Exhibit No. 107P

Staff – Exhibit 107P
Mark Davis
Corrected Rebuttal Testimony
File Nos. EO-2022-0040 & EO-2022-0193

Exhibit No.:
Issues: *Net Present Value Benefit To Ratepayers, Consolidation Of Winter Storm Uri And Asbury Securitizations, Commission Review And Involvement Post Order, Flexibility Of Bond Terms And Conditions, Expiration Date Of Financing Order Authorization*
Witness: *Mark Davis Ducera Partners, LLC*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Corrected Rebuttal Testimony*
Case Nos.: *EO-2022-0040/EO-2022-0193*
Date Testimony Prepared: *May 25, 2022*

BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION

CORRECTED REBUTTAL TESTIMONY

OF

MARK DAVIS
DUCERA PARTNERS, LLC

THE EMPIRE DISTRICT ELECTRIC COMPANY,
d/b/a Liberty

CASE NOS. EO-2022-0040/EO-2022-0193

Jefferson City, Missouri
May 2022

****** Denotes Confidential Information ******

Attachment 1

EXPERT WITNESS TESTIMONY

OF

MARK DAVIS

ON BEHALF OF MISSOURI PUBLIC SERVICE COMMISSION STAFF

CASE NO. EO-2022-0040 and CASE NO. EO-2022-0193

INTRODUCTION

Q. Please state your name and business address.

A. Mark Davis, 11 Times Square, 36th Floor, New York, NY 10036.

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

A. I am a Partner at Ducera Partners, LLC ("Ducera"), an investment bank based in New York City.

Q. Please describe your professional qualifications and experience, and educational background.

A. I have more than 15 years of investment banking experience working on a broad range of advisory assignments across industry sectors, including leading Ducera's power and utility efforts. Prior to joining Ducera as a founding member, I worked as an investment banking director at Perella Weinberg Partners and previously worked in investment banking at Kramer Capital Partners. I have extensive experience advising on complex financial advisory transactions including utility securitizations across the United States, including most recently in 2022 advising on financing order and/or securitization transactions in four states involving over ten utilities and over $10 billion of transaction volume. I am registered with the Financial Industry Regulatory Authority ("FINRA") and have dual degrees in economics and finance, from the WP Carey School of business at Arizona State University, *summa cum laude*.

Q. On whose behalf are you testifying in this proceeding?

A. I am testifying as an expert witness on behalf of the Staff of the Missouri Public Service Commission ("Commission Staff").

Q. Have you previously advised other regulatory agencies?

A. Yes. I have provided advice to state utility regulatory commissions in other complex proceedings, including as it relates to securitization and other financial matters.

Q. Have you testified before the Missouri Public Service Commission ("Commission")?

A. No.

Q. What is the purpose of your rebuttal testimony and what topics is your testimony intended to address?

A. The topics addressed herein relate to the net present customer benefits standard relative to traditional recovery methods, including addressing the lowest cost standard, the degree of flexibility afforded to The Empire District Electric Company d/b/a Liberty ("Liberty") in establishing the terms and conditions of the bonds and commission staff, as designated by the Commission and to include advisors to Staff, involvement in the securitization process, including providing input and collaborating in all facets of the process.

The statements in this testimony are, except as otherwise noted, based on my personal knowledge or opinion, information that is publicly available, provided by Liberty, its professionals, its advisors, or other interested parties, and Ducera's employees working directly with me or under my supervision or direction. If called upon to testify, I would testify to the facts set forth herein.

NET PRESENT VALUE (NPV) BENEFIT TO RATEPAYERS

Applicable Traditional Recovery Method

Q. What is presented in Liberty's proposal as the traditional recovery method for Winter Storm Uri costs?

A. In the Schedule KSH-3 of the Direct Testimony of Liberty witness Karen Hall ("Hall Testimony"), Liberty presents the traditional recovery method as an even monthly amortization of qualified extraordinary costs over 13 years, with a carrying cost rate of 7.06%. This was used as the basis for the calculation of the benefit of securitization, which Liberty estimated in the schedule at $65,630,688 ($42,871,448 on a NPV basis).

Q. What is Staff's position on traditional cost recovery for Winter Storm Uri?

A. Per Staff testimony[1], it is Staff's view that cost recovery through an accounting authority order ("AAO") would be the appropriate and likely method absent securitization, noting § 393.1700.2(1)(f), RSMo[2] states that the comparison must be made to "the traditional method of financing" and § 393.1700.2(3)(c)b states that the Commission must find that securitization must be "expected to provide quantifiable net present value benefits to customers as compared to recovery of the components of securitized utility tariff costs that would have been incurred absent" securitization, both provisions requiring comparison of the cost of securitization to a single method. Therefore, the cost of recovery through an AAO should be used as the basis of determining potential customer benefit.

While Liberty initially sought to recover Winter Storm Uri costs through a Fuel Adjustment Clause ("FAC"), given the extreme increase in rates that customers would consequently experience, Liberty withdrew its FAC filing[3] and pursued an AAO recovery instead.[4]

The comparison of costs should also incorporate the revisions described in Staff testimony[5], such as the quantum of costs permissible for recovery.

Q. What is presented in Liberty's proposal as the traditional recovery method for Asbury costs?

A. In the Direct Testimony of Liberty witness Charlotte Emery ("Emery Testimony"), Liberty states that it would seek recovery in a general rate case proceeding of costs deferred to an AAO.

In Direct Schedule CTE-3, the traditional recovery method is presented as an even monthly amortization of qualified extraordinary costs over 13 years, with a carrying cost rate of 6.77%. This was used as the basis for the calculation of the benefit of securitization, which Liberty estimated at $48,273,029 ($32,051,938 on an NPV basis).

Q. Is this an appropriate basis for determining the NPV benefit of securitization of Asbury costs?

[1] Bolin Rebuttal at pgs. 3-4.
[2] Citations to Section 393.1700 are to RSMo (Supp. 2021).
[3] Mastrogiannis Rebuttal at pg. 8, line 1.
[4] EO-2022-0040, DeCourcey Direct Testimony at pg. 5, lines 4-6.
[5] McMellen Rebuttal at pg. 3, Table 1.

A. Yes, Liberty's general rate case assumption and use of a weighted-average cost of capital carrying cost rate is reasonable for purposes of the NPV savings analysis. However, the comparison of costs should also incorporate the revisions described in Staff testimony[6], including correcting the amount of costs permissible for recovery.

Q. Using Staff's calculation of securitized utility tariff costs for Winter Storm Uri and Asbury, and assuming the Commission issues a single financing order, effectively eliminating any duplicative financing costs associated with separately securitizing Winter Storm Uri and Asbury, what is the NPV benefit of securitization of Winter Storm Uri and Asbury costs?

A. The NPV of benefits from securitization may vary based on a number of factors, including certain items that are currently unknown such as the term of the securitization, cost of securitization at the time it is ultimately raised, and the baseline traditional rate making approach it is compared to. Based on an assumed term of securitization of 13 years, an illustrative interest cost of securitization of 4.00% and certain other assumptions, the illustrative implied benefit of securitization is approximately $38 million ($25 million on a NPV basis, using the 6.77% customer weighted average cost of capital ("WACC") proposed in Case No. ER-2019-0314 to determine carrying costs under AAO and as the discount rate[7]), as compared to the AAO case described above.

Discount Rate

Q. How is present value determined in the Winter Storm Uri and Asbury cases?

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[6] McMellen Rebuttal at pg. 3, Table 1.

[7] Using an illustrative carrying cost rate of 6.77% and an illustrative blended discount rate of 5.16%, comprising the authorized cost of long-term debt of 4.65% for Winter Storm Uri and the 6.77% WACC for Asbury, weighted by the respective recovery amounts for Winter Storm Uri and Asbury, the implied NPV benefit of securitization relative to AAO is approximately $28 million. Adjusting the carrying cost rate to reflect an illustrative blended rate of 5.16% and discounting the cost of securitization at the 6.77% WACC and the cost of AAO recovery by the illustrative 5.16% blended rate described above implies an illustrative NPV benefit of securitization of approximately $25 million. Discounting the cost of securitization by the authorized cost of long-term debt of 4.65%, instead of the 6.77% WACC, would imply an illustratively higher NPV cost of securitization of approximately $4 million relative to the illustrative AAO case, driven by a negative balance associated with an Asbury securitization under these assumptions and a relatively neutral balance associated with a Winter Storm Uri securitization.

A. For Winter Storm Uri, in Schedule KSH-3 of Liberty witness Ms. Hall's testimony, Liberty calculates the present value of cost recovery from securitization and amortization using a 7.06% WACC discount rate, based on the WACC proposed by Liberty in Case No. ER-2021-0312.

For Asbury, in Schedule CTE-3 of Ms. Emery's testimony, Liberty calculates the present value of cost recovery from securitization and amortization using a 6.77% WACC, based on the WACC proposed in Case No. ER-2019-0314.

In response to Staff Data Request ("DR") No. 0096, Liberty discounts the cost of Winter Storm Uri cost recovery under Fuel Adjustment Clause ("FAC") at the 0.03% carrying cost rate,[8] which Liberty states is the effective short-term cost of debt rate used in FAC calculations for the Winter Storm Uri accumulation period from September 2020 to February 2022.

Q. What do you believe to be a reasonable discount rate for this calculation and comparison?

A. While the WACC may be a useful reference point to help serve as a proxy for the customer cost of capital, the discount rate for Winter Storm Uri should be based on the short term or long-term cost of debt, and the discount rate for Asbury should be based on the authorized WACC at this time of 6.77%.[9]

Structuring and Pricing vis-à-vis Lowest Cost Standard

Q. In its estimate of NPV savings to customers from securitization, how does Liberty approach structuring and pricing of the bonds?

A. Liberty outlined certain structural elements of its proposal in testimony, including issuing the securitization in two tranches with different weighted average lives ("WALs") and a maximum overall cash flow length of 15 years. The bonds are assumed to amortize in a mortgage-style levelized payment method. The estimated interest rate on the bonds was 2.47%.

Q. How does this compare with that of precedent utility securitization bonds?

A. Typically, the number of tranches and other structuring elements will vary based on a number of factors including the size of the issuance, and opportunities to structure the bonds to attract the lowest cost investor

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[8] Staff believes this was calculated in error.
[9] McMellen Rebuttal at pg. 9, lines 1-5; Bolin Rebuttal at pg. 4, lines 12-19.

capital. The currently contemplated structure is not out of line with recent market issuances, which have generally included one to three tranches for relevant issuances.

Since the date of Liberty's application under Case No. EO-2022-0040, US Treasury rates, which are common benchmark rates for utility securitization pricing, have moved up significantly. For example, since January 20, 2022, the reference date for interest rates quoted in the Direct Testimony of Liberty witness Katrina Niehaus, the rate on the 10-year US Treasury has risen from 1.83% to 2.84% on May 12, 2022, an approximately 100 basis point increase. As such, Liberty's 2.47% cost of securitization is likely low relative to what might be achieved if Liberty went out into market now.

Financing Costs

Q. What are the estimated upfront financing costs proposed by Liberty for the Winter Storm Uri and Asbury Securitization?

A. Liberty estimates an initial upfront financing cost of approximately $3,638,534 for Winter Storm Uri and $3,287,122 for Asbury fixed and variable items prior to commission advisor fees.

Q. Is it customary for upfront financing costs to be included in the principal amount of the securitized utility tariff bonds?

A. Yes, this has been used in other recent utility securitizations.

Q. What are the estimated savings on financing costs, if any, if the Winter Storm Uri and Asbury securitizations are combined as a single issuance?

A. Upfront and ongoing costs associated with securitization finance are comprised of a mix of costs that are fixed and less dependent on deal size and costs that are variable and tied to the size of the deal. Given a portion of the costs are not tied to the size of the deal, it can be economical to issue the bonds in a single transaction and mitigate certain of the otherwise duplicative fixed costs. Avoiding all or a portion of such fixed cost may ultimately benefit ratepayers.

Q. What are the estimated ongoing financing costs proposed by Liberty for the Winter Storm Uri and Asbury securitizations?

A. Liberty estimates an initial ongoing financing cost per annum of approximately $298,473 for Winter Storm Uri and $346,599 for Asbury. Notably, servicing fees were excluded in Schedule KSH-3 (EO-2022-0040), which appears to be an error, as it is inconsistent with what is in the proposed financing order itself which includes a request for servicer fees[10]. In the calculation of the NPV benefit of securitization, Liberty also appears to make an error in netting ongoing monthly financing costs against the overall revenue requirement, with the effect of lowering the implied cost of securitization.[11]

Q. What revisions to financing cost estimates have you included in your analysis?

A. While ultimate review of financing costs should be completed at the time of the transaction in a pre-issuance review process based on the facts and circumstances at the time, variable fees are adjusted to reflect the securitization amount revised per Staff testimony[12] and calculated as a percentage of the aggregate securitization amount, including fees (Liberty calculates this only on the basis of the recovery amount plus fixed fees).[13] The return on capital account for credit enhancement is also calculated using a 6.77% WACC for both Winter Storm Uri and Asbury securitizations, per Staff testimony, rather than the pre-tax return on equity requested in the draft financing order.[14] The statute permits Liberty to earn a return on its contribution to the capital account at the cost of capital set in its rate proceedings, which is currently 6.77%.

Q. How might the upfront and ongoing transaction costs change from petition to transaction close?

A. The amount of fees, both fixed and variable, are largely estimates or amounts proposed to be determined in the Financing Order. However, such amounts may change as a result of various factors including the ultimate size of the transaction, the length and complexity of transaction execution, negotiations with third parties, among other factors.

[10] In the proposed financing order, Liberty requests 0.05% of the issuance size when Liberty is the servicer; 0.60% when servicer is a third party.
[11] Schedule KSH-3 and Schedule CTE-3.
[12] McMellen Rebuttal at pg. 3, Table 1, pg. 7, Table 2.
[13] Schedule KSH-3 and Schedule CTE-3.
[14] Bolin Rebuttal at pg. 9, lines 1-5.

Q. For costs that are not yet known or finalized, what protections can be put in place to ensure such costs are reviewed?

A. The Commission, through designated representative(s) from Commission Staff and its advisor(s), is empowered by statute to ensure that the securitization transactions provide quantifiable NPV of benefits to customers. Given such costs are incurred for the life of the securitization, Commission Staff review of such amounts prior to such costs being finalized is appropriate and provides both negotiating leverage with third parties and a level of involvement helpful to attain the statutory net benefits objective.

Q. Is the review process proposed by Liberty adequate?

A. Not as specifically proposed. Currently, Liberty proposes only that the Commission will be able to review the final amount of the financing costs as part of the issuance advice letter process. As further discussed herein, this is a drastic mechanism: were the Commission to find the transaction costs imprudent or unreasonable, it could address this through denial of the issuance advice letter, however, this could have material capital market implications. This illustrates the need for interim review and the ability for Commission Staff to regularly update the Commission and transmit feedback as necessary.

Estimated Recovery Charges and Retail Customer Rate Impact

Q. What variables may impact the amount of the securitized utility tariff charge?

A. Variables that may impact the securitized utility tariff charge can include, but are not limited to, (i) the amounts authorized for recovery through securitization, including recovery amounts, carrying costs, and upfront financing costs, (ii) the term of the securitization, (iii) pricing of the bond(s), and (iv) ongoing costs of the financing.

Additionally, seasonality and rate base consumption trends can have an impact on the total amount billed to a customer in any given period.

Q. Did Liberty evaluate the customer benefit analyses under sufficient alternative cases?

A. No. Liberty did not provide alternative calculations for Winter Storm Uri or Asbury to demonstrate the potential benefits under different assumptions. Staff inquired whether Liberty evaluated the benefits standard other assumptions but did not receive direct responses (e.g., DR No. 0046 (EO-2022-0040).

Q. Please describe alternative financial analysis that may be necessary and key assumptions used.

A. Attached to this testimony is further analysis incorporating Staff's views and expands the analysis of the customer benefit to include recovery under the AAO method and various securitization assumptions beyond the cases provided in Liberty's testimonies and data request responses. The analysis also incorporates the impact of accumulated deferred income taxes on the recoverable balance of Asbury costs under various interest rate and recovery period assumptions.

The attached workpaper summarizes the analysis. The analysis is only illustrative and actual structure, pricing, and other elements could differ due to various factors, including market conditions.

Q. What form of true-up mechanism would be most likely to support the highest possible credit rating, and thus lowest cost pricing, for the bonds?

A. An ideal true-up mechanism should ensure adequate collections to meet bond payments when due, including in rating agency stress test cases. For the purposes of attaining the highest possible credit ratings and ensuring timely and sufficient debt service, the financing order should provide for both mandatory annual and interim true-ups, with the opportunity to conduct non-mandatory true-ups as required. Further, a true-up that is straightforward to implement, easy to understand, and that requires timely action provides valuable support for the bonds, its credit ratings, and the resulting cost of capital.

<u>CONSIDERATIONS RELATED TO CONSOLIDATION OF WINTER STORM URI AND ASBURY SECURITIZATIONS</u>

Q. What should the Commission consider from a financial perspective when evaluating the issuance of Winter Storm Uri and Asbury securitization bonds under a single financing order?

A. The Commission should consider, among other factors, potential capital market implications, financing costs, the savings standard, and logistical requirements on Liberty post-issuance.

Larger utility securitization issuances tend to benefit from improved investor marketability and secondary liquidity which can be supportive of achieving lower pricing.

As discussed herein, combining the issuances may provide economies of scale and facilitate the recovery of Asbury costs through securitization, the approved securitized utility tariff costs of which may be less than $100 million[15], as some fixed costs may render the issuance more costly than what could be achieved in a consolidated transaction.

Q. From a financial perspective, is a consolidated transaction likely to result in greater NPV savings than separate securitizations of Winter Storm Uri and Asbury costs?

A. Yes. From a financial perspective and based on the assumptions illustrated in the analysis referenced herein, a consolidated transaction may result in reduced upfront and ongoing financing costs. Consolidation may also provide cost benefits relative to traditional cost recovery due to potentially greater investor interest in a larger deal.

Q. If issued as a single financing order, what potential financial impact to NPV savings would a delay in the ability to issue one of the associated securitizations have on the aggregate transaction?

A. If a delay were to occur, this could impact the NPV benefit analysis, as avoided fixed costs may be offset by the risk of interest rate or spread increases and impacted by the resulting longer period of carrying costs prior to securitization. While interest rate risk remains uncertain, analyzing an illustrative 12-month delay and illustrative impacts on interest rates and carrying costs, implies that on a consolidated bases benefit relative to traditional cost recovery may remain.

<u>BENEFITS OF POST-FINANCING ORDER COMMISSION REVIEW AND INVOLVEMENT</u>

Q. What does Liberty propose in terms of Commission Staff review and involvement of a securitization transaction after the financing order becomes non-appealable?

A. Liberty argues that the statute provides only consultative and collaborative rights to the Commission Staff through its designated representative and advisor(s), if any. Liberty believes it should be the sole

[15] McMellen Rebuttal at pages 6-7, Table 2.

decision maker in matters related to the structuring, pricing, and marketing of the bonds and that such approach is sufficient to achieve the statutory objective. [16]

Q. From a financial perspective, what changes to Liberty's proposal could improve the transaction and protect ratepayers?

A. The ratepayer, despite being irrevocably responsible for all of the charges associated with the tariff, are not directly protected as proposed. By being actively involved, the Commission Staff and its advisor(s) can ensure ratepayer interests are protected, mitigate potential conflicts, and ensure that the structuring, marketing, and pricing of the bonds are designed to achieve the statutory objective.

The financing order should provide for the designated representative, with its advisor(s), to be involved in and provide input to Liberty and collaborate with Liberty in all facets of the bond structuring, marketing, and pricing processes for the bonds, as well as the hiring of underwriters and other deal participants.

Q. Short of directing Liberty how to place the bonds to market, what level of collaboration, input, and communication do you recommend for Commission Staff involvement, through the use of a designated representative and advisor(s), in the pre-issuance and issuance process, and what are the benefits of that level of collaboration, input, and communication?

A. The designated representative and advisor(s) can provide input and collaborate on all facets of the process to help put into place strategies that can be reasonably expected to provide quantifiable NPV benefits to customers.

Involvement in all facets of the underwriter selection process can maximize perspectives and insight available to commission staff on a wide range of views on the ideal structuring, marketing, and pricing approach, by obtaining the best views of all relevant underwriters to inform the strategy and approach to the issuance process. Separately, if the financing order requires delivery of a certification from the underwriter certifying that the proposed securitization meetings the savings standard and other statutory requirements at the time of pricing, the designated representative and advisor(s) can assist in ensuring that

[16] DR No. 0080 (Case No. EO-2022-0040).

the process described and the certifications given in such underwriter certification meet the statutory objectives and can advise the Commission on the reasonableness of any assumptions made in such underwriter certification.

Reviewing the marketing and pricing processes can assist in ensuring the best execution, consistent with the statutory objective, as other parties may not have a natural incentive to protect the interest of ratepayers, who are wholly responsible for the cost of the financing.

Involvement with all other facets and elements can make a difference to the benefit of the ratepayer, such as review of upfront and ongoing financing costs; the structure, form, and implementation of true-ups and other credit protections; and structural elements to obtain the highest possible credit ratings and lowest cost of capital.

DEGREE OF FLEXIBILITY AFFORDED TO LIBERTY IN ESTABLISHING BOND TERMS AND CONDITIONS

Q. What does Liberty propose in terms of its ability to establish bond terms and conditions?

A. Liberty maintains that it has oversight of its pre-issuance review process based on the statutory language. Liberty refers to RSMo. § 393.1700.2(3)(h) in asserting its ability, which reads, in part: "Neither the designated representative or representatives from the Commission Staff nor one or more financial advisors advising Commission Staff shall have authority to direct how the electrical corporation places the bonds to market although they shall be permitted to attend all meetings convened by the electrical corporation to address placement of the bonds to market".

In response to Staff DR No. 0080, Liberty interprets this as: "…as specified in the statute, Liberty will ultimately determine how and when the securitized utility tariff bonds are structured, marketed, and priced."

Q. From a financial perspective, can you identify potential issues with Liberty's proposed approach?

A. Liberty's proposed level of involvement is primarily focused on collaboration on the structuring and pricing of the bonds and does not appear to include any designated representative or advisor(s) involvement as it relates to the marketing process. Liberty identifies statutory limitations on the "placement" of bonds;

however, if this were interpreted to limit the involvement of any designated representative or advisor(s) in the marketing process, the ability of the marketing process to achieve the lowest possible securitized utility tariff charges may also be limited. The process used to market bonds can vary widely, including as it relates to the form of marketing (public vs. privately negotiated offerings), the length of the process, the investors targeted, and the tools used to reach the broadest universe of low-cost of capital investors. Failure to adequately market the bonds could result in pricing that does not satisfy the lowest cost standard. As such, it is recommended that the Commission Staff review role encompass all facets of the structuring, marketing, and pricing of the bonds.

To obviate the point, Liberty should consider feedback from the Commission and Commission Staff throughout the marketing, structuring, and pricing process, with a review process in place, established by the financing order, to achieve the statutory net benefits objective is achieved and minimize the risk of the issuance advice letter ultimately being rejected.

Q. Would interim review by Commission Staff during the post-financing order process provide benefits from a market perspective?

A. Yes. Interim review and participation by Commission Staff can provide comfort to market participants that the Commission, which has ultimate rejection authority, is apprised of developments well in advance of the submission of the issuance advice letter.

Q. What degree of flexibility is reasonable for Liberty in establishing bond terms and conditions?

A. As discussed herein, market conditions have continued to evolve, including sizable movements in benchmark rates following Liberty filing its application. As such, there may be value in providing flexibility for Liberty to respond to market conditions at the time of the transaction, and with the benefit of rating agency feedback, and underwriter recommendations at the time, while ensuring ratepayer interests are protected.

As such, Liberty should have the flexibility to establish elements such as (i) repayment schedules, (ii) coupons, (iii) financing costs, and (iv) other bond terms and conditions, so long as Commission Staff is provided the necessary interim check-ins described earlier in testimony, including the ability to provide input and collaborate, and notify the Commission of any objections as necessary, ideally well in advance of furnishment of the issuance advice letter.

Q. Are there limits or boundaries on expected interest rates, repayments schedules, or financing costs or other terms and conditions under which securitization would no longer provide NPV benefits to Liberty's customers?

A. Generally, if the weighted average cost on the issuance exceeds the discount rate used to determine the NPV of benefit to ratepayers, securitization may not satisfy the statutory requirement. In the case the interest rate exceeds the discount rate under securitization, it may provide a NPV benefit. If under the traditional method the carrying cost and discount rates are the same, as in the illustrative AAO with cost recovery analysis, securitization may not satisfy the statutory requirement due to the impact of financing fees and expenses.

EXPIRATION DATE OF FINANCING ORDER AUTHORIZATION

Q. On what date should Liberty's authority to issue securitized utility tariff bonds expire?

A. Pursuant to RSMo. § 393.1700, the authority to issue securitized utility tariff bonds will expire not earlier than one year after the date the financing order is no longer subject to appeal. The statute does not impose an explicit outside date.

Q. What period has Liberty proposed?

A. For the Winter Storm Uri securitization, Liberty has proposed a two-year period after the financing order becomes unappealable before authorization to issue bonds expires.

Q. Is the length of time proposed reasonable?

A. Yes, subject to the items highlighted in the paragraphs herein, an outside date of two years following the financing order becoming unappealable provides a substantial amount of time to issue the bonds and address market conditions, provided protections are in place to review the bonds' structure, marketing, and pricing at the time to adapt to the then current market environment.

Q. What financial risks exist, if any, if the period is prolonged between the financing order becoming unappealable and the issuance of the bond(s)?

A. Principal risks of prolonging issuance may include exposure to interest rate risk (both in benchmark rates and spreads) uncertainty until the financing is ultimately completed. Customers may also continue to incur carrying costs that, as proposed by Liberty, may exceed the cost of securitization.

Q. Could the existence of a designated representative from Commission Staff, along with its advisor(s), mitigate any downside financial risk if time to issuance is prolonged?

A. Yes. The time requested by Liberty may be valuable in allowing it to adapt to market conditions. However, designated representative and advisor(s) involvement in all facets of the process and review of items such as the time period of incurring carrying costs may be necessary in order to protect ratepayer interests.

CONCLUSION

Q. As the Staff's investment banking professional, and as permitted by statute, are there any additional financial recommendations to the Commission to achieve the Commission's stated goal of endeavoring to structure and price securitized utility tariff bonds that would reasonably result in the lowest securitized utility tariff charges consistent with market conditions at the time the bonds are priced?

A. From an investment banking perspective, there are no additional changes other than those set forth herein to assist the Staff with helping to drive toward the statutory objective.

Q. Does this conclude your rebuttal testimony?

A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Petition of The Empire District Electric Company d/b/a Liberty to Obtain a Financing Order that Authorizes the Issuance of Securitized Utility Tariff Bonds for Qualified Extraordinary Costs	)	Case No. EO-2022-0040
In the Matter of the Petition of The Empire District Electric Company d/b/a Liberty to Obtain a Financing Order that Authorizes the Issuance of Securitized Utility Tariff Bonds for Energy Transition Costs Related to the Asbury Plant	)	Case No. EO-2022-0193

AFFIDAVIT OF MARK DAVIS

STATE OF NEW YORK)
) ss.
COUNTY OF New York)

COMES NOW MARK DAVIS and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Correct Rebuttal Testimony of Mark Davis;* and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

Mark Davis

MARK DAVIS

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of New York State of New York, at my office in New York, on this 26 day of May, 2022.

Michael L. Feinberg

Notary Public

MICHAEL L. FEINBERG
NOTARY PUBLIC-STATE OF NEW YORK
No. 02FE6358191
Qualified in New York County
My Commission Expires 05-08-2025

ANALYSIS and WORKPAPERS

HAVE BEEN DEEMED

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IN THEIR ENTIRETY