

Exhibit: _____

Issues: Overview of Securitization
Financing; Proposed Structure of
Transaction; Essential Elements
of Financing Order

Witness: Steffen Lunde

Type of Exhibit: Surrebuttal Testimony

Sponsoring Party: Evergy Missouri West

Case No. EF-2022-0155

Date Testimony Prepared: July 22, 2022

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO:

EF-2022-0155

SURREBUTTAL TESTIMONY

OF

STEFFEN LUNDE

ON BEHALF OF

EVERGY MISSOURI WEST

Kansas City, Missouri

July 2022

SURREBUTTAL TESTIMONY

OF

STEFFEN LUNDE

Case No. EF-2022-0155

1 **I. NAME AND QUALIFICATIONS**

2 **Q: Please state your name, business address, and current employment position.**

3 A: My name is Steffen Lunde. My business address is 388 Greenwich Street, New York, New York.
4 I am a Director in the Global ABS Financing and Securitization group with Citigroup Global
5 Markets Inc. (“Citi”). My responsibilities include leading the utility securitization efforts on behalf
6 of Citigroup Global Markets Inc.

7 **Q: Are you the same Steffen Lunde who submitted direct testimony in this docket on March**
8 **11, 2022?**

9 A: Yes.

10 **Q: On whose behalf are you testifying?**

11 A: I am testifying on behalf of Evergy Missouri West, Inc. d/b/a Evergy Missouri West (“EMW” or
12 the “Company”).

13 **Q: What is the purpose of your surrebuttal testimony?**

14 A: The purpose of my surrebuttal testimony is to respond to the Rebuttal Testimony of Mark Davis
15 with Ducera Partners, LLC (the “Davis Rebuttal”).

1 **Q: The Davis Rebuttal states that the 10-year forward US Treasury rate, effective as of**
2 **February 1, 2023, has increased from 2.019% to 3.268% since February 28, 2022. Do you**
3 **agree with this increase in rates, and if so what is the impact on the weighted average coupon**
4 **of the securitization?**

5 A: Yes, the forward US Treasury rates have increased since the filing of the Financing Order
6 Application, as have credit spreads.

7 In the original filing, the weighted average coupon of securitization was estimated to be
8 3.427%, which assumed a weighted average benchmark rate of 2.008% (based upon the 3-year
9 and 10-year Bloomberg Forward US Treasury Rates for February 1, 2023 as of February 28, 2022)
10 plus a spread and a volatility factor. The possibility of increases in both benchmarks and credit
11 spreads over an approximately one year period between the filing of the Financing Order
12 Application and the assumed execution date was always recognized which is why a volatility factor
13 (as described in my original direct testimony) was included in the estimation of the weighted
14 average coupon of securitization. However, given the significant increases in rates (benchmarks
15 and spreads), this volatility factor has not proven to be sufficient to cover these movements.

16 As of July 8, 2022, Citi ran updated¹ cashflows assuming a weighted average benchmark
17 rate of 2.905% (based upon the interpolated Bloomberg Forward US Treasury Rates for February
18 1, 2023 as of July 8, 2022) and a weighted average spread of 1.596%, which resulted in an updated
19 weighted average cost of securitization of 4.500%. An updated Schedule SL-3 is attached to my
20 testimony.

¹ Note that these cash flows have been “reoptimized” to generate substantially level debt service payments based on the revised coupons and weighted average lives of individual tranches may accordingly have changed. Note further than no “volatility factor” has been included in these coupons.

1 **Q: Is the weighted average benchmark rate and weighted average spread rate subject to change**
2 **before marketing the transaction? Could such changes in benchmarks and spreads, if any,**
3 **be expected to positively or adversely affect the transaction?**

4 A: Yes. Benchmarks and spreads are market driven and further movements are likely before the time
5 of execution. Given the market driven nature of these rate movements, it is not possible to
6 determine if such changes will have a positive or adverse impact on the transaction.

7 **Q: Considering the rising interest rate environment, is a securitization financing still an**
8 **appropriate approach for financing the recovery of the Winter Storm Uri Costs?**

9 A: Yes. To support this view, Citi ran a break-even analysis which calculated the maximum weighted
10 average coupon the securitization can withstand before it no longer remains economically
11 beneficial to customers (i.e., when the NPV savings are reduced exactly to zero), when compared
12 to the alternative recovery methods described in the Direct Testimony of EMW witness Ronald A.
13 Klote (the “Klote Testimony”). The break-even analysis determined that the weighted average
14 coupon of the securitization could increase to approximately 7.0% and approximately 9.7% when
15 compared to the Fuel Adjustment Clause (“FAC”) method and Accounting Authority Order
16 (“AAO”), respectively, as defined in further detail in the Klote Testimony. A summary of this
17 analysis is attached in Schedule SL-4.

1 **Q: Assuming a weighted average cost of securitization of 4.500%, calculated as of July 8, 2022**
2 **and noted above, how much can the weighted average coupon of the securitization increase**
3 **before the securitization recovery method no longer remains economically beneficial to**
4 **customers?**

5 A: The weighted average securitization spread has cushion to rise by approximately 2.5% and
6 approximately 5.2% under the FAC method and AAO method, respectively, before a securitization
7 recovery method no longer remains economically beneficial to customers.

8 **Q: Are there any market indicators that support your analysis that a securitization financing**
9 **method will remain the most economically beneficial recovery method going forward?**

10 A: Yes, there are. Firstly, the benchmark rates used to develop the updated Schedule SL-3 are based
11 on market rates for the US Treasury rates in early 2023. Secondly, Bloomberg polled a sample of
12 50 analysts to determine a weighted average forecast of the 10-year US Treasury rate which is
13 projected to be 3.22% in Q1 of 2023 (as of June 9, 2022). Based upon these possible benchmarks,
14 and the break-even analysis described above, there is significant support for the securitization
15 method remaining the most economically beneficial financing method.

16 It should further be noted that after pricing of the bonds (but before closing of the
17 transaction), the Company will be required to submit an Issuance Advice Letter to the Commission
18 for its review. During the Issuance Advice Letter process, the Company will certify that the
19 financing of Qualified Extraordinary Costs and Financing Costs will provide quantifiable net
20 present value benefits to retail customers, greater than would be achieved compared to the
21 customary method of financing and reflecting the Qualified Extraordinary Costs in retail
22 customers' rates.

1 **Q: Does that conclude your testimony?**

2 **A: Yes, it does.**

**Cash Flow Requirements of Proposed Transaction
(Expected Case) ⁽¹⁾⁽²⁾**

(A)	(B)	(C)	(D) = (B) + (C)	(E)	(F) = (D) + (E)	(G)
Bond Payment Date ⁽³⁾	Principal	Interest	Total Debt Service	Servicing & Expenses	Total Cash Requirements (\$)	Total Annual Cash Requirements (\$)
1	\$8,682,989	\$7,778,924	\$16,461,912	\$279,641	\$16,741,554	
2	\$8,856,127	\$7,605,785	\$16,461,912	\$279,641	\$16,741,554	\$33,483,107
3	\$9,032,719	\$7,429,194	\$16,461,912	\$279,641	\$16,741,554	
4	\$9,212,831	\$7,249,081	\$16,461,912	\$279,641	\$16,741,554	\$33,483,107
5	\$9,396,535	\$7,065,377	\$16,461,912	\$279,641	\$16,741,554	
6	\$9,583,902	\$6,878,010	\$16,461,912	\$279,641	\$16,741,554	\$33,483,107
7	\$9,775,005	\$6,686,907	\$16,461,912	\$279,641	\$16,741,554	
8	\$9,969,918	\$6,491,994	\$16,461,912	\$279,641	\$16,741,554	\$33,483,107
9	\$10,168,719	\$6,293,194	\$16,461,912	\$279,641	\$16,741,554	
10	\$10,371,483	\$6,090,429	\$16,461,912	\$279,641	\$16,741,554	\$33,483,107
11	\$10,578,290	\$5,883,622	\$16,461,912	\$279,641	\$16,741,554	
12	\$10,789,221	\$5,672,691	\$16,461,912	\$279,641	\$16,741,554	\$33,483,107
13	\$11,004,358	\$5,457,554	\$16,461,912	\$279,641	\$16,741,554	
14	\$11,240,915	\$5,220,998	\$16,461,912	\$279,641	\$16,741,554	\$33,483,107
15	\$11,487,653	\$4,974,259	\$16,461,912	\$279,641	\$16,741,554	
16	\$11,739,807	\$4,722,105	\$16,461,912	\$279,641	\$16,741,554	\$33,483,107
17	\$11,997,495	\$4,464,417	\$16,461,912	\$279,641	\$16,741,554	
18	\$12,260,840	\$4,201,072	\$16,461,912	\$279,641	\$16,741,554	\$33,483,107
19	\$12,529,966	\$3,931,946	\$16,461,912	\$279,641	\$16,741,554	
20	\$12,804,999	\$3,656,914	\$16,461,912	\$279,641	\$16,741,554	\$33,483,107
21	\$13,086,068	\$3,375,844	\$16,461,912	\$279,641	\$16,741,554	
22	\$13,373,308	\$3,088,605	\$16,461,912	\$279,641	\$16,741,554	\$33,483,107
23	\$13,667,078	\$2,794,834	\$16,461,912	\$279,641	\$16,741,554	
24	\$13,988,664	\$2,473,248	\$16,461,912	\$279,641	\$16,741,554	\$33,483,107
25	\$14,317,817	\$2,144,095	\$16,461,912	\$279,641	\$16,741,554	
26	\$14,654,716	\$1,807,196	\$16,461,912	\$279,641	\$16,741,554	\$33,483,107
27	\$14,999,541	\$1,462,371	\$16,461,912	\$279,641	\$16,741,554	
28	\$15,352,480	\$1,109,432	\$16,461,912	\$279,641	\$16,741,554	\$33,483,107
29	\$15,713,724	\$748,188	\$16,461,912	\$279,641	\$16,741,554	
30	\$16,083,468	\$378,444	\$16,461,912	\$279,641	\$16,741,554	\$33,483,107
	\$356,720,636	\$137,136,729	\$493,857,365	\$8,389,241	\$502,246,606	\$502,246,606
			Weighted Average Coupon ⁽⁴⁾		4.500%	
			Annual Servicing & Expenses		\$559,283	

All amounts rounded and certain sums may not add up due to this rounding.

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- 2 Assumes triple-A ratings obtained from at least two major NRSRO's.
- 3 All bond payment dates will be semi-annual.
- 4 US Treasury Benchmarks are determined using interpolated Bloomberg Forward US Treasury Rates for 02/01/2023 effective date, as of 07/08/2022.

Indicative Structure
(Expected Case) ⁽¹⁾⁽²⁾⁽³⁾

Class	Balance	WAL (Years)	Benchmark	Benchmark Rate	Spread	Coupon	Prin Window	Scheduled Maturity
A-1	\$ 118,900,000	3.43	Interpolated FWD UST	2.938%	1.050%	3.988%	8/23 - 8/29	8/1/2029
A-2	\$ 118,900,000	8.89	Interpolated FWD UST	2.891%	1.500%	4.390%	8/29 - 2/34	2/1/2034
A-3	\$ 118,920,636	13.31	Interpolated FWD UST	2.906%	1.800%	4.706%	2/34 - 2/38	2/1/2038
Total / WA	\$ 356,720,636	8.54				4.500%	8/23 - 2/38	2/1/2038

NOTES

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Break-Even Analysis ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾

	Securitization (Compared to FAC Method)	FAC Method (20 Years)	Securitization (Compared to AAO Method)	AAO Method (15 Years)
Storm Uri Costs (Including Carrying Costs)	\$350,080,878	\$308,304,983	\$350,080,878	\$347,504,534
Upfront Financing Costs	6,639,758	-	6,639,757.90	-
Total	\$356,720,636	\$308,304,983	\$356,720,636	\$347,504,534
Maximum Weighted Average Coupon	6.986%	8.900%	9.720%	8.900%
Term (years)	15	21	15	15
Monthly Payment	\$3,203,541		\$3,772,461	
Ongoing Costs (monthly)	\$46,607		\$46,607	
Monthly Revenue Requirement	\$3,250,148	\$2,211,115	\$3,819,068	\$3,573,488
Total Payments / Collected	\$585,026,589	\$557,201,041	\$687,432,283	\$643,227,919
WACC (Settled ER-2018-0146)		8.90%		8.90%
NPV Payments Discounted at WACC	\$322,330,910	\$322,330,910	\$378,753,167	\$378,753,167
NPV Securitization Benefit	\$0		\$0	
Weighted Average Coupon	4.500%		4.500%	
Cushion	2.486%		5.220%	

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Assumes triple-A ratings obtained from at least two major NRSRO's.

All bond payment dates will be semi-annual.

US Treasury Benchmarks are determined using interpolated Bloomberg Forward US Treasury Rates for 02/01/2023 effective date, as of 07/08/2022.

The FAC Method and AAO Method Storm Uri Costs assume deferral in rate base 1/1/23 then every four years thereafter.

The FAC Method Storm Uri Costs include \$78.4 million collected over 12 months in the MO West FAC.

The FAC Method and AAO Method Monthly Revenue Requirement assume the average over the recovery period.