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Witness: Matthew DeCoursey
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Electric Company
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Date Testimony Prepared: January 2022

**Before the Public Service Commission
of the State of Missouri**

Direct Testimony

of

Matthew DeCoursey

on behalf of

The Empire District Electric Company

January 2022



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FOR THE DIRECT TESTIMONY OF MATTHEW DECOURCEY
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
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1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. My name is Matthew DeCourcey. My business address is 15 Buttrick Road, Londonderry,
4 New Hampshire.

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

6 A. I am employed by Liberty Utilities Service Corp. as the Vice President for Rates and
7 Regulatory Strategy.

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

9 A. I am testifying on behalf of The Empire District Electric Company (“Liberty” or the
10 “Company”) in this proceeding before the Missouri Public Service Commission
11 (“Commission”).

12 **Q. Please describe your educational and professional background.**

13 A. I hold a Bachelor of Arts in Political Science from the University of Massachusetts at
14 Boston and a Master of Business Administration from the University of Massachusetts at
15 Amherst.

16 I assumed my current role with Liberty in August 2021. Before that, I held
17 positions at several consulting firms advising clients in the energy space, most recently
18 with FTI Consulting, Inc., where I was a Managing Director in the Power & Utilities
19 practice. Over the course of my career, I have advised utilities, investors, institutional

1 consumers, and regulators in jurisdictions throughout North America on matters pertaining
2 to ratemaking, strategy, the analysis of energy markets, and other subjects.

3 **Q. Have you previously testified before this Commission or any other regulatory agency?**

4 A. I have not appeared before the Commission, but I have appeared before utility regulators
5 in several states and before the Federal Energy Regulatory Commission.

6 **Q. What is the purpose of your testimony?**

7 A. My testimony supports Liberty's petition that the Commission issue a financing order that
8 will allow Liberty to finance, via securitization, its qualified extraordinary costs that it
9 incurred on behalf of its customers arising from Winter Storm Uri. I explain how
10 securitization will benefit Liberty's customers and that the Company's proposed approach
11 meets the requirements of the law recently enacted in Missouri that defines the conditions
12 under which utilities can securitize extraordinary costs (the "Securitization Statute" or the
13 "Statute"). I also summarize information provided by other witnesses testifying in support
14 of Liberty's petition regarding the costs that will be financed using securitization and the
15 ratemaking methods by which the Company will recover the securitized utility tariff
16 charges.

17 **Q. How is the remainder of your testimony organized?**

18 A. Section II of my testimony describes the benefits of securitization to Liberty's customers
19 and describes how the Company's petition meets all the requirements of the Securitization
20 Statute. Section III describes how Liberty proposes to issue bonds to recover its costs
21 arising from Winter Storm Uri and how it will recover the costs of those bonds by the
22 imposition of a new volumetric rate. In Section IV, I summarize the Company's current
23 estimates of the costs that will be financed using securitization and describe how those

1 estimates will be updated prior to the issuance of bonds. My conclusions are summarized
2 in Section V.

3 **Q. Are other witnesses filing testimony in support of Liberty's petition?**

4 A. Yes, four additional witnesses are supporting the petition:

- 5 • Katrina Niehaus, Managing Director, Head of the Corporate Asset Backed
6 Securities Finance Group at Goldman, Sachs & Co., discusses the costs that will be
7 securitized, proposes a draft Financing Order, and explains how bonds are marketed
8 and issued.
- 9 • Aaron Doll, Liberty's Senior Director of Energy Strategy, provides detailed
10 information about the events that occurred during Storm Uri, the Company's
11 responses, and the costs that it incurred as a result. Witness Doll's testimony
12 supports the conclusion that the costs the Company is seeking were prudently
13 incurred. Additionally, witness Doll describes the Company's review of its
14 response to Winter Storm Uri and the lessons learned that it will apply going
15 forward.
- 16 • John Olsen, a consultant with Utilicast Corporation, discusses Utilicast's review of
17 the Company's activities prior to, during, and after Storm Uri, the incurrence of
18 extraordinary costs during that period, and Utilicast's findings that the Company's
19 activities were consistent with industry standards and that the costs the Company
20 is seeking to finance using securitization were prudently incurred.
- 21 • Karen S. Hall, a Liberty Senior Manager, describes the Securitized Utility Tariff
22 Charge ("SUTC") a new charge that the Company will use to recover the costs of
23 securitization, including her estimate of the SUTC for each of Liberty's customer

1 classes and the reconciliations the Company will undertake to ensure that the
2 revenue it recovers from customers matches the costs of the bonds that will be
3 issued via securitization. Witness Hall also describes calculations she undertook
4 that quantify the benefits of securitization to Liberty's customers, as required by
5 the Securitization Statute.

6 **II. SECURITIZATION**

7 **Q. What is the purpose of this section of your testimony?**

8 A. In this section of my testimony, I explain that securitization creates benefits for Liberty's
9 customers because it allows for the recovery of the qualified extraordinary costs Liberty
10 incurred during Winter Storm Uri over time, which reduces rate impacts, and does so at a
11 lower rate than if the Company were to amortize the costs itself. I also summarize the
12 requirements the Securitization Statute establishes for Liberty's securitization petition and
13 describe how each requirement is met.

14 **Q. What caused the Company to incur extraordinary costs in February 2021?**

15 A. Winter Storm Uri created widespread impacts in energy markets during February 2021,
16 including large and sudden increases in the prices of delivered energy. As a result, the cost
17 for Liberty's fuel and power purchases it made to provide service to customers were much
18 higher than is typical.

19 **Q. How are the Company's fuel and purchased power costs normally recovered?**

20 A. Through the Fuel Adjustment Charge ("FAC"), a ratemaking mechanism in the Company's
21 tariff that allows the Company to recover costs through a volumetric charge that appears
22 on customer bills.

1 **Q. Why is Liberty not seeking to recover the costs it incurred during Storm Uri through**
2 **the FAC?**

3 A. Because doing so would be detrimental to its customers. The FAC is designed to recover
4 costs incurred during a six-month period over a subsequent six-month period. Recovering
5 the entirety of the extraordinary costs that the Company incurred during Storm Uri would
6 create extreme customer rate impacts, a circumstance often referred to as “rate shock.” The
7 avoidance of rate shock, where possible, is a widely recognized objective of utility
8 regulation.

9 **Q. Has Liberty previously proposed an approach that would help address rate shock?**

10 A. Yes. When the Company filed its currently pending rate case with the Commission in May
11 2021, Liberty explained that it had incurred approximately \$181 million in extraordinary
12 costs during Winter Storm Uri, which the Company proposed to recover over a 13-year
13 period in an effort to reduce extreme customer rate impacts.¹

14 **Q. Is securitization an alternative to this approach?**

15 A. Yes. Instead of carrying the costs on its own books and amortizing them over time, Liberty
16 will work with its legal and financial advisors to create a new special purpose entity that
17 will issue bonds whose proceeds will allow the Company to immediately recover its costs
18 from Winter Storm Uri, including the carrying costs the Company has incurred since. The
19 bonds will be serviced via a new charge, the SUTC, that will be in effect during the term
20 of the bonds (scheduled to be 13 years).

¹ Direct Testimony of Charlotte T. Emery, Case No. ER-2021-0312.

1 **Q. How does this benefit customers?**

2 A. Securitization will save customers money. When Liberty filed its rate case, the
3 Securitization Statute was not yet law, so the Company’s proposal to recover the Storm Uri
4 costs over 13 years was determined to be the best available option to minimize rate shock.
5 When the bill was signed into law by Governor Parsons in July 2021, it created a new
6 alternative that costs less.

7 **Q. How does securitizing these costs create savings for customers?**

8 A. In order to recover the Storm Uri costs over an extended period without incurring a
9 financial loss, the Company would need to apply a carrying charge equal to the Weighted
10 Average Cost of Capital (“WACC”) that the Commission has authorized. As Company
11 witness Hall explains in her direct testimony, the costs of securitization are lower than
12 customary ratemaking treatment, in large part because the rate that will be paid on the
13 bonds that will be issued will be much lower than Liberty’s WACC.

14 **Q. How much will customers save through securitization?**

15 A. Roughly \$66 million. As Company witness Hall explains in her testimony, customers will
16 pay about \$247 million over the 13 year life of the bonds that will be issued, compared to
17 \$313 million they would pay if Liberty were to recover the costs over the same period and
18 apply a carrying charge equal to its WACC.²

19 **Q. Does the Securitization Statute allow Liberty to recover the costs it incurred arising**
20 **from Winter Storm Uri via securitization?**

21 A. Yes. The Statute allows for Missouri utilities to seek a financing order to recover “qualified
22 extraordinary costs,” which are defined as follows:

² Direct Testimony of Karen S. Hall, Schedule KSH-3.

1 [C]osts incurred prudently before, on, or after August 28, 2021, of an extraordinary
2 nature which would cause extreme customer rate impacts if reflected in retail
3 customer rates recovered through customary ratemaking, such as but not limited to
4 those related to purchases of fuel or power, inclusive of carrying charges, during
5 anomalous weather events.
6

7 The costs the Company is seeking to finance using securitization here clearly meet these
8 criteria insofar as their recovery through customary ratemaking would create rate shock
9 and exceed the costs of securitization, the costs were incurred from the Company's
10 purchases of fuel and purchasing power, and Winter Storm Uri is clearly an anomalous
11 weather event.

12 **Q. Does the Company's petition include evidence that indicates that these costs were**
13 **prudently incurred?**

14 A. Yes. Company witnesses Doll and Olsen describe in detail the events and the Company's
15 actions that led to the Company's incurrence of these extraordinary costs and demonstrate
16 that the Company's actions were reasonable and that the Storm Uri costs were prudently
17 incurred.

18 **Q. What is the total amount of the qualified extraordinary costs that the Company is**
19 **seeking to recover via securitization?**

20 A. The Company is seeking to recover costs arising from Winter Storm Uri through December
21 31, 2021 of approximately \$193 million, excluding carrying costs and legal expenses
22 incurred.

23 **Q. How was that amount determined?**

24 A. As Mr. Doll explains, the Company analyzed its total costs incurred during Winter Storm
25 Uri to determine how much was extraordinary; the amount that was not was recovered

1 through the FAC.³ Only the remaining, extraordinary amounts will be financed using
2 securitization. Additionally, the extraordinary accounts include carrying costs and deferred
3 legal costs, which I discuss later in my testimony, and also account for adjustments made
4 from the Company's efforts to settle transactions from this period, which witness Doll also
5 describes.⁴

6 **Q. Is this the total amount of the Company's qualified extraordinary costs.**

7 A. The Company is requesting a financing order for the total amount of its qualified
8 extraordinary costs, which includes the carrying charges and deferred legal costs as
9 discussed in Witness Hall's testimony.

10 **Q. Does the Securitization Statute indicate what a utility must include in a petition to the**
11 **Commission for a financing order that would facilitate securitization of extraordinary**
12 **costs?**

13 A. Yes, the Statute specifies seven requirements, each of which are met by the Company's
14 petition.

15 **Q. What is the first requirement and how is it met?**

16 A. Section 2.(2)(a) of the Statute requires a description of the qualified extraordinary costs.
17 Detailed descriptions are provided by witnesses Doll and Olsen.

18 **Q. What is the second requirement and how is met?**

19 A. Section 2.(2)(b) requires that the utility indicate whether it will finance all or a portion of
20 its qualified extraordinary costs. As I explain earlier in this section of my testimony, and
21 as discussed in witness Hall's testimony, the Company is seeking to recover all of its
22 qualified extraordinary costs via securitization.

³ Direct Testimony of Aaron J. Doll, page 13 at line 10.

⁴ Direct Testimony of Aaron J. Doll, page 13 at line 1.

1 **Q. What is the third requirement of the statute and how is it met?**

2 A. Section 2.(2)(c) requires an estimate of the financing costs that will be incurred. That
3 estimate is provided by witness Hall.⁵

4 **Q. What is the fourth requirement of the statute and how is it met?**

5 A. Section 2.(2)(d) requires an estimate of the rates the Company will charge and an indication
6 of the of the period over which those rates will be in effect. The rate estimates are provided
7 by witness Hall.⁶ As I explain earlier in my testimony, the bonds issued will have a
8 scheduled 13-year life, during which time the charges to recover their costs will be in effect.

9 **Q. What is the fifth requirement of the statute and how is it met?**

10 A. Section 2.(2)(e) requires a comparison of the Net Present Value (“NPV”) of the costs to
11 customers from using securitization to recover the qualified extraordinary costs to the NPV
12 of the costs that customers would bear if the same costs were recovered using the
13 “customary method of financing.” Section 2.(2)(e) additionally requires that the
14 comparison demonstrate that securitization benefits retail customers. Company witness
15 Hall’s testimony includes that comparison and demonstrates that securitization will create
16 \$42.9 million in customer savings, expressed on an NPV basis.⁷

17 **Q. What is the sixth requirement of the statute and how is it met?**

18 A. Section 2.(2)(f) requires that the Company describe the method by which the costs of
19 securitization and the amounts that it recovers through rates will be reconciled. Ms. Hall
20 addresses the requirements of 2.(2)(f) in her testimony.⁸

⁵ Direct Testimony of Karen S. Hall, Schedule KSH-1.

⁶ Direct Testimony of Karen S. Hall, Schedule KSH-4.

⁷ Direct Testimony of Karen S. Hall, Schedule KSH-3.

⁸ Direct Testimony of Karen S. Hall, Section V.

1 **Q. What is the seventh requirement of the statute and how is it met?**

2 A. Section 2.(2)(g) requires that Liberty file direct testimony supporting its petition. Including
3 myself, five witnesses have filed direct testimony in support of this petition.

4 **III. PROPOSED BOND ISSUANCE AND RECOVERY MECHANISM**

5 **Q. What is the purpose of this section of your testimony?**

6 A. In this section I summarize the transactions by which Liberty will issue and recover the
7 costs of bonds to offset the Storm Uri costs.

8 **Q. What is the Company’s current estimate of the value of the bonds to be issued?**

9 A. Approximately \$208 million, which includes the costs the Company incurred during Storm
10 Uri, including the adjustments I describe above, its accrued carrying costs on those costs
11 since they were incurred, deferred legal costs, and up-front costs for issuing the bonds.
12 Each component is shown below:

13 **Table 1. Current Estimate of Securitization Balances**

Component	Current Estimate
Extraordinary costs	\$193,402,198
Accrued carrying costs	\$10,957,635
Deferred legal costs	\$141,106
Up-front financing costs	\$3,638,534
Total	\$208,139,472

14 **Q. When will the bonds be issued?**

15 A. The Company expects that the bonds will be issued approximately sixty days after the
16 Commission issues a Financing Order.

17 **Q. Will Liberty issue the bonds?**

18 A. No. A standalone company known as a Special Purpose Entity (“SPE”) will be created to
19 issue the bonds.

1 **Q. Are the bonds backed by Liberty’s credit rating or that of its parent company?**

2 A. No. As witness Niehaus explains in her testimony, the bonds are supported by the
3 Financing Order that Liberty is petitioning the Commission to issue.⁹ Among other things,
4 the Financing Order will allow the SPE to fund the bonds through a charge to Liberty’s
5 customers.

6 **Q. Please describe the charge.**

7 A. The Company is proposing the SUTC, which will be a volumetric charge applied to
8 customer bills.¹⁰

9 **Q. Has Liberty estimated the SUTC?**

10 A. Yes. The total scheduled payment of principal and interest required to service the bonds
11 each year will be known. Company witness Hall used the class revenue targets proposed
12 by the Company for ratemaking purposes in its current general rate proceeding to allocate
13 that cost to each of Liberty’s customer classes, establishing how much will be recovered
14 from each of those classes to fund repayment of the bonds.¹¹ Using the test-year sales
15 volumes that are also proposed by the Company, witness Hall estimates the SUTC for each
16 class.

17 **Q. Will the SUTC change going forward?**

18 A. Yes. As witness Hall explains in her testimony, the Company will file a formula based
19 true-up mechanism at least annually to adjust the SUTC to correct for any overcollection
20 or undercollection of the charges or to otherwise ensure the timely payment of bonds and
21 financing costs and other required amounts and charges payable under the bonds.¹²

⁹ Direct Testimony of Katrina T. Niehaus, page 17 at line 1.

¹⁰ Direct Testimony of Karen S. Hall, Section IV.

¹¹ Direct Testimony of Karen S. Hall, page 12 at line 4.

¹² Direct Testimony of Karen S. Hall, page 14 at line 1.

1 **IV. COSTS**

2 **Q. What is the purpose of this section of your testimony?**

3 A. In this section I summarize the costs that will be recovered through the bonds that will be
4 issued, including the Company's direct costs for Winter Storm Uri, its carrying charges on
5 those bonds, deferred legal costs, and up-front financing costs that will be funded with
6 bond proceeds. I also describe the ongoing financing costs to support and service the
7 bonds, which will also be recovered from customers.

8 **Q. Please summarize the types of costs that will be funded with the proceeds from the
9 bonds that will be issued.**

10 A. There are four categories of costs that will be included in the bond issuance. First, the
11 Company incurred roughly \$193 million in qualified extraordinary costs.¹³ Second,
12 carrying charges on those costs since they were incurred total approximately \$11 million
13 as of December 31, 2021.¹⁴ Third, deferred legal costs total approximately \$141,000.
14 Fourth, issuance of the bonds creates up-front costs equal to approximately \$3.6 million.¹⁵
15 The value of the bonds is the sum of these four categories, or \$208.1million. If approved
16 by the Commission, the Company will update these costs through the date of the bond
17 issuance.

18 **Q. Will Liberty update any of its costs later in this proceeding?**

19 A. Yes. The up-front issuance costs are estimates that will be updated after the Commission
20 approves the Financing Order and before the bonds are issued through the issuance advice

¹³ Direct Testimony of Aaron J. Doll, page 13 at line 4.

¹⁴ Direct Testimony of Karen S. Hall, Schedule KSH-2.

¹⁵ *Id.*

1 letter process outlined in the Financing Order. Liberty will also update the amount of
2 carrying costs through the date of issuance to be recovered at the same time.

3 **Q. What are the ongoing financing costs?**

4 A. Expenses that will be incurred throughout the life of the bonds to support the on-going
5 operations of the SPE and service the bonds. As witness Niehaus explains throughout her
6 direct testimony, these include servicing fees, return on invested capital, administration
7 fees; accounting and auditing fees, regulatory fees, legal fees, rating agency surveillance
8 fees, trustee fees, and others.

9 **V. CONCLUSIONS AND RECOMMENDATION**

10 **Q. What conclusions have you reached?**

11 A. For the reasons I describe above and based on the information provided by witnesses
12 Niehaus, Doll, Olsen, and Hall, I have reached three conclusions. First, the costs that are
13 the subject of the Company's petition were prudently incurred. Second, securitization of
14 those costs benefits Liberty's customers. Third, the Company's proposal to securitize the
15 costs as described in its petition meets every requirement of the Securitization Statute.

16 **Q. What do you recommend?**

17 A. Based on these three conclusions, I recommend that the Commission accept and issue the
18 Financing Order proposed in witness Niehaus' testimony and requested by Liberty's
19 petition.

20 **Q. Does this conclude your direct testimony?**

21 A. Yes.

VERIFICATION

I, Matthew DeCoursey, under penalty of perjury, on this 19th day of January, 2022,
declare that the foregoing is true and correct to the best of my knowledge and belief.

/s/ Matthew DeCoursey