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Before the Missouri Public Service Commission

Direct Testimony

of

Katrina T. Niehaus

on behalf of

Union Electric Company d/b/a Ameren Missouri

November 21, 2023

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AMEREN MISSOURI
BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
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DIRECT TESTIMONY OF KATRINA T. NIEHAUS
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1 **I. INTRODUCTION**

2 **Q. Please state your name and company affiliation.**

3 A. My name is Katrina T. Niehaus, and I am employed by Goldman, Sachs & Co., LLC
4 (“Goldman”) located at 200 West Street, New York, New York.

5 **Q. In what capacity are you employed and what are your responsibilities?**

6 A. I am currently a Managing Director, Head of the Corporate Asset Backed Securities
7 (“ABS”) Finance Group at Goldman.

8 **Q. Briefly describe the role of Goldman in the proposed transaction.**

9 A. Goldman was retained by Ameren Missouri (“Ameren”) to be its structuring advisor
10 for the proposed transaction. Goldman, as structuring advisor, has agreed to assist
11 Ameren in, among other things, procuring a financing order (“Financing Order”) to
12 permit securitization and development of the bond structure.

13 **Q. Please give your educational background, professional qualifications, and
14 experience.**

15 A. I received a Bachelor of Science in Economics degree from the Wharton School at the
16 University of Pennsylvania. Prior to joining Goldman in 2005, I was employed by
17 Lehman Brothers. I was at Lehman Brothers from 2004-2005 as an analyst.

18 During my time at Goldman, I have served as an advisor or an underwriter to a number
19 of utilities and States seeking to utilize securitization including: Pacific Gas & Electric,
20 Entergy Texas, Entergy Louisiana, Jersey Central Power & Light, AEP Texas Central,
21 CenterPoint Energy, FirstEnergy, Consumers Energy, the Long Island Power

1 Authority, and the State of Hawaii. Currently, I oversee a group that has the
2 responsibility for the origination and structuring of securitizations backed by a broad
3 range of assets including solar loans and leases, triple net leases, intellectual property,
4 and small business loans.

5 **Q. Have you previously testified before the Missouri Public Service Commission (the**
6 **“Commission”) or other Missouri regulatory bodies?**

7 A. Yes. I previously provided testimony before the Missouri Public Service Commission
8 for The Empire District Electric Company d/b/a Liberty Utilities transaction in January
9 2022.

10 **Q. What is the purpose of your Direct Testimony on behalf of Ameren?**

11 A. My testimony will: (i) provide an overview of the proposed securitization transaction
12 and market; (ii) discuss the key structural elements of Ameren’s proposed rate
13 reduction bond offering; and (iii) discuss the primary rating agency criteria for rate
14 reduction bonds to obtain triple-A ratings.

15 The purpose of my testimony is to:

16 1. Provide background information on the use of utility securitizations in other
17 jurisdictions as well as discuss some of the basic elements of the proposed utility
18 securitization. “Utility securitization” is a generic term used to refer to
19 securitizations used by utilities to recover various costs, including, but not limited
20 to, stranded costs, storm restoration costs, wildfire hardening costs and
21 environmental costs. In this case, Ameren would be using the proceeds of the
22 proposed rate reduction bonds to retire the unrecovered costs associated with an
23 existing coal plant.

- 1 2. Present an indicative bond issuance structure for use in Missouri and discuss certain
- 2 structuring and marketing considerations.
- 3 3. Discuss the primary rating agency criteria for utility securitizations to obtain the
- 4 desired triple-A ratings.
- 5 4. Discuss several of the key commercial terms of proposed rate reduction bonds that
- 6 Ameren expects will be required for a successful transaction, as well as key
- 7 provisions of the proposed financing order.

8 **II. OVERVIEW OF PROPOSED SECURITIZATION TRANSACTION AND**
9 **MARKET**

10 **Q. What is Securitization?**

11 A. Securitization is a financing technique in which certain assets—typically financial
12 assets such as loans, leases, or receivables—are legally isolated within a special
13 purpose entity (“SPE”) and investors purchase securities that represent either debt or
14 equity interests in the SPE. These securities are generally referred to as Asset Backed
15 Securities (“ABS”). Securitization has become widely accepted as an efficient way for
16 companies to finance a broad range of assets. The proposed transaction is similar to
17 prior securitizations that have been completed on behalf of other utilities, in that the
18 SPE will issue securities backed primarily by a statutory and regulatory right to receive
19 proceeds derived from a charge (referred to herein generically as a “Securitized Utility
20 Tariff Charge”) paid by customers in a utility’s service territory. Securitizations are
21 generally non-recourse to and bankruptcy-remote from any operating company (here,
22 Ameren). The bonds are typically self-amortizing through payments of principal over
23 time, and there is customarily a broad and diverse pool of underlying obligors (here,
24 retail electric customers) that will make payments to service the bonds. In the case of

1 rate reduction bonds, collections of the securitized charge provide the cash from which
2 interest and principal on the bonds are paid over time.

3 **Q. Have other utilities issued rate reduction bonds?**

4 A. Section 393.1700, RSMo (the “Securitization Statute”) is the first rate reduction bond
5 (“RRB”) statute in Missouri.. Since 1995, however, over \$82 billion of rate reduction
6 bonds have been issued successfully by or on behalf of utilities in various other states,
7 as shown in Schedule KN-1.

8 **Q. Have other collateral types been financed using securitization in a similar**
9 **manner?**

10 A. Yes, the market for securitized products or asset-backed securities (“ABS”) is large.
11 Examples of other collateral types include certain consumer-related cash flows, such
12 as credit card receivables, auto loans, auto leases, and student loans. During 2022, an
13 estimated \$ 659 billion of ABS were issued in the United States, and as of the beginning
14 of November 2023, the year-to-date issuance for the U.S. ABS market was over \$467
15 billion (Source: Finsight. The investors who purchase utility securitizations generally
16 come from the ABS market, as well as crossover buyers from the corporate debt
17 market. In both cases, they are accounts focused on very highly rated bonds of typically
18 longer (i.e., more than three years) durations.

19 **Q. How will the bonds be structured in this transaction?**

20 A. Rate reduction bonds may be issued in a single tranche or multiple tranches. Tranches
21 should be of sufficient size to be liquid. If tranches are seen by the market as too small,
22 they will be seen as illiquid and will not generate as much investor demand, which can
23 result in a higher coupon (i.e., interest rate). While the final structure will depend upon
24 market conditions at the time of offering, we currently estimate that the proposed

1 offering will have two tranches with weighted average lives of approximately 5 years
2 and 12 years. The likely scheduled final payment date of the bonds will be
3 approximately 15 years from the date of issuance and the legal final maturity of the
4 bonds is not expected to exceed 17 years. **Schedule KN-2** shows an example of a bond
5 structure that Goldman could syndicate under current market conditions, which shows
6 the scheduled final payment date, legal final maturity, initial principal amount, average
7 life, and estimated coupon. I should note that **Schedule KN-2** is only an example of a
8 rate reduction bond structure and that the actual structure will likely differ, as the
9 pricing is dependent on market conditions at the time of issuance.

1 **Q. How was the tranching determined?**

2 A. Given the total recovery amount, and the desire to promote liquidity in the secondary
3 market, we have created a two-tranche structure. Splitting the deal into two tranches
4 means we are able to target two different weighted average lives. Investors have
5 different needs in terms of expected maturities, and so issuing a bond with two different
6 options can appeal to different groups of investors, thus increasing demand. We also
7 believe that these tranche sizes are large enough to generate investor demand at pricing
8 and will also be seen as large enough to be able to trade easily in the secondary market.

9 **Q. Will the rate reduction bonds pay fixed or floating rates?**

10 A. Nearly all rate reduction bonds have been fixed-rate bonds. Fixed rates facilitate
11 evaluation of the likely costs and benefits in advance and the maintenance of roughly
12 equal securitized charges over time (subject to variances in items such as actual load or
13 collections history from forecast). Although it is possible to issue floating-rate bonds
14 if the floating interest rate is then converted to a fixed rate through use of an interest
15 rate swap or hedge between an SPE and a highly-rated swap counterparty, in today's
16 market, floating rate bonds, swaps, and hedges are expected to create additional
17 documentation costs and introduce additional risks. Our analysis assumes that only
18 fixed-rate bonds will be issued.

19 **Q. Do you recommend the bonds be offered in a public transaction registered with
20 the SEC or a private placement?**

21 A. I recommend in this case pursuing an offering registered with the U.S. Securities and
22 Exchange Commission ("SEC"), generally referred to as a "public" offering. The
23 Securities Act requires that every security offered or sold in the United States either be
24 registered with the SEC or qualify for an exemption from registration (with such

1 exempt securities generally referred to as a “private” offering). If a transaction is
2 registered with the SEC, there are less restrictions on the type of investor who may
3 purchase the securities. While private offerings are restricted to certain types of
4 sophisticated institutional investors, public offerings can be sold more broadly,
5 including to retail investors. Because there are no restrictions on the sophistication of
6 the investors able to purchase the bonds, the SEC requires issuers in a public offering
7 to prepare a prospectus that conforms to detailed disclosure requirements and is also
8 reviewed by the SEC prior to marketing. Offering documents for private transactions
9 are not reviewed by the SEC prior to marketing. The public offering process can
10 therefore be more time consuming, and may also have higher transaction costs. Legal
11 fees may be higher due to the SEC review process. In addition, the SEC requires issuers
12 to pay a filing fee based on the dollar amount of bonds being registered. However, in
13 general, public offerings are considered to be more liquid given the broader potential
14 investor universe and therefore may be more attractive to investors, resulting in lower
15 pricing. Therefore, similar to the vast majority of precedent RRB transactions, we
16 believe a public offering will likely lead to lower overall costs for customers.

17 **Q. Please describe and provide an estimate of the up-front financing costs of original**
18 **issue discount. In your experience, are the costs estimated by Ameren within the**
19 **range of costs you have previously seen for similar expenses?**

20 A. Original issue discount (“OID”) is not really a “cost” similar to the other up-front
21 financing costs discussed in Ameren’s testimony. Instead, it is the difference between
22 the total par amount of the bonds issued and the actual price paid by investors. There
23 is a mathematical relationship, as captured by the yield of a bond, between the amount
24 of OID in a particular transaction and the interest rate (or coupon) paid on the bonds

1 sold. The lower the interest rate, the higher the OID will be for a given yield (all else
2 equal). For planning purposes, it is assumed that the rate reduction bonds will be issued
3 without OID. However, as a practical matter, it is likely that some level of OID will
4 be needed to provide yields that match the exact market conditions at issuance. In fact,
5 a certain amount of OID is typical of rate reduction bonds and some other asset backed
6 securities generally. The amount of OID is generally less than 0.5%. These types of
7 discounts arise because (a) the swap curve is typically quoted to four decimal places
8 while bond coupons are typically stated to two decimal places and (b) many initial
9 offerings settle without accrued interest on a mid-month date, which results in an “odd
10 first period.” Under these circumstances, pricing at exactly 100% is not practicable.
11 Many investors tend to prefer a lower coupon with a discount over a higher coupon
12 with a premium, so the normal convention is to round the coupon down (to two decimal
13 places) at pricing to produce a slight discount.

14 For all practical purposes, OID is an element of interest cost. The OID will
15 depend on market conditions at the time and the “odd first period” described above.
16 Since the OID will be fully reflected in the issuance advice letter, and there is no reason
17 to predict, nor any basis for predicting, the exact amount of OID that may be associated
18 with this transaction, any estimate would be arbitrary.

19 **Q. Are there “other amounts” beyond debt service required to be collected in**
20 **connection with the rate reduction bonds?**

21 A. There will be other amounts in addition to the bond principal and interest that will be
22 payable on an ongoing basis over the life of the transaction. These costs, which are
23 required ongoing financing costs, include, but are not limited to, servicing fees, trustee
24 fees, rating agency surveillance fees, legal fees, administration fees, audit fees, and

1 other operating expenses. These amounts are required to keep the transaction working
2 as designed, without reliance on Ameren or any other source of funds. It is essential to
3 the SPE's status as a bankruptcy-remote entity for the transaction structure to provide
4 for the full payment of ongoing financing costs.

5 I believe costs estimated by Ameren are within the range of costs previously seen. I have
6 provided input and reviewed the preliminary expense estimates provided as well as supporting
7 examples provided from previous transactions. While the Company's proposed securitization
8 is not expected to occur until 2024, and costs may change, these estimated costs are within the
9 ranges found in other utility securitization transactions.

10 **Q. Please describe the rate reduction bond marketing process.**

11 A. The marketing process entails several different phases, each uniquely tailored to the
12 asset class, market conditions, and the specifics of the contemplated transaction. The
13 underwriters will work with and make recommendations to Ameren throughout the
14 process. Described below are the general steps in a typical marketing process, but the
15 actual process for the rate reduction bonds could vary based on the market environment
16 at the time of marketing. Each step below should be conducted consistent with the
17 proposed issuance advice letter procedure, as well as with SEC rules and regulations
18 regarding publicly registered securities offerings, including an investor suitability
19 analysis:

20 1. Pre-marketing. Once a preliminary prospectus for the transaction is on file with the
21 SEC, the underwriters will work together with the Company to bring the transaction to
22 the attention of investors, to inform them of its structure and term, and to directly
23 answer any questions they may have. Extensive education will be provided to investors
24 regarding the rate reduction bonds, particularly investors who may be new to the asset

1 class. A wide range of corporate and ABS investors will be contacted, including
2 investment managers, insurance companies, corporate treasury, and other investors. It
3 is important to choose underwriters with both experience in utility securitizations and
4 broad sales forces in order to understand where the issuer will gain the most traction
5 on early demand through premarketing. Underwriters will use information gained from
6 prior utility transactions to understand which investors have a combination of interest
7 in the space and money to allocate. Early interest in the transaction gained through this
8 preliminary process can drive momentum for the subscription process and give the
9 issuer a better understanding of the market ahead of formal announcement. This process
10 is generally referred to as pre-marketing. It may include one-on-one conference calls
11 with significant potential investors, and open conference calls, which several investors
12 may join. The purpose of this process is to stimulate broad investor demand for the
13 issue, so that the pricing process will be better situated to obtain the lowest possible
14 interest rates reasonably consistent with market conditions at the time of pricing. This,
15 in turn, should result in lower charges.

16 2. Announcement. Following pre-marketing, the transaction is officially announced to the
17 market, which is typically done toward the start of the week. The timing of the
18 announcement is selected to ensure that a transaction prices during the same week in
19 which it is officially announced; otherwise, issuers may be subject to unforeseen risk
20 over a weekend. During this phase of marketing, the rate reduction bonds will be
21 offered for sale to investors through the underwriters. The post announcement phase
22 will include an electronic road show, which is made available to investors, as well as
23 the continuation of one-on-one discussion with potential investors. The underwriters,
24 in conjunction with the issuer, will begin to discuss informally with investors the

1 coupons at which the bonds will be offered at initial issuance, stated as a credit spread
2 relative to the benchmark rates for each tranche. In response, investors will provide
3 initial indications of interest, generally specifying how much investment they are
4 interested in making in the tranche for which they intend to submit an order at a given
5 pricing level. The lead underwriter will be charged with keeping the master record
6 (known as “the book”) in which all indications of interest received by the underwriters
7 from potential investors are recorded. While all underwriters assist in investor outreach
8 and taking orders, the lead underwriter ensures coordination of marketing messaging
9 across the syndicate, as well as creating and driving the timeline for the bond marketing
10 process. The next phase of the transaction – price guidance – will be based on the
11 aggregated amount of indications of interest received from investors.

12 3. Price guidance. At this stage, the underwriters will send out a notice to investors with
13 price guidance, typically stated as a range of credit spreads stated against the given
14 benchmark. Thereafter, investors will be invited to place firm indications through the
15 underwriters for the amount and specific tranches of bonds they are willing to purchase,
16 at certain prices and bond coupon rates. At a certain point in time, when the book has
17 sufficient interest from investors, the underwriters will stop taking orders (generally
18 referred to as going “subject” to pricing and confirmation). The underwriters will
19 exercise professional judgment in making a recommendation to take the book subject
20 to final order confirmations, based on all relevant factors. Conversely, if the bonds are,
21 or any tranche within the issuance is, undersubscribed, the underwriters may need to
22 increase the coupon or restructure the tranching to attract sufficient investor orders to
23 sell the entire tranche, as described below.

- 1 4. Determining pricing levels. Having exercised professional judgment and taken the
2 transaction subject to pricing and final confirmation of orders, the underwriters and the
3 Company will then work to refine the pricing levels. Based on the strength of the book,
4 the underwriters may adjust the pricing levels lower (or tighter). This process is
5 generally referred to as testing the pricing levels. It is done to ensure maximum
6 distribution of the rate reduction bonds at the lowest bond yields consistent with market
7 conditions. If a tranche is oversubscribed, the underwriters may continue to lower the
8 pricing level (thus improving execution for the issuer and customers), provided that
9 this adjustment does not decrease the aggregate investor interest below the size of the
10 tranche. If this adjustment is not done correctly, the transaction may fail, which could
11 negatively affect a subsequent attempt. If a tranche is undersubscribed, the pricing level
12 may be adjusted higher until the tranche is fully subscribed. The underwriters will use
13 professional judgment with respect to recommendations to Ameren relating to the
14 amount of tightening and number of testing attempts.
- 15 5. Launch. Once the pricing levels have been determined for each tranche in the
16 transaction, and the registration statement for the transaction has been declared
17 effective by the SEC, the transaction will be launched at a specific pricing level. The
18 intention of this stage is to declare to investors at which pricing levels, or credit spreads,
19 the transaction will be issued. This will be the market-clearing pricing level, subject
20 only to movements in the underlying benchmark rates.
- 21 6. Allocations. At this stage, the market-clearing pricing level has been determined by the
22 marketing process, but the final book – how much each investor will purchase – has
23 yet to be determined. Here, the lead underwriters will work to recommend to the
24 Company a specific amount of rate reduction bonds to be sold to each investor. Each

1 allocation depends on several factors: e.g., the size of each investor's indication of
2 preliminary orders, when the investor submitted its indication, its experience in the
3 sector, its flexibility for the pricing process, the investor type, etc. Ultimately, each
4 investor will purchase its final allocations for the transaction.

5 7. Pricing. Once the market-clearing pricing level and the book has been finalized, the
6 transaction can be priced. At this stage, the underwriters will price the transaction by
7 spotting the underlying benchmark rates and adding the credit spread to determine the
8 coupons for each tranche. Soon after the pricing, the investor orders will be confirmed,
9 and the final prospectus will be provided to investors.

10 8. Closing. At the conclusion of the pricing, the Company, with its underwriters and legal
11 team, will work toward finalizing the transaction documents and close the transaction,
12 typically approximately five business days after pricing.

13 In summary, it is through this marketing and pricing discovery process that the actual
14 investor market-clearing interest rates for the rate reduction bonds are determined. It
15 should be noted again that this will be based on the actual investor orders on the actual
16 day of pricing.

17 **Q. How might market conditions at the time of the offering impact the RRBs?**

18 A. Market conditions for fixed income securities overall can impact the execution of
19 specific securities, including rate reduction bonds, independent of investors'
20 fundamental views of those specific securities. For example, if there is generally
21 growing risk aversion among investors, it may be more expensive to an issuer to offer
22 securities of a longer duration, all else being equal.

23 **Q. Who is a typical investor in securitizations?**

1 A. The most frequent investors in securitizations are banks, pension funds, insurance
2 companies, and money managers (i.e., institutional investors). Securitizations tend to
3 be large, normally in the range of \$100 million to \$2 billion. The large transaction size
4 provides economies of scale, reducing the fixed costs of a securitization as a percentage
5 of par, and provides greater liquidity for investors seeking to trade in the secondary
6 market, which can lead to better pricing in the primary (i.e., new issue) market.

7 **III. KEY ELEMENTS OF THE RRB STRUCTURE**

8 **Q. Please describe the structure of the proposed securitization transaction.**

9 A. A diagram of the structure of the proposed securitization transaction is provided in
10 **Schedule KN-3**. This structure is substantially similar to that employed in typical rate
11 reduction bond offerings. The proposed transaction will involve the creation by
12 Ameren of one or more wholly-owned SPEs, which would be incorporated as Delaware
13 limited-liability companies with Ameren as the sole member. The SPE will serve as
14 the issuer of the rate reduction bonds (the “Issuer”). Ameren, pursuant to authorization
15 granted it by the Commission in a Financing Order, will create and sell certain
16 “property” (namely, the right to impose, bill, and receive Securitized Utility Tariff
17 Charges, the “Securitized Utility Tariff Property” or “SUT Property”) to the Issuer.
18 The Issuer will finance the purchase of such SUT Property by selling rate reduction
19 bonds, thereby acquiring all of the right, title, and interest of Ameren to collect
20 Securitized Utility Tariff Charges.

21 **Q. What is the difference between the scheduled final payment date and legal
22 maturity date?**

23 A. The scheduled final payment date of the tranche or tranches of bonds represents
24 the date at which final payment is expected to be made, but no legal obligation exists

1 to retire the tranche in full by that date. The rated legal maturity date is the date by
2 which the bond principal must be paid or an event of default will occur. The proposed
3 preliminary structure for this transaction utilizes a legal maturity date that is usually 24
4 months longer than the scheduled final payment date for each bond tranche, known as
5 a “maturity cushion.” The actual maturity cushion will be determined by the final
6 “AAA” stress scenarios required by the rating agencies during the rating process for
7 the underlying rate reduction bonds and may be shorter or longer than 24 months.
8 Therefore, it is important that the financing order provides flexibility for the transaction
9 to have the specific maturity cushions required to obtain AAA equivalent ratings (or
10 the highest possible ratings), which cannot be determined in advance of the rating
11 agency review process. The difference between the scheduled final payment date and
12 legal maturity date provides additional credit protection by allowing shortfalls in
13 principal payments to be recovered over this additional period due to any unforeseen
14 circumstance. This gap between the two dates is a benefit to the Company and
15 contributes to the strong credit quality of the transaction, helping lower the cost of funds
16 and therefore benefiting customers.

17 Moreover, many investors in utility securitizations are familiar with this concept, which
18 is a feature in all utility securitization transactions and most ABS transactions. The
19 ratings on the rate reduction bonds are derived in part based on the assumption that the
20 outstanding principal amount of each tranche will be paid in full by its legal maturity
21 date, and investors would price assuming the underlying rate reduction bonds make the
22 final scheduled principal payment in full at the scheduled final payment date, which is
23 earlier than the legal maturity date.

1 **Q. What key elements or characteristics of rate reduction bonds are considered**
2 **important in establishing the credit rating of rate reduction bonds?**

3 A. Rating agencies generally consider several key elements including: (1) bankruptcy
4 remoteness from the utility; (2) predictability and non-bypassability of the legislatively
5 mandated “Securitized Utility Tariff Charge”; (3) standards governing any future third
6 party biller (a “TPB”)¹; (4) credit enhancement; and (5) the state pledge and other
7 statutory safeguards.

8 **Q. What is the reason for using a newly formed SPE rather than issuing the rate**
9 **reduction bonds directly from Ameren?**

10 A. The credit ratings (or creditworthiness, if not formally rated) of existing companies are
11 affected by factors related to their historical and ongoing business. One of the aspects
12 of securitization is that it allows a particularly high-quality stream of revenue to be
13 isolated, and bonds secured by that stream to be sold in a manner that insulates the
14 investor from credit risks of the existing company. As a result, securities issued by
15 SPEs, such as the Issuer, often have higher credit ratings than the debt of the company
16 that sponsored the transaction. Since Ameren is rated Baa1 by Moody’s, the securities
17 issued by the Issuer are expected to have higher credit ratings than Ameren’s current
18 credit rating with Moody’s. To obtain and maintain these higher credit ratings, the SPE
19 is generally made the beneficiary of one or more forms of credit enhancement, which
20 may include equity contributed by the sponsor, subordinated interests retained by the
21 sponsor, financial guarantees or letters of credit, and in the context of the proposed rate
22 reduction bond transaction, a true-up of securitized charges and other statutory

¹ The rating agencies are likely to focus on the impact of each third-party billing entities credit and their involvement on the flow of collections. Historically, the rating agencies have required the public utility commission to indicate they will consider the rating of the securitization to the extent a change in billing structure is made in the future.

1 protections. In the case of rate reduction bonds, the statutory provisions are designed
2 to permit the bonds to be issued with triple-A ratings using features generally consistent
3 with precedent legislation enabling securitization of this type.

4 **Q How does the sale of the SUT Property to an SPE contribute to the bankruptcy-**
5 **remoteness of such SUT Property?**

6 A. When the transfer of the SUT Property to an SPE constitutes a legal true sale and
7 absolute transfer for commercial law purposes, the SUT Property owned by the SPE is
8 no longer property of the utility and, therefore, would not be subject to the claims of
9 the utility’s creditors if the utility were to become the subject of a bankruptcy
10 proceeding. Although Ameren, as seller of the SUT Property, will initially act as
11 servicer (the “Servicer”) for an SPE by collecting Securitized Utility Tariff Charges,
12 the SPE will hold legal title to the collections received in connection with Securitized
13 Utility Tariff Charges and the funds will not be part of Ameren’s revenues or assets for
14 legal purposes. Legal counsel to the issuer will give a reasoned legal opinion regarding
15 the true sale of the SUT Property and that the SPE will not be consolidated into the
16 bankruptcy estate of the parent utility. The rating agencies will review this opinion as
17 part of their diligence on the transaction.

18 **Q. How does the independence of the SPE from the utility influence the bankruptcy-**
19 **remoteness of the SUT Property?**

20 A. In order to preserve the bankruptcy-remote status of the SPE and the SUT Property
21 once it is sold to the SPE, the utility should maintain an arms’ length relationship with
22 the SPE and not act in a manner inconsistent with the ownership of the SUT Property
23 by the SPE. The transaction documents will have covenants included that state the
24 utility cannot have an ownership claim on the Securitized Utility Tariff Charges. These

1 covenants will help support the reasoned legal opinion regarding bankruptcy matters
2 that will be provided at closing by the issuer's legal counsel.

3 **Q. What are the structural elements of the RRB Transaction that support the status**
4 **of the SPE as a separately organized legal entity?**

5 A. The structural elements that the opining law firm typically requires to support such
6 separate existence typically include, without limitation, requirements that the SPE be
7 adequately capitalized, that the utility, as Servicer, be adequately compensated on an
8 arms' length basis for the functions it performs for the SPE in billing, collecting and
9 remitting the Securitized Utility Tariff Charges on behalf of the SPE, that the utility not
10 be liable for the SPE's debts and that the SPE not be liable for the utility's debts, that
11 the utility and the SPE take certain steps to ensure that creditors are not misled as to
12 their separate existence, such as disclosure in the utility's financial statements of such
13 separate existence, that certain steps have been taken to avoid commingling of funds,
14 and that separate books and records are maintained for each of the SPE and the utility.
15 These structural protections are important to avoid the potential for "substantive
16 consolidation" in a bankruptcy proceeding, where the assets and liabilities of two or
17 more affiliated entities (such as the utility and its affiliated SPE) are pooled, resulting
18 in claims of third-party creditors against any of those entities being treated as claims
19 against the common pool of assets created by consolidation.

20 **Q. If the utility wholly owns the SPE, how will the SPE be operated independently**
21 **from the utility?**

22 A. Issuer's counsel and the rating agencies typically require that the organizational
23 documents of the SPE impose restrictions upon its activities and the ability of the utility
24 to take actions as the holder of the equity interest therein. For example, in the proposed

1 transaction, the SPE will be formed for the limited purpose of acquiring the SUT
2 Property and issuing the bonds. The SPE will be managed by a board of managers,
3 including at least one independent manager. Without the consent of this independent
4 manager, such SPE will be unable (a) to amend provisions of fundamental
5 organizational documents which ensure the bankruptcy-remoteness of the SPE or (b)
6 to institute or to consent to the institution of bankruptcy or insolvency proceedings
7 against it, or (c) to dissolve, liquidate or wind up the SPE. Other provisions may also
8 be included to support the bankruptcy-remote character of an SPE as required by the
9 rating agencies.

10 The SPE will not have any employees, so Ameren, in its role as Administrator,
11 will perform certain functions for the SPE. These functions will include, among others,
12 maintaining the general accounting records, preparation of periodic and annual reports,
13 arranging for annual audits of the SPE's financial statements, as may be necessary,
14 preparing all required external filings, preparing any required income or other tax
15 returns, and related support. The administration fee is meant to cover expenses
16 associated with these functions.

17 **Q. Please describe the contents and purpose of the servicing agreement.**

18 A. The Servicing Agreement is an agreement among Ameren (in its capacity as the
19 servicer of the bonds) and the Issuer. The agreement sets forth the responsibilities and
20 obligations of the servicer, including, among other things, calculating, billing and
21 collecting of Securitized Utility Tariff charges, responding to customer inquiries,
22 terminating electric service, filing for true-up adjustments and remitting collections to
23 the Trustee for distribution to bondholders. The resignation of any servicer would not
24 be effective until a replacement servicer has assumed its obligations to continue

1 servicing the bonds without interruption. The servicer may also be terminated from its
2 responsibilities in certain cases upon a majority vote of bondholders, such as the failure
3 to remit collections within a specified period. Any merger or consolidation of the
4 servicer with another entity would require, among other things, the surviving entity to
5 assume the servicer's responsibility under the Servicing Agreement. The terms of the
6 Servicing Agreement are critical to the rating agency analysis of the bonds and the
7 ability to achieve credit ratings in the highest categories. As compensation for its role
8 as initial servicer, the servicer is entitled to earn a servicing fee payable out of charge
9 collections. It is important to the rating agencies and the bankruptcy-remote analysis of
10 the transaction that the Company receives an arm's-length fee as servicer of the SUT
11 property, and for its services as Administrator of the SPE. Utility securitizations to date
12 have also required an increase in the servicing fee in the unlikely event the Company
13 is no longer able to perform the servicing role, and a replacement servicer must be
14 brought on board. Rating agencies expect that the Company will be the servicer but
15 assume that a replacement servicer may require additional compensation to perform
16 these services, without access to the Company's existing infrastructure and customer
17 relationships.

18 **Q. Will the utility be permitted to voluntarily resign as Servicer?**

19 A. As noted above, it is expected that the servicing agreement will prohibit Ameren, as
20 the initial Servicer, from resigning as Servicer except upon either (i) a determination
21 that the performance by it of such duties is no longer permissible under applicable law
22 or (ii) the prior approval of the Commission and confirmation (or deemed confirmation)
23 by the applicable rating agencies that such resignation will not result in a suspension,
24 reduction or withdrawal of the then current credit ratings for the bonds. Such

1 resignation will not be effective until a successor Servicer has assumed the initial
2 Servicer's obligations in order to continue servicing the SUT Property without
3 interruption.

4 **Q. What are the eligibility criteria for a third-party successor servicer?**

5 A. Selection of a third-party successor servicer is customarily made by the indenture
6 trustee, either at its own discretion or as it may be directed by holders of a majority of
7 the outstanding principal balance of the bonds, subject to rating agency approval.
8 Typically, indenture trustees and rating agencies are primarily concerned with
9 performance-related criteria, and secondarily with financial strength. A third-party
10 successor servicer must be able to perform the calculation, billing, collection, filing,
11 and other duties that the servicer is required to provide under the servicing agreement,
12 must enter into a servicing agreement substantially similar to the servicing agreement
13 with the servicer being replaced, and must agree not to resign. Appointment of the
14 successor servicer must also not cause the rating agencies to reduce or withdraw the
15 current ratings of any class of rate reduction bonds for which the replacement would
16 act as servicer.

17 **Q. Will an indenture trustee be engaged in this securitization?**

18 A. Yes. Securitizations typically involve an indenture trustee who will act on behalf of
19 investors pursuant to the indenture. The assets of the SPE are pledged to the indenture
20 trustee on behalf of the bondholders, including a first-priority security interest in the
21 SUT Property. In the event the Issuer defaults in its obligations or the servicer defaults
22 on its servicing obligations, the indenture trustee is normally empowered to, among
23 other things, sue the Issuer or the servicer to compel performance or, in the case of a
24 servicer default, contract with another party to perform those obligations. The entity

1 acting as indenture trustee will charge an up-front fee, as well as ongoing fees to
2 perform the role of indenture trustee for the transaction.

3 **Q. What is the role of the indenture trustee?**

4 A. The indenture trustee receives and holds in trust the Securitized Utility Tariff Charges
5 from the Servicer, calculates the amounts due to bondholders on each payment date,
6 allocates collections in accordance with the priority of payments set forth in the
7 indenture, invests, based on instructions from the Issuer, amounts on deposit in each
8 subaccount in eligible investments, and provides periodic reports that detail account
9 activity and balances to various parties. The duties, rights, and obligations of the
10 indenture trustee will be more fully described in the indenture.

11 **Q. Please describe the different kinds of accounts that will be created for the**
12 **transaction.**

13 A. The indenture will provide for the creation of a collection account and a capital account.
14 This is similar to the structure of other recent rate reduction bonds.

15 **Q. Please describe the Collection Account.**

16 A. All collections of Securitized Utility Tariff Charges by the Servicer will be remitted
17 into the collection account for distribution on each payment date to bondholders and
18 other parties in accordance with a priority of payments (or “waterfall”) as described
19 below. To achieve triple-A ratings, it is generally necessary for, among other things,
20 the documents to include a detailed priority of payments for the application of
21 collections. The priority of payments is found in the indenture and is expected to be
22 similar to other recent rate reduction bond precedent transactions.

23 **Q. Please describe the Capital Account.**

1 A. The Capital Account serves as a buffer against under-collection which might otherwise
2 cause a delay in the payment of scheduled principal, interest, or operating expenses.
3 The Capital Subaccount will be funded by Ameren on or prior to the closing of the
4 transaction through a capital contribution in an amount to equal to at least 0.5% of the
5 initial principal balance of the rate reduction bonds issued. This level of capital
6 contribution is generally necessary to achieve triple-A ratings and is also required to
7 support the necessary tax treatment.

8 The Internal Revenue Service in 2005 issued a revenue procedure (2005-62) stating
9 that “qualifying securitizations” were required to capitalize the issuer SPE with an
10 equity contribution from the sponsoring utility of no less than 0.5% of the aggregate
11 principal amount of the financing. A “qualifying securitization” will receive the
12 following tax treatment:

- 13 • be treated as not recognizing gross income in connection with: (i) the receipt of the
14 Financing Order; (ii) the receipt of cash or other consideration in exchange for the
15 transfer of the intangible property right created under the Financing Order; or (iii)
16 the receipt of cash or other consideration in exchange for securitized instruments
17 issued by the SPE;
- 18 • the securitized instruments will be treated as obligations of Ameren; and
- 19 • the securitization charges are gross income to Ameren.

20 Revenue Procedure 2005-62 clarifies that a typical qualifying utility securitization will
21 avoid recognition by the utility of gross income upon receipt from the SPE of the net
22 proceeds of the securitization bonds at the sales price of the SUT Property and treats
23 the Securitized Utility Tariff Charges as gross income to the utility under its usual
24 method of accounting.

1 The Capital Account can be used to make interest and principal payments (or
2 to pay other operating costs) if Securitized Utility Tariff Charges on deposit to the
3 credit of the Collection Account are inadequate to do so. Any withdrawals from the
4 Capital Account to pay interest or principal due to bondholders will be replenished to
5 the required level with future remittances of Securitized Utility Tariff Charges and
6 incorporated into the true-up mechanism.

7 Because this subaccount is funded by Ameren (as the sole member of the
8 Issuer), upon the repayment of the bonds, all amounts in the Capital Subaccount should
9 be returned to Ameren.

10 **Q. How will the amounts in these accounts be invested?**

11 A. Amounts on deposit in each of the accounts will be invested by the indenture trustee in
12 “eligible investments.” The indenture is expected to define eligible investments in a
13 similar manner as other recent precedent transactions and will include highly-rated
14 instruments, such as U.S. Government securities, commercial paper, money market
15 funds, banker’s acceptances, and security repurchase obligations with highly rated
16 counterparties.

17 **Q. Are rate reduction bonds typically callable?**

18 A. The vast majority of rate reduction bonds are not callable, or subject to redemption
19 before reaching the date of their stated maturity with the notable exceptions of
20 federally-taxable transactions for Long Island Power Authority in September 2022 and
21 December 2023 (priced but not yet closed) and a March 2023 transaction on behalf of
22 the Texas Natural Gas Securitization Finance Corporation, each of which were
23 executed for municipal issuers and included “make-whole” redemption provision
24 Generally, “make-whole” redemptions protect the bondholder from losing the benefit

1 of the interest rate payable on the bond by requiring the payment of redemption
2 premium that is based on a formula that takes into account the net present value of the
3 interest that would have been payable on the bond absent redemption

4 **Q. Does making the bonds callable result in the lowest cost for ratepayers?**

5 A. Typically, to estimate how investors will view the addition of the call provision, the
6 underwriter would coordinate with its derivatives desk to price out the call option,
7 based on the total duration of the bonds and the preferred par call date. This could be a
8 cost greater than zero and can be very expensive depending on the terms. Due to the
9 uncertainty in the future interest rate environment, it would be difficult to discern at the
10 time of bond pricing whether the cost of this optionality would be outweighed by a
11 future lower-priced coupon bond. The second concern would be whether the same
12 investor base would exist for a callable utility securitization versus the traditional non-
13 call structure, given the rarity of call features in these transactions. The aforementioned
14 Texas Natural Gas Securitization Finance Corporation deal suggests that investors for
15 this structure exist in the municipal market, however it is unclear whether the same
16 bond, absent this call feature, would have achieved better pricing.

17 **IV. PRIMARY RATING AGENCY CRITERIA**

18 **Q. Please describe the rating agency process.**

19 A. An important element of preparing for the marketing and pricing of the bonds is
20 obtaining the highest ratings from the rating agencies. The Company and its structuring
21 advisors and lead underwriter will prepare written presentations and may meet with
22 rating agency personnel to discuss the credit framework and credit strengths of the
23 proposed rate reduction bonds, and the structure of the rate reduction bonds with each
24 hired rating agency, in compliance with SEC Rule 17g-5. It is important to note that

1 rating agencies are completely independent institutions, and each rating agency has its
2 own method of reviewing a utility securitization and will request certain data and
3 information that will facilitate such a review process. Rating agencies may update or
4 amend their rating criteria at any time. Additionally, the rating agencies may require a
5 diligence review of the servicer's billing and collecting processes. Whether this review
6 is done on-site or via the telephone depends on several factors and is ultimately up to
7 each rating agency. Each rating agency will follow-up with additional questions.

8 The ratings process also entails a review of the cash flows of the proposed structure.
9 As part of this phase, each rating agency will ask for various cash flow stress scenarios
10 based on its requirements and the details of the particular transaction to ensure that the
11 bonds will be repaid under extremely stressful cash flow projections. These rating
12 agency cash flow stress scenarios may include assumptions that zero out revenues each
13 year during the peak consumption months, that assume that all industrial customers
14 leave the service territory, assume that the widest historical variance between actual
15 consumption and forecasted consumption is multiplied five or more times over the life
16 of the transaction, as well as other stress assumptions regarding write-offs and
17 delinquencies.

18 Important rating elements include:

- 19 • Legal and regulatory framework;
- 20 • Political and regulatory environment;
- 21 • Transaction structure;
- 22 • Servicing review and capabilities;
- 23 • Service area analysis;
- 24 • Cash flow stress analysis; and

- 1 • Size of the recovery charge during stress scenarios as a percentage of the
2 average residential customer bill.

3 **Q. In your previous answer, you mentioned SEC Rule 17G-5. Please explain what it**
4 **is and how it will pertain to this execution process.**

5 A. In December 2009, the SEC amended, as part of its mandate under the Dodd-Frank
6 reform legislation, its rules regulating ratings on structured finance securities where the
7 issuer, sponsor, or underwriter pays for the ratings on the securities. In short, the
8 amended regulation, which I refer to here as “Rule 17g- 5” is intended to provide access
9 to ratings-related information to non-hired rating agencies so that they, if desired, could
10 issue unsolicited ratings. In practice, however, actual unsolicited ratings are very rare.
11 The rule has been in effect since June 2010. Although Rule 17g-5 only directly applies
12 to a hired rating agency, the rule requires the agency to obtain commitments from the
13 issuer to facilitate this process, effectively passing on the requirements to issuers. Those
14 requirements generally include the maintenance of a password-protected website
15 containing rating-related information used to provide a rating on the securities. Each
16 hired rating agency is then required to maintain its own password-protected website
17 listing each structured finance security for which it is in the process of determining a
18 rating. If a non-hired rating agency desires to gain access to the ratings-related
19 information, it can request it of the issuer. Please note, an issuer will be aware of such
20 a request because it will be the one to grant access to the non-hired rating agency.

21 Utility securitizations have been subject to Rule 17g-5 since its implementation, and
22 issuers and their underwriters have managed the process by maintaining most
23 communication via email and/or recorded or transcribed phone communication.
24 Therefore, it is important that issuers and their underwriters have specific procedures

1 in place to document and record all materials provided to the rating agencies during the
2 rating agency process. In summary, Rule 17g-5 changes the technical nature of how
3 information is shared with rating agencies and how communication takes place during
4 the ratings process, but it has not changed the fundamental nature of that process (i.e.,
5 utility securitizations and all other transactions subject to the rule are still rated).
6 Typically, the lead underwriting bank will assist the issuer in ensuring compliance with
7 this rule.

8 **Q. Are the terms of a Financing Order critical to achieving a successful RRB**
9 **transaction?**

10 A. Yes. A Financing Order, when taken together with the applicable provisions of the
11 Securitization Statute, establishes in strong and definitive terms the legal right of
12 investors to receive, in the form of Securitized Utility Tariff Charges, those amounts
13 necessary to pay the interest and principal on the bonds and other ongoing expenses in
14 full and on a timely basis. A proposed draft of the Financing Order is attached to
15 Ameren's Verified Petition for Financing Order as Schedule B.

16 The Financing Order specifies the mechanisms and structures for payments of
17 bond interest, principal, and ongoing expenses in a manner that minimizes the amount
18 of additional credit enhancements required by the rating agencies to achieve the highest
19 possible ratings. The highest possible ratings will allow the financing to achieve the
20 desired pricing and savings results. In addition, the Financing Order, when taken
21 together with the applicable provisions of the Securitization Statute, will enable
22 Ameren to structure the financing in a manner reasonably consistent with investor
23 preferences and rating agency considerations at the time of pricing, which flexibility is
24 also necessary for the transaction to achieve the desired results.

1 **Q. What are the principal criteria for achieving triple-A ratings for the rate**
2 **reduction bonds?**

3 A. The proposed transaction will be structured in a manner intended to achieve the highest
4 rating by each of the three major rating agencies: Aaa by Moody's, AAA by Standard
5 and Poor's, and AAA by Fitch. Note that while the transaction is structured with all
6 three major agencies' rating criteria in mind, Ameren may choose to follow the lead of
7 certain recent rate reduction bonds transactions, and only engage two of the three
8 agencies. Engaging only two of three agencies is not expected to have a material effect
9 on the pricing of the transaction but can save on up-front financing costs. Rating
10 agencies will charge an up-front fee to rate the transaction, typically based on a
11 percentage of the original principal amount of the transaction, up to a cap. Rating
12 agencies will also charge a surveillance fee throughout the life of the transaction, to
13 review ongoing creditworthiness of the bonds and whether there needs to be a change
14 in rating. To achieve these ratings, the transaction should exhibit certain characteristics:

15 1. There must be a "true sale" transfer of the SUT Property from Ameren
16 to the Issuer with a first-priority perfected security interest in the transferred SUT
17 Property granted in favor of the indenture trustee.

18 2. The Issuer must be structured to ensure that it will be bankruptcy-remote
19 from Ameren.

20 3. The Financing Order authorizing the issuance must include statements
21 recognizing the irrevocability of the Securitized Utility Tariff Charges, describing and
22 authorizing imposition, collection, and non-bypassability thereof, and approving the
23 implementation of a satisfactory true-up mechanism to adjust Securitized Utility Tariff
24 Charges. The statute also includes a state pledge that the state and its agencies,

1 including the Commission, will not take any action to alter the provisions of the
2 Securitization Statute, take or permit any action that impairs or would impair the value
3 of the SUT Property, the security for the bonds or the costs for which recovery is
4 authorized, impair the rights and remedies of bondholders, assignees and other
5 financing parties, or, except for changes made in connection with the true-up
6 mechanism, reduce, alter or impair the Securitized Utility Tariff Charges to be imposed,
7 billed, charged, collected for the benefit of bondholders, any assignee, and any other
8 financing until the principal and interest on the bonds and all other financing costs
9 incurred in connection with the bonds has been paid.

10 4. The true-up mechanism must be mandatory and provide for at least an
11 annual adjustment, with a preference for a midterm review. These adjustments are
12 needed to ensure sufficient collections to adhere to the amortization schedule.

13 5. The transaction should include credit enhancement in the form of the
14 Capital Account. It is expected that the Capital Account will be required in amounts
15 no less than 0.5% of the original principal amount of rate reduction bonds per the
16 discussion above.

17 6. The rate reduction bonds must have scheduled final payment dates that
18 are sufficiently shorter than the legal final maturity date of the bonds to ensure
19 sufficient funds will be collected under a “worst case” scenario to pay the interest and
20 principal regardless of the economic, weather, or other conditions that exist prior to the
21 legal final maturity date of the bonds. Typically, the legal final maturity date is one or
22 two years beyond the expected scheduled final payment date.

1 7. There should be cross-collateralization among customer rate classes
2 allowing collection shortfalls to be allocated among classes through the true-up
3 mechanism. There should also be no cap on the Securitized Utility Tariff Charges.

4 8. The rating agencies will need to be satisfied that the Servicer is qualified
5 to perform its billing, collection, and related responsibilities and that it is of sufficient
6 financial substance and stability that it can be expected to perform such services for the
7 life of the rate reduction bonds. The rating agencies will also require the documentation
8 to provide that a qualified successor servicer can and will be appointed following
9 certain servicer defaults.

10 9. The rating agencies will want assurance that the permitted servicing fee
11 will be adequate to obtain a replacement servicer in the unlikely event that transfer of
12 servicing is required.

13 10. The rating agencies must be convinced that the Financing Order's terms
14 regarding the credit standards, remittance requirements, and deposit mechanisms
15 relating to the possibility of third-party billing parties are adequate and will be
16 enforced.

17 All of these requirements are properly provided for in the proposed structure of the
18 transaction and the draft Financing Order. We expect that the proposed Financing
19 Order will allow Ameren to meet the rating agency criteria to achieve triple-A ratings
20 for the rate reduction bonds.

21 **Q. What is the importance of the predictability and non-bypassability of Securitized**
22 **Utility Tariff Charges?**

23 A. In order to obtain the highest feasible credit rating, the revenue stream associated with
24 the Securitized Utility Tariff Charge should be secure and predictable. The Securitized

1 Utility Tariff Charges will be assessed and collected from all retail electric customers
2 obligated to pay the Securitized Utility Tariff Charge (as described in the proposed
3 Financing Order and related testimony) to the Servicer (or any successor Servicer). The
4 credit rating for the bonds will depend on the predictability and stability of that revenue
5 stream even under financial stress or changes in circumstances.

6 It is important that the Securitized Utility Tariff Charges be non-bypassable. In
7 other words, a retail electric customer of Ameren's designated service territory must
8 pay the Securitized Utility Tariff Charge regardless of whether it purchases energy
9 from Ameren or a third-party generation supplier, or whether such service territory is
10 operated by Ameren or a successor. The SPE, not the utility or any other collection
11 agent, including a TPB, must have the right to receive such Securitized Utility Tariff
12 Charges.

13 **Q. Please discuss key aspects of the true-up adjustment process.**

14 A. One of the fundamental utility securitization features that enables "AAA"
15 ratings is the statutorily mandated periodic true-up adjustment process. The true-up
16 process involves the adjustment of the customer charges on a periodic basis, to ensure
17 that the scheduled securitization debt service and ongoing financing costs are paid on
18 a timely basis. True-up adjustments are also designed to minimize any over-collections
19 and target the low 100% (or 1.0x) debt service coverage. True-ups are to be
20 implemented by the servicer, and by the terms of the Securitization Statute, any reviews
21 by the Commission focus only on potential mathematical or clerical errors present in
22 the true-up submission. I recommend that true-ups take place on a semi-annual basis;
23 provided, however, that beginning 12 months prior to the scheduled final payment date
24 for the latest maturing tranche of bonds of a particular series, the true-up adjustments

1 should be done on a quarterly basis. In addition, I recommend that the true-up
2 calculations occurring in each period take into account actual collections received
3 during months since the prior true-up, as well as scheduled debt service and financing
4 costs projected to be due over the two upcoming debt service payment periods (the
5 periods ending on the first and second payment dates following the adjustment date).
6 The true-up calculation methodology will take into account updated energy usage and
7 revenue forecasts, any changes in the Commission- approved customer rate allocations,
8 as well as updated customer payment aging, delinquency and uncollectibles data.

9 I recommend that the initial bond payment date be set so that there will be a true-up
10 adjustment effective prior to the first bond payment date. I also recommend that the
11 true-up adjustment become effective in the approximate middle of the bond payment
12 periods, such that generally there are two or three months of customer charges, based
13 upon the adjusted rates, collected prior to the upcoming bond payment date. For
14 example, if bond payment dates are January 1 and July 1, the mandatory semi-annual
15 adjustment dates could be set for April 1 and October 1. Setting true-up adjustment
16 dates on such a schedule provides time for charges based upon adjusted rates to be
17 collected prior to upcoming bond payments and is designed to minimize and stabilize
18 charges on an ongoing basis throughout the life of the transaction.

19 In addition to the required true-ups, it is important for the servicer to have the ability to
20 conduct an interim true-up at any time to ensure that debt service and ongoing financing
21 costs are paid on time.

22 **Q. Please describe the irrevocable nature of the Financing Order.**

23 A. In accordance with the Securitization Statute, the Financing Order shall be irrevocable,
24 and neither the Commission nor any successor may, directly or indirectly, revalue or

1 revise for ratemaking purposes the SUT Property or the Securitized Utility Tariff
2 Charges, or the costs of providing, recovering, financing, or refinancing the SUT
3 Property, determine that such Securitized Utility Tariff Charge is unjust or
4 unreasonable, or in any way reduce or impair the value of the SUT Property either
5 directly or indirectly by taking such Securitized Utility Tariff Charge (other than the
6 portion of such Securitized Utility Tariff Charge constituting a servicing fee payable to
7 Ameren) into account when setting other rates for Ameren, nor shall the amount of
8 revenues arising with respect to the Securitized Utility Tariff Charge be subject to
9 reduction, impairment, postponement or termination.

10 **Q. Please describe the State of Missouri pledge and other statutory safeguards that**
11 **will support the credit rating of the bonds.**

12 A. The Securitization Statute includes a pledge the state and its agencies, including the
13 Commission, will not take any action to alter the provisions of the Securitization
14 Statute, take or permit any action that impairs or would impair the value of the SUT
15 Property, the security for the bonds or the costs for which recovery is authorized, impair
16 the rights and remedies of bondholders, assignees and other financing parties, or, except
17 for changes made in connection with the true-up mechanism, reduce, alter or impair the
18 Securitized Utility Tariff Charges to be imposed, billed, charged, collected for the
19 benefit of bondholders, any assignee, and any other financing until the principal and
20 interest on the bonds and all other financing costs incurred in connection with the bonds
21 has been paid.

22 **Q. What concerns do the rating agencies have with a third-party biller?**

23 A. To the extent a TPB bills, collects and remits Securitized Utility Tariff Charges, the
24 process is one step removed from the Servicer, which may result in the Servicer

1 receiving the Securitized Utility Tariff Charges later than it otherwise would. The
2 greater the delay in receipt of payment, the larger the amount of payments subject to
3 the risk of non-payment due to default, bankruptcy or insolvency of the TPB holding
4 the funds. TPB billing places increased information requirements on the Servicer. It
5 requires the Servicer to perform double tracking of Securitized Utility Tariff Charge
6 payments because the Servicer has the responsibility of accounting for the Securitized
7 Utility Tariff Charge payments due to RRB holders regardless of which entity provides
8 a customer's electric power. As a result, the security of the cash flows that constitute
9 SUT Property may be reduced, thereby increasing risks to investors, potentially
10 reducing the credit rating and/or increasing the interest rate of the bonds that would be
11 required by investors. This concern is especially acute if the TPB is a start-up company
12 or minimally capitalized entity unrated by rating agencies.

13 It is important that the Commission ensure that any TPB, in the event there is
14 any change in utility regulation, must bill, collect and remit the Securitized Utility
15 Tariff Charges in a manner that will not cause any of the then-current credit ratings of
16 the bonds to be suspended, withdrawn, or downgraded. Language to this effect is
17 included in the proposed Financing Order.

18 **Q. Do you believe that the proposed structure of the RRB Transaction has been**
19 **designed to achieve the highest possible credit ratings?**

20 A. Yes.

21 **Q. Are the terms of the RRB Transaction, as described in this Direct Testimony, the**
22 **final terms of the proposed transaction?**

23 A. No. Certain details regarding the issuance of the rate reduction bonds, including
24 without limitation, interest rates, the expected amortization schedule and the weighted

1 average life of the bonds are entirely dependent upon market conditions at the time the
2 bonds are issued, and until that time such terms cannot be finalized. Additionally, the
3 rating agencies will need to perform their due diligence, including running various cash
4 flow stress scenarios, which may result in changes to the structure in order for the rate
5 reduction bonds to achieve triple-A ratings. Finally, the Financing Order sets forth an
6 issuance advice letter process whereby the Commission, acting through its Finance
7 Team, may provide input to Ameren and collaborate with Ameren in all facets of the
8 bond process.

9 **Q. Does this conclude your Direct Testimony?**

10 A. Yes.

VERIFICATION

I, Katrina T. Niehaus, under penalty of perjury, on this 21st day of November, 2023,
declare that the foregoing is true and correct to the best of my knowledge and belief.

/s/ Katrina T. Niehaus

Schedule KN-1 Utility Rate Reduction Bond Transactions

As of November 21, 2023

#	Issuer	Amount	Pricing Date
	PNM Resources Inc	343,000,000	11/07/2023
	DTE Energy Co	602,000,000	10/18/2023
	CenterPoint Energy Inc	341,000,000	6/21/2023
	Atmos Energy Kansas	\$95,000,000	6/9/2023
	Edison International	775,000,000	4/19/2023
	Entergy Corp	1,491,000,000	3/21/2023
	Texas Public Finance Authority	3,536,310,000	3/9/2023
	Entergy Corp	209,000,000	12/9/2022
	Brazos Electric Power Cooperative	713,000,000	12/8/2022
	Denton County Electric Cooperative Inc (CoServ)	460,000,000	12/7/2022
	United Electric Cooperative Inc (UEC)	452,000,000	12/6/2022
	Pacific Gas & Electric	983,000,000	11/18/2022
	One Gas	336,000,000	11/9/2022
	Long Island Power Authority	882,070,000	9/20/2022
	American Electric Power Co Inc	697,000,000	8/30/2022
	One Gas	1,354,000,000	8/18/2022
	Pacific Gas & Electric	3,900,000,000	7/13/2022
	OGE Energy Corp	762,000,000	7/8/2022
	Cleco Partners LP	452,000,000	6/9/2022
	Electric Reliability Council of Texas (ERCOT)	2,116,000,000	6/8/2022
	Entergy Corp	3,194,000,000	5/11/2022
	Pacific Gas & Electric	3,600,000,000	5/3/2022
	Entergy Corp	291,000,000	3/24/2022
	DTE Energy Co	236,000,000	3/11/2022
	Edison International	533,000,000	2/8/2022
	Rayburn Electric Cooperative	908,000,000	2/4/2022
	Duke Energy Carolinas	770,000,000	11/17/2021
	Duke Energy Progress	237,000,000	11/17/2021
	Pacific Gas & Electric	860,000,000	11/4/2021
	WEC Energy Group	119,000,000	5/4/2021
	Southern California Edison	338,000,000	2/17/2021
	AEP Texas Restoration Funding LLC	235,282,000	9/11/2019
	Public Service New Hampshire Funding Llc.	635,663,200	5/1/2018
	Duke Energy Florida Project Finance LLC	1,294,290,000	6/15/2016
	Entergy New Orleans Storm Recovery Funding I	98,730,000	7/14/2015
	Dept. of Business, Economic Development, and Tourism / Hawaii Electric	150,000,000	11/13/2014
	Louisiana Utilities Restoration Corporation Project/ELL	243,850,000	7/29/2014
	Louisiana Local Government System Restoration/EGSL	71,000,000	7/29/2014
	Consumers 2014 Securitization Funding LLC	378,000,000	7/14/2014
	Appalachian Consumer Rate Relief Funding LLC	380,300,000	11/6/2013
	Ohio Phase-In-Recovery Funding LLC	267,408,000	7/23/2013
	FirstEnergy Ohio PIRB Special Purpose Trust	444,922,000	6/12/2013
	AEP Texas Central Funding III	800,000,000	3/7/2012

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Centerpoint Energy Transmission Bond Co. IV	1,695,000,000	1/11/2012
Entergy Louisiana Investment Recovery Funding I, LLC	207,156,000	9/15/2011
Entergy Arkansas Energy Restoration Funding LLC	124,100,000	8/11/2010
Louisiana Utilities Restoration Corporation Project/ELL	468,900,000	7/15/2010
Louisiana Utilities Restoration Corporation Project/EGSL	244,100,000	7/15/2010
MP Environmental Funding LLC	64,380,000	12/16/2009
PE Environmental Funding LLC	21,510,000	12/16/2009
CenterPoint Energy Restoration Bond	664,859,000	11/18/2009
Entergy Texas Restoration Funding	545,900,000	10/29/2009
Louisiana Public Facilities Authority	278,400,000	8/20/2008
Louisiana Public Facilities Authority	687,700,000	7/22/2008
Cleco Katrina/Rita Hurricane Recovery Funding LLC 2008	180,600,000	2/28/2008
CenterPoint Energy Transition Bond Company III	488,472,000	1/29/2008
Entergy Gulf States Reconstruction Funding I, LLC	329,500,000	6/22/2007
RSB BondCo LLC (BG&E sponsor)	623,200,000	6/22/2007
FPL Recovery Funding LLC	652,000,000	5/15/2007
MP Environmental Funding LLC	344,475,000	4/3/2007
PE Environmental Funding, LLC	114,825,000	4/3/2007
AEP Texas Central Transition Funding II	1,739,700,000	10/4/2006
JCP&L Transition Funding II	182,400,000	8/4/2006
Centerpoint Energy Series A	1,851,000,000	12/9/2005
PG&E Energy Recovery Funding LLC Series 2005-2	844,461,000	11/3/2005
West Penn Power	115,000,000	9/22/2005
PSE&G 2005-1	102,700,000	9/9/2005
Massachusetts RRB Special Purpose Trust 2005-1	674,500,000	2/15/2005
PG&E Energy Recovery Funding LLC Series 2005-1	1,887,864,000	2/3/2005
Rockland Electric Company	46,300,000	7/28/2004
Oncor (TXU) 2004-1	789,777,000	5/28/2004
Atlantic City Electric	152,000,000	12/18/2003
Oncor 2003-1	500,000,000	8/14/2003
Atlantic City Electric	440,000,000	12/11/2002
JCP&L Transition Funding LLC	320,000,000	6/4/2002
CPL Transition Funding LLC	797,334,897	1/31/2002
PSNH Funding LLC 2	50,000,000	1/16/2002
Consumers Funding LLC	468,592,000	10/31/2001
CenterPoint Energy Transition Bond Company I	748,987,000	10/17/2001
Western Mass Electric	155,000,000	5/14/2001
PSNH Funding LLC	525,000,000	4/20/2001
CL&P Funding LLC	1,438,400,000	3/27/2001
Detroit Edison 2001-1	1,750,000,000	3/2/2001
PECO 2001-A	805,500,000	2/15/2001
PSE&G 2001-A	2,525,000,000	1/25/2001
PECO 2000-A	1,000,000,000	4/27/2000
West Penn Power	600,000,000	11/3/1999
Pennsylvania Power & Light	2,420,000,000	7/29/1999
Boston Edison	725,000,000	7/27/1999
Sierra Pacific Power	24,000,000	4/8/1999
PECO Energy	4,000,100,000	3/18/1999
Montana Power	64,000,000	12/22/1998
Illinois Power	864,000,000	12/10/1998
Commonwealth Edison	3,400,000,000	12/7/1998

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San Diego Gas & Electric	657,900,000	12/4/1997
Southern California Edison	2,463,000,000	12/4/1997
Pacific Gas & Electric	2,901,000,000	11/25/1997
Total	\$82,348,418,097	

Source: Bloomberg, Finsight, Company Filings, Press Releases and Other Publicly Available Information

FIGURE KN-2: INDICATIVE BOND STRUCTURE

	Class A-1 Notes	Class A-2 Notes
Initial Principal Balance	\$275.0mm	\$250.6mm
Scheduled Final Payment Date (yrs)	9.0 years	14.5 years
Legal Final Maturity (yrs)	11.0 years	16.5 years
Expected WAL (yrs)	5.2 years	12.3years
	4.512%	4.527%
Treasury Rate	(5-year treasury)	(10-year treasury)
Spread over Treasuries	100 bps	110 bps
Coupon	5.512%	5.627%
Weighted Average Coupon		5.591%

Note: Indicative rates and coupons are as of November 8, 2023.

FIGURE KN-3: DIAGRAM OF PROPOSED SECURITIZATION TRANSACTION

