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On Behalf of the Staff of
the Missouri Public Service Commission
Case. No. EO-2022-0193 & Case. No. EO-2022-0040

DISCLAIMER

The illustrative analyses reflected herein reflect a few of many different possible permutations of various assumptions and calculations. The analyses are not intended to be interpreted as representative of actual situations nor are they exhaustive. The implied results are purely illustrative and may be subject to change. Such illustrations are not predictions of future outcomes or results and should not be construed as such.

Illustrative Scenarios and Implied NPV Savings / (Costs) from Securitization

The illustrative analyses described herein reflect comparisons of the implied cost to ratepayers of cost recovery under traditional means (AAO) versus securitization. The scenarios assume different carrying cost rates during recovery under the AAO method and different discount rates for the purposes of the net present value (NPV) calculation of implied cost to ratepayers. The scenarios illustratively compare the implied cost assuming Winter Storm Uri costs are recovered on a standalone basis, i.e., without Asbury energy transition costs, as well as the implied cost assuming Winter Storm Uri and Asbury costs are recovered under a single AAO / securitization issuance.

The illustrative analyses also incorporate upfront and ongoing financing costs in the case of securitization, based on Liberty cost assumptions. Consolidated Winter Storm Uri and Asbury recovery scenarios reflect an illustrative avoidance of all fixed costs associated with an incremental deal. With respect to Asbury, under AAO, the nominal ADIT balance is assumed to be subtracted from the recoverable amount; under securitization, the ADIT balance is adjusted on a present value basis using the assumed rate of securitization and assumed recovery period, as prescribed by statute. All descriptions below, unless otherwise stated, assume a 13-year recovery period beginning December 2022 and a 4.00% illustrative cost of securitization. The securitization rate assumption was informed by US Treasury forward curve rates and pricing on precedent utility rate reduction bonds issued year-to-date as of May 10, 2022.

On a consolidated basis, 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 6.766% 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), as compared to illustrative cost under AAO recovery.

Using an illustrative carrying cost rate of 6.766% 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 6.766% 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 6.766% 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 6.766% 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.

SCENARIO 1

Winter Storm Uri Standalone Recovery

Description of Illustrative Scenario: Discount rate and carrying cost at 6.766% WACC proposed in Case No. ER-2019-0314 (AAO). Discount rate at 6.766% WACC (securitization).

Illustrative Cost Recovery Amount: \$193,868,094 (AAO); \$197,443,431, including \$3,575,337 of illustrative upfront financing costs (securitization)

Implied NPV Savings / (Costs) from Securitization: \$22,160,847

Consolidated Winter Storm Uri and Asbury Recovery

Description of Illustrative Scenario: Discount rate and carrying cost at 6.766% WACC proposed in Case No. ER-2019-0314 (AAO). Discount rate at 6.766% WACC (securitization).

Illustrative Cost Recovery Amount: \$254,643,252 (AAO); \$263,899,665, including \$3,923,747 of illustrative upfront financing costs (securitization).

Implied NPV Savings / (Costs) from Securitization: \$25,795,836

SCENARIO 2

Winter Storm Uri Standalone Recovery

Description of Illustrative Scenario: Carrying cost at 6.766% WACC; discount rate at authorized cost of 4.65% LT debt (AAO). Discount rate at ~5.2% blended rate (securitization).

Illustrative Cost Recovery Amount: \$193,868,094 (AAO); \$197,443,431, including \$3,575,337 of illustrative upfront financing costs (securitization)

Implied NPV Savings / (Costs) from Securitization: \$30,998,315

Consolidated Winter Storm Uri and Asbury Recovery

Description of Illustrative Scenario: Carrying cost at 6.766% WACC; discount rate at ~5.2% blended rate (AAO). Discount rate at ~5.2% blended rate (securitization).

Illustrative Cost Recovery Amount: \$254,643,252 (AAO); \$263,899,665, including \$3,923,747 of illustrative upfront financing costs (securitization)

Implied NPV Savings / (Costs) from Securitization: \$28,749,489

SCENARIO 3

Winter Storm Uri Standalone Recovery

Description of Illustrative Scenario: Carrying cost and discount rate at 4.65% LT debt rate (AAO). Discount rate at 6.766% WACC (securitization)

Illustrative Cost Recovery Amount: \$193,868,094 (AAO); \$197,443,431, including \$3,575,337 of illustrative upfront financing costs (securitization)

Implied NPV Savings / (Costs) from Securitization: \$22,160,847

Consolidated Winter Storm Uri and Asbury Recovery

Description of Illustrative Scenario: Carrying cost and discount rate at ~5.2% blended (AAO). Discount rate at 6.766% WACC (securitization)

Illustrative Cost Recovery Amount: \$254,643,252 (AAO); \$263,899,665, including \$3,923,747 of illustrative upfront financing costs (securitization)

Implied NPV Savings / (Costs) from Securitization: \$25,795,836

SCENARIO 4

Winter Storm Uri Standalone Recovery

Description of Illustrative Scenario: Discount rate and carrying cost at 4.65% LT debt rate (AAO). Discount rate at 4.65% LT debt rate (securitization).

Illustrative Cost Recovery Amount: \$193,868,094 (AAO); \$197,443,431, including \$3,575,337 of illustrative upfront financing costs (securitization)

Implied NPV Savings / (Costs) from Securitization: \$67,968

Consolidated Winter Storm Uri and Asbury Recovery

Description of Illustrative Scenario: Carrying cost and discount rate at ~5.2% blended rate (AAO). Discount rate at 4.65% LT debt rate (securitization).

Illustrative Cost Recovery Amount: \$254,643,252 (AAO); \$263,899,665, including \$3,923,747 of illustrative upfront financing costs (securitization)

Implied NPV Savings / (Costs) from Securitization: (\$3,649,038)