayer perspective and leverage**
  - **Programmatic, state-wide approach keeps costs low versus application by application**

Maximum Savings Are Not Automatic
PSC Needs Improved Expertise

- **Lowest Possible Bond Rate, Fees and Other Costs?**
  - Wall Street always looking for a bargain - doesn't want to pay full value if it can
  - Collaboration-Cooperation and Negotiation
  - Active PSC vs. Passive makes substantial difference in ratepayer costs

With Independent Advisor, Active PSC Makes Pricing Difference



Source: SEC Prospectus, Bloomberg. (1) All-in spread includes credit spread, underwriting and structuring fees, if any.

Next Steps to Mitigate Coming "Rate Shock"

- Step One:
  Build Commission staff resources and use of independent experts (included in financing cost like utility reps) to represent commissions and ratepayers.

- Step Two:
  Reach out to legislatures. Identify all appropriate assets (targeted) that can either be partially or fully ROC-bond financed (e.g. utility infrastructure, government mandated costs, power purchase agreements).

- Step Three:
  Possibly share savings with utility shareholders to gain political support. Minimize transaction costs thru programmatic approaches, closer cooperation between Commission and utility.

Saber Financial Advisor Assignments

Wisconsin

West Virginia

Florida

Texas

New Jersey

Vermont

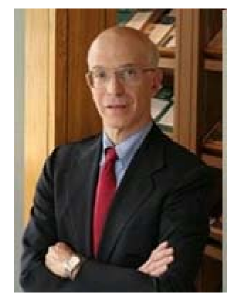
SABER PARTNERS, LLC

The Saber Team

- Saber Senior Management
  - **Joseph S. Fichera,** Chief Executive Officer
  - **Michael L. Noël**, Senior Managing Director
  - **Brian Maher,** Senior Advisor
  - **June Reed,** Managing Director
- Saber Advisory Board
  - **Alan S. Blinder**, Chairman
  - **Andrew Kalotay,** Member
  - **Becky Klein**, Member
- Saber Regulatory & Research
  - **Fred Grygiel,** Senior Advisor
  - **Jeremy Tennenbaum,** Senior Managing Director









SABER PARTNERS, LLC
ADVISORS & INVESTORS

Innovative Financing for Public Policy Objectives

NARUC SUMMER CONFERENCE
SEATTLE, WASHINGTON
July 21, 2009

Joseph S. Fichera, CEO
www.saberpartners.com
212-461-2370