NARUC MEMBER UTILITY SECURITIZATION ISSUE ALERT– UPCOMING CONFERENCE CALL

Utility Recovery Bonds Have Been Misclassified as Asset-Backed Securities, Threatening Market and Customer Costs

An Invitation to a Conference Call Organized By Staff of The Florida Public Service Commission with Other Securitization Experts On An Under-the-Radar Issue That Will Cost Ratepayers Billions of Dollars Unless Corrected.

Considering using securitization? We encourage you to participate in the upcoming Conference Call on an important development that affects customer costs.

SCHEDULING CONFERENCE CALL DATE:

Register to Receive Notification of Time and Date

Send Contact Information to

Mark Cicchetti
Florida Public Service Commission
mark.cicchetti@psc.state.fl.us
850-413-6066

BACKGROUND: RE: Upcoming Securitization Issue Briefing

From: Greg White <gwhite@naruc.org>

Date: April 10, 2023 at 4:15:50 PM EDT

To: NARUC-CMMNCHAIRS-S@lists.naruc.org

Subject: Bloomberg Index Services Ltd. Reclassification of Securitized Utility Bonds

Dear State PUC Chair,

At the request of one of our Commissioners, I am sharing information that may be of interest or concern if your Commission uses securitization or is considering using securitization as a tool for dealing with cost recovery of certain utility assets or costs. PLEASE NOTE: This is NOT a promotion or endorsement for securitization, which has its pros and cons. However, if your Commission is using securitization or is considering using securitization, this information may be pertinent and of interest.

As you know, "securitization" is the conversion of company assets into securities that can be sold to investors for a return. The most common form of securitization involves raising debt in bond markets by converting existing assets, such as infrastructure equipment, into securities. In the context of regulated utilities, securitization can be a tool for utilities to recover large costs, like those associated with storm damage, potentially saving customers money in the long term. In utility regulation, securitization generally refers to the use of a captive customer base by electric utilities to guarantee repayments of bond offerings, which in turn allows for lower interest rates.

In August 2022, at the request of some of their large institutional clients, Bloomberg Index Services Limited (BISL), reclassified "utility recovery bonds" as "asset-backed securities" (ABS) for their widely used bond indices. This action was unexpected and could hurt an investor's ability to resell the utility recovery bonds after issuance (known as secondary market "liquidity") and drive up the initial cost to ratepayers when utilities need to sell this type of bond to pay for prudently regulator-approved costs. Some have argued this reclassification is contrary to specific legal definitions of the security by the SEC, FASB, and IRS. Rather than providing a lengthy description of the BISL matter here, I have attached a copy of a letter from Florida PSC's Division of Accounting and Finance Director, Andrew L. Maurey sent to Bloomberg which expresses concerns with a decision made by Bloomberg In August 2022 to reclassify "utility recovery bonds" as "asset-backed securities" for their widely used bond indices.

For more information, please feel free to contact Mr. Maurey at (850) 413-6465, or by email at AMaurey@psc.state.fl.us.

Thank you.

Warm regards,

Greg

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STATE OF FLORIDA

DIVISION OF
ACCOUNTING AND FINANCE
ANDREW L. MAUREY
DIRECTOR
(850) 413-6900

Public Service Commission

October 10, 2022

Ms. Mary Schapiro
Vice Chair – Public Policy
Bloomberg L.P.
767 Lexington Avenue
New York, NY 10065

VIA E-MAIL & USPS

RE: Reclassification of Utility Recovery Bonds Approved and Supported by Florida Public Service Commission Financing Orders

Dear Ms. Schapiro:

In June 2016, the Barclays bond index (the predecessor to the Bloomberg index) recognized the correct nature of recovery bonds issued by regulated investor-owned utilities (IOUs). The Florida Public Service Commission (FPSC) issued a financing order for Duke Energy Florida Project Finance LLC. The resulting bonds were included in the Barclays "corporate/utility" index.

It has come to our attention that an effort is underway to reclassify recovery bonds as "asset-backed securities" (ABS) or "stranded asset bonds." This is not supported by the facts and would drop the bonds from the current index and include them in the ABS index. If this reclassification is allowed to stand it will artificially restrict the market for recovery bonds and lead to higher initial costs for customers when selling new bonds. This is against the public interest. I'm writing to you to respectfully request that the status quo remain. Reclassification is not supported and should not take place.

There is no similarity between an ABS and an IOU recovery bond beyond the use of a legally separate entity to issue the bonds. Past Florida recovery bond issuances were supported by the FPSC's authority over customer rates. This FPSC "guarantee of regulatory action" is not a receivable and the bonds are not backed by a pool of receivables or other financial assets. Classifying these bonds as "stranded asset" or ABS securities like credit card receivables or auto loans is not appropriate nor accurate.

The state of Florida sees recovery bonds as an important utility financing tool. In the aftermath of the devastating hurricanes of 2004 and 2005, the Florida Legislature authorized the FPSC to provide special credit enhancement for bonds to be issued by Florida regulated IOUs if the proceeds were to be used for the recovery of expenses related to catastrophic damage as a result

of storm events. By providing the FPSC with additional authority, specifically to issue an irrevocable financing order to impose, charge, collect, and adjust a special surcharge that would bind future commissions, that special FPSC approval could be used as collateral for bonds to be issued by Florida IOUs under specific circumstances. The Legislature also pledged that the State of Florida would never interfere with bondholder rights to be repaid from the utility's revenues for bonds issued under this new kind of FPSC financing order. This state pledge and the FPSC authority were in the public interest because it would allow the recovery of approved expenses over many years and therefore reduce the impact on monthly electricity bills and lower the ultimate cost to customers. In 2007, Florida Power & Light Company, through its subsidiary FPL Recovery Funding LLC, issued $652 million in senior secured bonds for the recovery of storm restoration costs.

In 2015, the Florida Legislature also found it in the public interest to use the same FPSC authority to support the sale of recovery bonds for the recovery of costs associated with the early retirement of certain Florida nuclear power plant facilities. In each case, the legislative and regulatory goal was to lower the utility's charges to electricity customers in the state who were subject to these unusual utility expenses. For the public interest to be served, the bonds need to be sold to the largest pool of investors in utility bonds in the corporate bond market to achieve the lowest rates through the competition inherent in an efficient capital market.

In October 2015, the FPSC issued a financing order to Duke Energy Florida (DEF) for the issuance of $1.294 billion in utility bonds, backed by the FPSC's authority over customer rates, for the recovery of costs related to the early retirement of the Crystal River Unit 3 Nuclear Plant. The FPSC and DEF took specific steps to eliminate the mischaracterization of recovery bonds and meet Financial Accounting Standards Board (FASB), Internal Revenue Service (IRS), Financial Industry Regulatory Authority (FINRA), and Securities & Exchange Commission (SEC) rules governing corporate utility securities. The Duke Energy Florida Project Finance LLC 2016 offering prospectus specifically states the type of security to be issued in a series of "Questions and Answers." (Please see Attachment A for the disclosure that the bonds are "corporate securities.")

All statements in the prospectus filed with the SEC are under strict security law liability that states the disclosures may not contain any material false or misleading statements. The Barclays bond index recognized the correct nature of these securities and included them in the "corporate/utility" index in 2016. The decision was widely known and discussed.[1] It has not been controversial for six years. The "corporate securities" and not ABS definition referred to is the one supported by FASB, IRS, FINRA, and SEC and understood by market participants.

Today, the Florida Storm Recovery Bond legislation remains in effect and is accessible to all Florida IOUs. The customers' interests must be protected by ensuring any future bond issuances are able to achieve the lowest cost possible.

[1] See "Asset Securitization Report" June 2016 "Duke Bonds Set Important Precedent"

We recognize that Bloomberg is an independent public company and that it can act unilaterally in this matter. However, we believe it is against the public interest to reverse the decision in 2016 and exclude recovery bonds from the "corporate/utility" index. I respectfully request that the DEF nuclear-asset recovery bonds, as well as all future IOU-issued recovery bonds, continue to be classified as "corporate/utility" bonds. I'm available at your convenience if you would like to discuss this issue further.

Very truly yours,

Andrew L. Maurey
Director, Division of Accounting and Finance

ALM: dr

Enclosure

cc: The Honorable Ashley Moody, Attorney General of Florida
J. Ben Watkins III, Director, Division of Bond Finance, State Board of Administration of Florida

Attachment A
October 10, 2022

The following is on page 34 of the prospectus on file with the U.S. Securities & Exchange Commission. The Duke Energy Florida Project Finance LLC 2016 offering prospectus specifically states the type of security to be issued in a series of "Questions and Answers".

"Q1: Are the Series A Bonds asset-backed securities as defined by the SEC governing regulations Item 1101 of Regulation AB?
A: No. The Series A Bonds are not ''asset-backed securities'' and neither DEF nor DEF Project Finance is an ''asset-backed issuer'' as defined by the SEC governing regulations Item 1101 of Regulation AB.

Q2: What type of securities are the Series A Bonds?
A. The Series A Bonds are corporate securities to be issued by DEF Project Finance. The Series A Bonds do not constitute a debt liability or other obligation of, or interest in, DEF or any of its affiliates (other than DEF Project Finance). The bonds will be included on the consolidated balance sheet of DEF as a debt of the consolidated entity, as required by the Financial Accounting Standards Board and the SEC Office of Chief Accountant governing corporate financial reporting for utilities. The bonds will be treated as debt of DEF for U.S. federal income tax purposes. For federal income tax purposes and consistent with financial reporting requirements, DEF will not recognize gross income unless and until DEF bills customers for the nuclear asset-recovery charges and only in connection with such billing of customers for such nuclear asset-recovery charges.

Q3: What is the collateral securing the Series A Bonds?
A: The principal collateral is nuclear asset-recovery property. Nuclear asset-recovery property includes the right to impose, bill, collect and receive nuclear asset-recovery charges from all existing and future customers receiving transmission or distribution service from DEF or its successors or assignees under FPSC-approved rate schedules or under special contracts to be paid on a joint and several basis. See ''DEF's Financing Order—Nuclear Asset-Recovery Charges'' on page 46 in this prospectus. Nuclear asset-recovery property is not a receivable, and the bonds are not secured by a pool of receivables.

Q4: What is the nature of the pledge provided by the state for the benefit of bondholders?
A: The state pledge, in conjunction with the true-up adjustment, constitute a guarantee of regulatory action for the benefit of bondholders. This performance guarantee is pursuant to the irrevocable financing order as authorized by the Financing Act."

PROSPECTUS

$1,294,290,000 SERIES A SENIOR SECURED BONDS,

DUKE ENERGY FLORIDA, LLC

Sponsor, Depositor and Initial Servicer
Central Index Key Number: 0000037637

DUKE ENERGY FLORIDA PROJECT FINANCE, LLC

Issuing Entity
Central Index Key Number: 0001669374

Series A Bonds	Expected Weighted Average Life (Years)	Principal Amount Offered	Scheduled Final Payment Date	Final Maturity Date	Interest Rate	Initial Price to Public	Underwriting Discounts and Commissions	Proceeds to Issuer (Before Expenses)
Series A 2018	2.0	$183,000,000	03/01/2020	03/01/2022	1.196%	99.999%	0.25%	$182,540,670
Series A 2021	5.0	$150,000,000	09/01/2022	09/01/2024	1.731%	99.998%	0.40%	$149,397,000
Series A 2026	10.0	$436,000,000	09/01/2029	09/01/2031	2.538%	99.996%	0.50%	$433,802,560
Series A 2032	15.2	$250,000,000	03/01/2033	03/01/2035	2.858%	99.995%	0.65%	$248,362,500
Series A 2035	18.7	$275,290,000	09/01/2036	09/01/2038	3.112%	99.994%	0.70%	$273,346,453

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.

Duke Energy Florida, LLC, as **depositor**, is offering $1,294,290,000 aggregate principal amount of Series A Senior Secured Bonds listed above (each weighted average life designation a "WAL" and the five WALs collectively, the **Series A Bonds** or the **bonds**), to be issued by Duke Energy Florida Project Finance, LLC, referred to herein as **DEF Project Finance**, as **issuing entity**.

The Series A Bonds are senior secured obligations of DEF Project Finance, and are its obligations only. The Series A Bonds are supported by **nuclear asset-recovery property**, which consists of all rights and interest of DEF Project Finance under the financing order, including the right to impose, bill, collect and receive irrevocable, binding, nonbypassable charges based on the usage of electricity. These charges pay principal, interest and expenses of the Series A Bonds and are known as **nuclear asset-recovery charges,** or as **ratepayer obligation charges** or **ROCs** and upon the issuance of the bonds may not be reduced, impaired, postponed, terminated or otherwise adjusted by the Florida Commission except as adjusted pursuant to the true-up mechanism described herein. These charges will be paid on a joint and several basis by all existing or future customers (individuals, corporations, other business entities, the State of Florida and other federal, state and local government entities) receiving transmission or distribution service from Duke Energy Florida, LLC, or **DEF**, or its successors or assignees under rate schedules approved by the Florida Commission or under special contracts. Nuclear asset-recovery charges are payable by customers even if the customers elect to purchase electricity from an alternative electricity supplier following a fundamental change in regulation of public utilities in Florida. Nuclear asset-recovery property includes the right to a mandatory true-up mechanism for making any adjustments that are necessary to correct for any overcollection or undercollection of nuclear asset-recovery charges or to otherwise ensure the timely payment of principal of and interest on the bonds when due and other financing costs and other required amounts and charges payable in connection with the bonds. With respect to the foregoing, interest is due on each payment date and principal is due upon the final maturity date for each WAL.

The Series A Bonds do not constitute a debt, liability or other obligation of, or interest in, DEF or any of its other affiliates (other than us). The bonds will not be insured or guaranteed by DEF, including in its capacity as sponsor, depositor, seller or servicer, or by its parent, Duke Energy Corporation, any of their respective affiliates, the indenture trustee or any other person or entity. The Series A Bonds will be nonrecourse obligations, secured only by the collateral. The Series A Bonds are not a debt or general obligation of the Florida Commission, the State of Florida or any of its political subdivisions, agencies, or instrumentalities. However, in so far as the State of Florida or any such political subdivision, agency or instrumentality is receiving transmission or distribution service from DEF or its successor or assignee, such governmental entity will be obligated, in its capacity as a customer, to pay nuclear asset-recovery charges.

The Series A Bonds are a type of ratepayer obligation charge or **ROC bonds**, to be issued pursuant to a special Florida statute, or the **Financing Act**, and an irrevocable **financing order** of the Florida Public Service Commission, or the **FPSC** or the **Florida Commission**. Under the irrevocable financing order, the Florida Commission guarantees it will act, as directed by the Financing Act, to implement the true-up mechanism for making any adjustments that are necessary to correct for any overcollection or undercollection of nuclear asset-recovery charges or to otherwise ensure the timely payment of principal of and interest on the bonds when due and other financing costs and other required amounts and charges payable in connection with the bonds. The Florida Commission's obligations under the Financing Act and the financing order are direct, explicit, irrevocable and unconditional upon issuance of the bonds. Those obligations are legally enforceable against the Florida Commission, a United States public sector entity.

All matters relating to the structuring, marketing and pricing of the Series A Bonds have been considered jointly by DEF, by designated personnel of the Florida Commission and by the Florida Commission's financial advisor. The financial advisor to the Florida Commission is:

Saber Partners, LLC

The bonds will accrue interest from the date of issuance. The bonds are scheduled to pay principal and interest semi-annually and sequentially as described herein. We will pay interest and principal on the bonds on March 1 and September 1 of each year, beginning on March 1, 2017. The Series A Bonds are not subject to optional redemption prior to maturity.

The Series A Bonds are corporate securities. Neither the depositor nor DEF Project Finance is an asset-backed issuer and the Series A Bonds are not asset-backed securities as defined by the SEC governing regulations Item 1101 of Regulation AB. The Series A Bonds will be payable only from revenues received by us under the indenture for the bonds and funds on deposit in trust accounts relating to the bonds. These amounts, together with the nuclear asset-recovery property, including the Florida Commission guaranteed true-up mechanism, are the source of funds for the payment of principal of and interest on the Series A Bonds. A capital subaccount will hold the depositor's capital contribution to us. An excess funds subaccount will hold revenues that are collected but not needed to meet current obligations associated with the Series A Bonds. Credit enhancement for the bonds will be provided by the true-up mechanism, as well as the capital subaccount. The primary purpose of the excess funds subaccount is not to provide credit enhancement for the bonds. However, amounts in the excess funds subaccount may be used to make debt service payments on the bonds when needed.

DEF is the depositor, sponsor, seller and initial servicer with regard to the bonds. DEF is the sole member and owner of our equity interest. Our Central Index Key number is 0001669374. DEF's Central Index Key number is 0000037637.

Investing in the Series A Bonds involves risks. See "Risk Factors" beginning on page 21 to read about factors you should consider before buying the Series A Bonds.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The Series A Bonds will be ready for delivery in book-entry form through the facilities of The Depository Trust Company against payment in New York, New York on or about June 22, 2016.

RBC Capital Markets — **GUGGENHEIM SECURITIES**

Joint Book-Running Managers

Drexel Hamilton Ramirez & Co., Inc. — **Jefferies** — **MUFG**

SMBC Nikko — **The Williams Capital Group, L.P.**

Senior Co-Managers

The date of this prospectus is June 15, 2016

Asset Securitization Report

Duke's Utility Fee Securitization Sets Important Precedent

By Allison Bisbey June 21, 2016

Duke Energy Florida marketed its $1.3 billion securitization of utility fees as a corporate bond, and the strategy appears to have paid off. The deal was priced last week at interest rates in line with those of some the highest rated U.S. companies and government agencies.

DEF's bonds are tied to a special charge on the utility's electric delivery and transmission services that is associated with the retirement of the Crystal River Unit 3 nuclear power plant. The bonds are also backed by a guarantee of the state's utility regulator to adjust the charge every six months to whatever level is necessary to pay the bonds on time.

The securities have unusually long durations for this sector; over $500 million had maturities from 15 to almost 19 years. By comparison, most other deals in the utility sector have original terms under 10 years. The tranche with the longest duration pays a spread over Treasuries similar to those of triple-A rated bonds issued by Johnson & Johnson and the Tennessee Valley Authority.

The all-in duration adjust cost of the $1.297 billion offering was 2.72%, an all-time low for a bond offering with such long maturities, according to Andrew Maurey, director of the division of accounting and finance at the Florida Public Service Commission.

Even so, DEF may have left some money on the table. That's because it wasn't until Friday, after the deal priced, that Barclays announced it would classify the bonds as corporates for the purposes of its bond indexes – which could attract a broader investment base.

Had this determination been made before the bonds were priced, DEF might have lowered its funding costs even further.

The two-year tranche priced at a spread of 47 basis points over Treasuries, several basis points

wide of where similarly rated credit card securitizations from Chase and Citigroup were trading in the secondary market; the five-year tranche priced at Treasuries plus 60 basis points, wide of comparable credit card deals; the 10-year tranche priced at 93 basis points over Treasuries, more than 10 basis points wide of comparable bonds issued by companies like the TVA and Johnson & Johnson.

The 15.2-year and 18.7-year tranche were the most successful, pricing 103 basis points and 116 basis points over the G-curve, or interpolated Treasuries curve, respectively. In the case of the 18.7-year bond, that was just 3 basis points more than a comparable bond issued by Johnson & Johnson.

RBC Capital Markets and Guggenheim Securities served as joint bookrunning managers.

Still, inclusion in Barclays' corporate index could set a precedent for future utility deals structured in a similar manner.

The bonds will be issued by DEF's wholly owned, but bankruptcy remote, subsidiary, Duke Energy Florida Project Finance. The offering prospectus was filed with the Securities and Exchange Commission on a form SF-1, which is designated for asset-backeds. Yet this filing describes the bonds as "a type of ratepayer obligation charge bond." It goes on to state that the bonds are "corporate securities," and "are not asset-backed securities as defined by the SEC governing regulations."

Notably, there is no tranching for credit risk; all five tranches of securities issued by DEF Project Finance are rated triple-A by three credit rating agencies: Moody's Investors Service, Standard & Poor's, and Fitch Ratings. That means neither investors nor rating agencies need to analyze how cash flows might be diverted to different classes of bonds under different scenarios. The only difference between the classes is the maturity dates.

The bonds will be included on DEF's consolidated balance sheet and treated as debt of DEF for U.S. corporate income tax purposes.

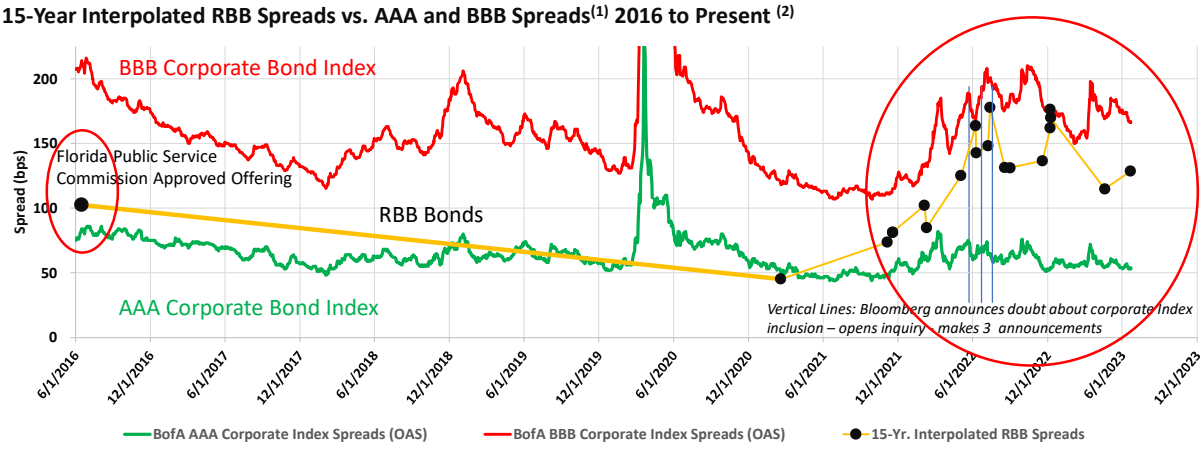
(Unlike corporate bonds, most asset-backeds are subject to a requirement that sponsors retain at least 5% of the credit risk of the collateral. However DEF did not need to argue that its deal is a corporate bond in order to avoid this requirement. Utility fee securitizations already benefit from a carve-out from risk retention rules.)

DEF may have left some money on the table in another respect: it did not market the bonds to European investors, traditionally important buyers of utility fee securitizations.

Ratepayer-Backed Bonds (RBB)– Florida's 2016 Achievement Undermined By Recent Pricings, Bloomberg Actions Threatening Market and Customer Costs

SABER PARTNERS, LLC
ADVISORS & INVESTORS

Ratepayer Backed Bonds with Weighted Average Life 10 years +
15-Year Interpolated RBB Spreads vs. AAA and BBB Spreads[1] 2016 to Present [2]



1) Source: BofA AAA and BBB US Corporate Indices (BAMLC0A1CAAA and BAMLC0A4CBBB) option adjusted spreads from Federal Reserve Bank of St. Louis
2) RBB new issue pricing through June, 2023 includes issues with overall WAL 10 years and more

1

Ratepayer-Backed Bond (RBB)
Massive Increase in Issuance
$30.2 Billion Outstanding as of 12/31/2023

SABER PARTNERS, LLC
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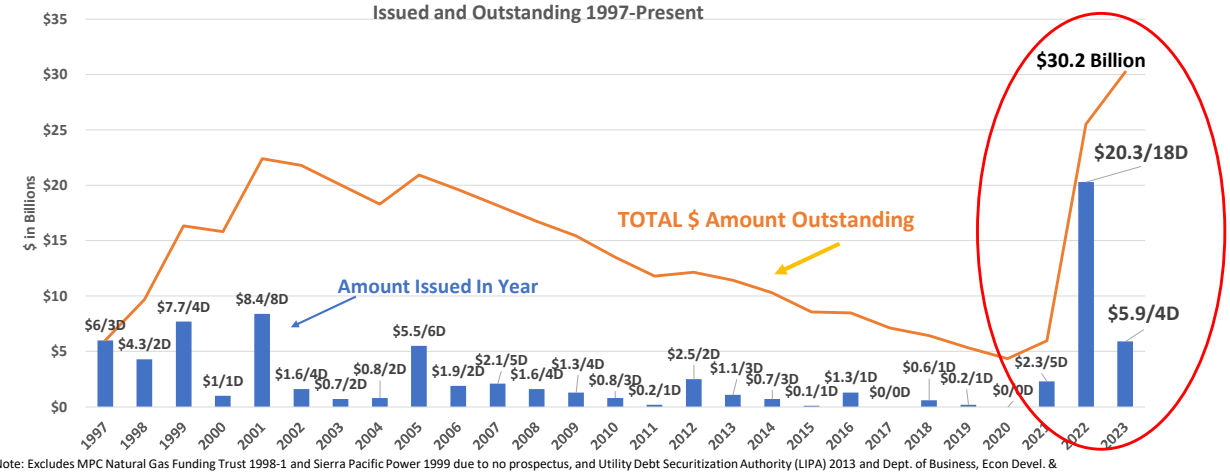
Investor-Owned Utility Securitizations
Issued and Outstanding 1997-Present

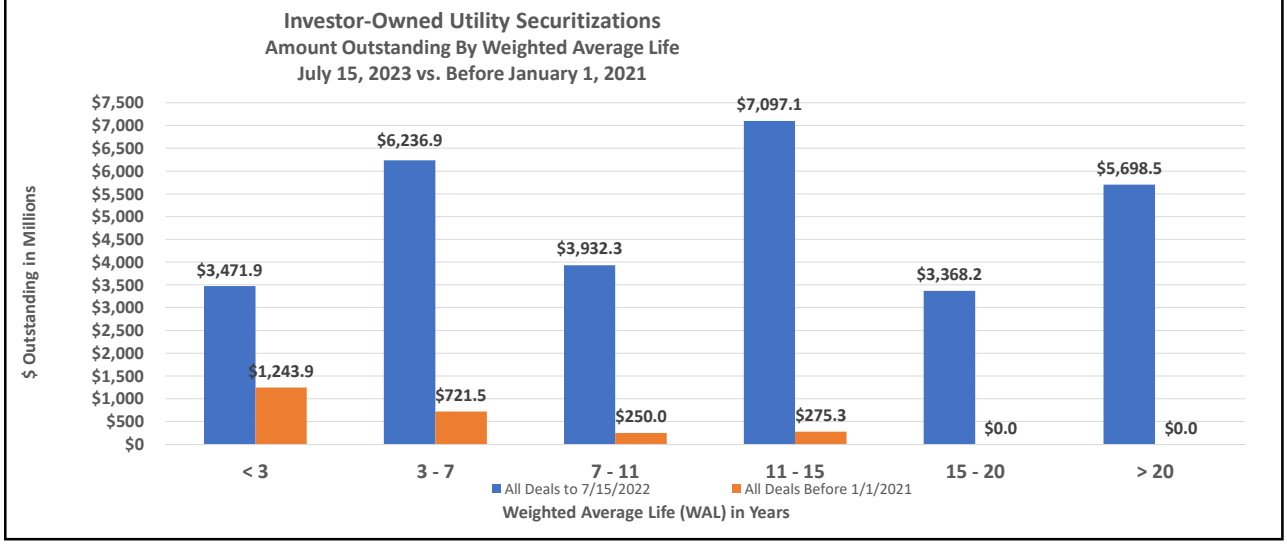


Note: Excludes MPC Natural Gas Funding Trust 1998-1 and Sierra Pacific Power 1999 due to no prospectus, and Utility Debt Securitization Authority (LIPA) 2013 and Dept. of Business, Econ Devel. &

2

Ratepayer-Backed Bonds
Much Longer Maturities Since 2021 Than Ever Before
More Expensive to Customers

SABER PARTNERS, LLC
ADVISORS & INVESTORS



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