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Issues: Revenue Requirement, Securitized
Energy Transition Charge, True-up
Adjustment and Reconciliation Process
Witness: Charlotte T. Emery
Type of Exhibit: Direct Testimony
Sponsoring Party: The Empire District
Electric Company
Case No.: EO-2022-0193
Date Testimony Prepared: March 2022

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

Direct Testimony

of

Charlotte T. Emery

on behalf of

The Empire District Electric Company d/b/a Liberty

March 2022



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THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
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DIRECT TESTIMONY OF CHARLOTTE T. EMERY
THE EMPIRE DISTRICT ELECTRIC COMPANY
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CASE NO. EO-2022-0193

1 **I. INTRODUCTION**

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

3 A. My name is Charlotte T. Emery, and my business address is 602 South Joplin Avenue,
4 in Joplin, Missouri.

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

6 A. I am employed by Liberty Utilities Service Corp. as Director, Rates and Regulatory
7 Affairs, for the Liberty Central Region, which includes The Empire District Electric
8 Company d/b/a Liberty (“Liberty” or “Company”).

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

10 A. I graduated from College of the Ozarks, Point Lookout, Missouri, in 2000 with a
11 Bachelor of Science degree with a major in Accounting. I have been a Certified Public
12 Accountant ("CPA") in the State of Missouri since 2006. I was hired by Liberty in July
13 2016 as a Rates Analyst and promoted to my current position as Director in the Rates
14 and Regulatory Affairs Department in 2021. Prior to joining Liberty, I worked for six
15 years in the regulated insurance industry in Springfield, Missouri as a Director of
16 Accounting. In addition, I have nine years of public accounting experience working for
17 both a national and “Big Four” accounting firm. My primary roles at these
18 organizations included serving as a supervisor for financial statement audits and a tax
19 consultant.

20 **Q. Have you previously testified before the Missouri Public Service Commission or**
21 **any other regulatory agency?**

1 A. Yes. I have testified on behalf of Liberty before the Missouri Public Service
2 Commission (“Commission”), the Kansas Corporation Commission, the Arkansas
3 Public Service Commission and the Oklahoma Corporation Commission

4 **Q. What is the purpose of your testimony in this proceeding?**

5 A. My testimony supports the Company’s request to securitize the energy transition costs¹
6 and associated financing costs² the Company incurred related to the retirement of the
7 Asbury generating plant. Specifically, my testimony describes the calculation of
8 revenues Liberty seeks to recover through the utilization of securitized utility tariff
9 bonds. I also explain how the Company has complied with the petition filing
10 requirements as specified by RSMo §393.1700 (the “Securitization Statute”).

11 I also support the Company’s new rate schedule proposal, the Securitized
12 Energy Transition Charge (“SETC”), that will allow Liberty to recover securitized
13 energy transition costs and associated financing costs from customers. I explain how
14 the SETC will be trued-up to actual revenues and costs at least annually to account for
15 uncertainties in the Company’s electric sales. In addition, I demonstrate that
16 securitization of the energy transition costs creates benefits for customers when
17 compared to recovery of the costs through traditional ratemaking treatment, as required
18 in the Securitization Statute. Lastly, I conclude by introducing the other witnesses
19 providing Direct Testimony on behalf of Liberty and in support of the Company’s
20 Verified Petition for Financing Order.

21 **Q. Has the Company filed any other securitization petitions?**

¹ As defined by RSMo §393.1700.

² As defined by RSMo §393.1700.

1 A. Yes, on January 19, 2022, the Company filed a petition to securitize the extraordinary
2 costs incurred as a result of Winter Storm Uri (“Storm Uri”) in Commission Case No.
3 ER-2022-0040. That petition is currently pending before the Commission. The
4 Company intends to file a motion to consolidate this Asbury securitization petition with
5 the Storm Uri securitization docket so that the Commission can consider both dockets
6 together and to allow the Company to minimize costs of securitization in a single
7 proceeding. Such consolidation would be contingent on maintaining the statutory time
8 frame based on the date of filing for the Storm Uri petition, which requires issuance of
9 an order within 215 days from filing on January 19, 2022.

10 **Q. Are you sponsoring any schedules with your testimony?**

11 A. Yes. I am sponsoring the following schedules:

- 12 • Direct Schedule CTE-1 (Estimated Upfront and Ongoing Costs)
- 13 • Direct Schedule CTE-2 (Total Retail Revenue Requirement for Securitized
14 Energy Transition Charge)
- 15 • Direct Schedule CTE-3 (Benefits Comparison)
- 16 • Direct Schedule CTE-4 (Allocation of Securitized Energy Transition Charge)
- 17 • Direct Schedule CTE-5 (Proposed Securitized Energy Transition Charge)

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

19 A. I begin by describing the benefits of securitization to Liberty’s customers and further
20 describe how the Company’s petition meets all the requirements of the Securitization
21 Statute. I explain how Liberty proposes to issue securitized utility tariff bonds to
22 recover its energy transition costs and associated financing costs related to Asbury and
23 how the Company will recover these respective costs through a new volumetric rate.
24 From there I discuss the calculation of the revenue requirement for the energy transition

1 securitization bonds. I summarize the estimated costs, including upfront and ongoing
2 financing costs associated with the bonds that will be passed along to customers. I
3 provide an analysis of the net present value of securitization to customers compared to
4 traditional ratemaking treatment, and I demonstrate that securitization results in
5 quantifiable savings to customers. I discuss how the securitized costs will be recovered
6 from customers, and I introduce Liberty proposed SETC and discuss the Company's
7 proposal to true-up this rate at least annually and a proposed reconciliation process.
8 Furthermore, my testimony demonstrates why securitization of the Asbury costs
9 complies with the Securitization Statute and benefits customers, the Company, and
10 other stakeholders. Finally, I conclude by introducing the other witnesses providing
11 Direct Testimony on behalf of Liberty.

12 **II. SECURITIZATION**

13 **Q. How does the Company seek to recover its remaining investment in Asbury?**

14 A. Liberty originally sought "traditional" rate case recovery through its current general
15 electric rate case (ER-2021-0312). Subsequent to the filing of the rate case, the
16 Securitization Statute was enacted into law, and, after reviewing rebuttal testimony of
17 certain rate case parties urging securitization, Liberty recognized the potential rate
18 impacts that the Asbury costs could have on customers through "traditional" rate case
19 recovery, and, seeking a means to create additional customer long term savings, the
20 Company made a business decision to elect the alternative option allowed by the
21 Securitization Statute.

22 With the filing of surrebuttal testimony in the general rate case, the Company's
23 rate request was revised to reflect the Company's election to securitize all components
24 of the revenue requirement related to Asbury in lieu of pursuing traditional rate

1 recovery. With its Verified Petition in this proceeding, Liberty seeks the issuance of
2 securitized tariff bonds for \$145,019,637 and the imposition of securitized utility tariff
3 charges, representing the Company's undepreciated investment and other energy
4 transition costs related to Asbury.

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

6 A. In the remaining portion of this section of my testimony, I explain that securitization
7 creates benefits for Liberty's customers because it allows for the recovery of "energy
8 transition costs" under the Securitization Statute the Company incurred related to the
9 retirement of the Asbury generating plant, which reduces customer rate impacts, and
10 does so at a lower rate than if the Company were to amortize the costs itself through
11 traditional general rate case treatment. I also summarize the requirements of the
12 Securitization Statute for Liberty's securitization petition and detail how each
13 requirement is met.

14 **Q. What was Liberty's basis for its decision to retire and replace Asbury?**

15 A. Asbury is a coal-power plant constructed in 1970. As recently as 2014, the plant
16 underwent significant emission control upgrades, to comply with environmental policy
17 requirements, which the Commission approved. As it continued operating, its
18 operating economics continued to erode as detailed in testimony provided by the
19 Company in prior dockets. The Company analyzed retiring Asbury as part of its
20 Generation Fleet Savings Analysis presented to the Commission in 2017 as well as in
21 its 2019 Integrated Resource Plan ("IRP"). Most recently in the 2019 IRP, Liberty
22 determined that retirement of Asbury in 2019 would yield the benefits of \$93 million
23 over 20 years for its customers when compared to its continued operation until its end
24 of useful life. Pursuant to this analysis, Asbury was retired on March 1, 2020.

1 The accompanying Direct Testimony of Company witnesses Aaron J. Doll,
2 Drew W. Landoll, Shaen T. Rooney, and consultant Frank Graves explain and support
3 the Company’s prudent decision to retire Asbury.

4 **Q. Was the Company directed to track the costs related to the impact of retiring**
5 **Asbury?**

6 A. Yes. In Case No. ER-2019-0374, the Commission issued an Amended Report and
7 Order on July 23, 2020 requiring the Company to establish an Accounting Authority
8 Order (“AAO”) with regard to the retirement of Asbury. The AAO directed the
9 Company to establish regulatory asset or liability accounts, beginning January 1, 2020,
10 to reflect the impact of the closure of Asbury and required the Company to separately
11 track and quantify the changes from the base amounts, reflected in Appendix D of the
12 Global Stipulation and Agreement submitted in that case, for the following categories
13 of rate base and expense components reflected in the Commission’s Order: Rate of
14 return on Asbury Plant, Accumulated Depreciation, Accumulated and Excess Deferred
15 Income Tax, Fuel inventories assigned to the Asbury Plant, Depreciation expense, All
16 Non-fuel/ non-labor operating and maintenance expenses, All labor charges for
17 maintaining and operating the Asbury Plant, Property taxes assigned to the Asbury
18 Plant, and any costs associated with the retirement of the Asbury Plant, including
19 dismantlement and decommissioning - Non-Empire labor excluded. In addition to the
20 items stated above, the Commission also ordered the Company to include the following
21 items which were proposed by OPC’s witness: Cash working capital and income tax
22 gross up associated with Asbury, any fuel or SPP revenues or expenses associated with
23 Asbury that do not flow through the FAC, and revenue from scrap value or value of
24 items sold.

1 **Q. Did the Company comply with the Commission's AAO directions?**

2 A. Yes. The Company established the regulatory liability account to track the costs as of
3 January 1, 2020 to comply with the Commission's Amended Report and Order which
4 was issued on July 23, 2020 and had an effective date of August 2, 2020. In addition,
5 the Company established regulatory asset accounts for items such as the remaining
6 undepreciated plant balance at retirement, along with other costs associated with the
7 retirement of Asbury.

8 **Q. How are energy transition costs like the Asbury retirement costs traditionally**
9 **recovered?**

10 A. In a general rate case proceeding, the Company traditionally would include the various
11 AAO components related to the Asbury retirement costs as regulatory asset and liability
12 balances in its respective rate base total. Furthermore, the Company would include the
13 associated amortization expense of those components in the Company's proposed
14 revenue requirement. As such, the Company proposed this specific rate making
15 treatment for the Asbury retirement costs in the Company's 2021 rate case proceeding
16 (ER-2021-0312).

17 **Q. Is securitization an alternative to this traditional rate making approach?**

18 A. Yes. Instead of carrying the costs on its own books and amortizing them over time,
19 Liberty will work with its legal and financial advisors to create a new special purpose
20 entity that will issue bonds whose proceeds will allow the Company to immediately
21 recover its energy transition costs and associated financing costs, including the carrying
22 costs the Company has incurred since the generating unit's retirement date. The bonds
23 will be serviced via a new charge, the SETC, that will be in effect during the term of

1 the bonds scheduled to be 13 years, which aligns with the Company’s Storm Uri
2 Securitization proceeding.³

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

4 A. In short, securitization will save customers money. When Liberty filed its rate case in
5 May 2021, the Securitization Statute was not yet law, so the Company’s case included
6 a proposal requesting base rate treatment for the Asbury AAO components. The
7 Company proposed a recovery period of 26 years for all the AAO components, except
8 the AAO Liability balance, in which the Company proposed a two-year amortization
9 to minimize the overall rate case impact on customers. When the Securitization Statute
10 was signed into law by Governor Parsons in July 2021, it created a new alternative that
11 costs less. On February 4, 2022, the Company entered into a stipulation and agreement
12 in its rate case with the Missouri Public Service Commission (“Staff”) and the Office
13 of the Public Counsel (“OPC”) wherein the parties agreed to remove Asbury from the
14 Issues List in the rate case with the understanding that all components of Asbury would
15 be addressed in securitization proceedings. That stipulation was approved by the
16 Commission on March 9, 2022. In turn, the Company is filing this petition for
17 securitization of the Asbury costs.

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

19 A. Savings for customers are created primarily due to the carrying charge associated with
20 the securitized utility tariff bonds are lower than the traditional ratemaking treatment,
21 in large part because the carrying charge (i.e., coupon rate) on the bonds that will be
22 issued will be much lower than Liberty’s authorized carrying charge which is equal to
23 its Weighted Average Cost of Capital (“WACC”).

³ Commission Case No. EO-2022-0040.

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

2 A. Roughly \$48.3 million. As I will explain later in testimony, customers will pay about
3 \$165 million over the 13 year life of the bonds that will be issued, compared to
4 approximately \$213 million they would pay if Liberty were to recover the costs over
5 the same period and apply a carrying charge equal to its WACC. Put simply,
6 securitization of the Asbury costs is much more economical for both the Company and
7 its customers as compared to traditional rate making treatment.

8 **Q. Does the Securitization Statute allow Liberty to recover the energy transition costs
9 it incurred related to the retirement of Asbury via securitization?**

10 A. Yes. The Securitization Statute allows for Missouri utilities to seek a financing order
11 to recover “energy transition costs,” which include the following:

12 “(a) Pretax costs with respect to a retired or abandoned or to be retired or
13 abandoned electric generating facility that is the subject of a petition for a financing
14 order filed under this section where such early retirement or abandonment is deemed
15 reasonable and prudent by the commission through a final order issued by the
16 commission, include, but are not limited to, the undepreciated investment in the retired
17 or abandoned or to be retired or abandoned electric generating facility and any facilities
18 ancillary thereto or used in conjunction therewith, costs of decommissioning and
19 restoring the site of the electric generating facility, other applicable capital and
20 operating costs, accrued carrying charges, and deferred expenses, with the foregoing to
21 be reduced by applicable tax benefits of accumulated and excess deferred income taxes,
22 insurance, scrap and salvage proceeds, and may include the cost of retiring any existing
23 indebtedness, fees, costs, and expenses to modify existing debt agreements or for
24 waivers or consents related to existing debt agreements;

1 (b) Pretax costs that an electrical corporation has previously incurred related to
2 the retirement or abandonment of such an electric generating facility occurring before
3 August 28, 2021;”

4 The costs the Company is seeking to finance using the Securitization Statute
5 clearly meet these criteria.

6 **Q. Does the Company’s petition include evidence demonstrating these costs were**
7 **prudently incurred?**

8 A. Yes. Witnesses Doll, Landoll, Rooney, and Graves describe in detail the events and
9 the Company’s actions that led to the Company’s incurrence of these energy transition
10 costs and demonstrate that the Company’s actions were reasonable and necessary, and
11 that the energy transition costs were prudently incurred.

12 **Q. What is the total amount of the energy transition costs that the Company is**
13 **seeking to recover via the Securitization Statute relating to Asbury?**

14 A. The Company is seeking to recover energy transition costs including the cost to fully
15 decommission and comply with environmental regulations of approximately \$141.7
16 million. In addition, the Company seeks to include approximately \$3.3 million of
17 upfront financing costs.

18 **Q. How did you determine the total energy transition costs?**

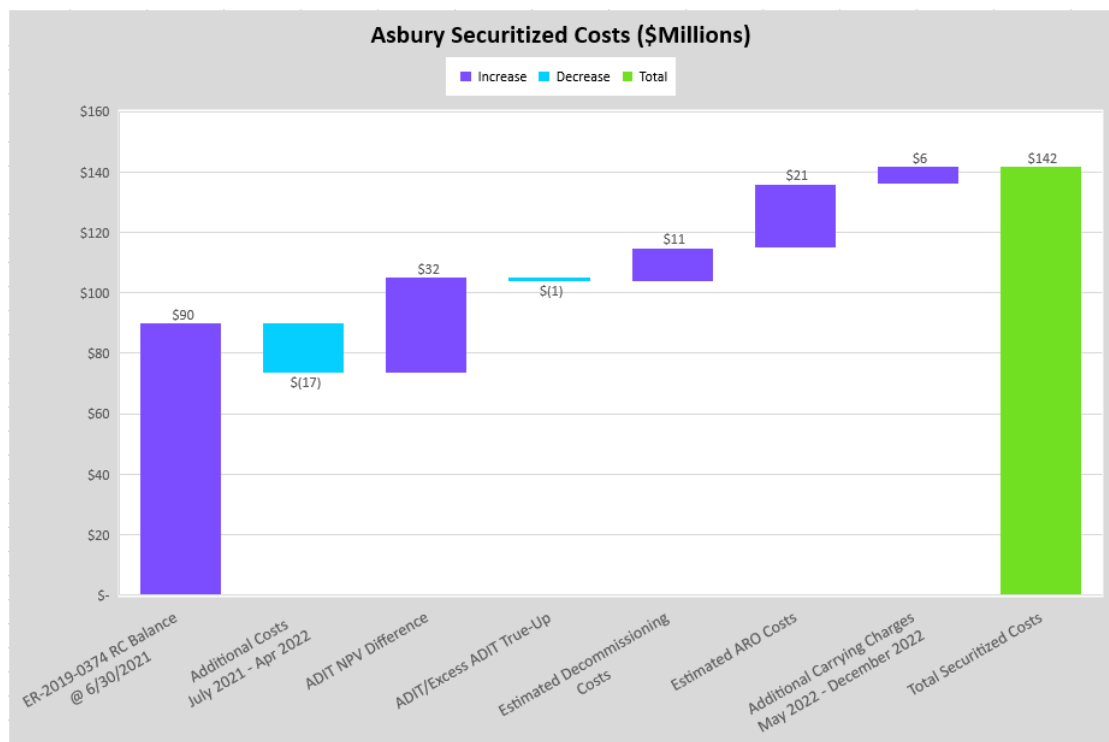
19 A. As agreed, to by the parties in the 4th Partial Stipulation Agreement in Case Number
20 ER-2021-0312 and as explained in my surrebuttal testimony filed in the same case, all
21 components of Asbury’s cost of service will be addressed in the securitization
22 proceeding. Therefore, the Company proposes all the respective balances of the
23 previously mentioned AAO ordered by the Commission pertaining to Asbury be
24 included as energy transition costs. In addition, the Company proposes the costs to

1 dismantle/decommission the plant and environmental compliance costs also be
2 included.

3 **Q. Has the Company further updated the Asbury cost of service amounts since Case**
4 **Number ER-2021-0312?**

5 A. Yes. As included in Company witness Tisha Sanderson’s Direct Testimony filed in
6 ER-2021-0312 the net rate base balance of the respective Missouri AAO was
7 approximately \$90 million⁴. The Company utilized this amount as our starting balance
8 and has further estimated the balance through April 2022. In addition, the Company
9 also proposes the inclusion of estimated costs associated with
10 demolition/decommissioning and environmental costs. As such the proposed balance
11 to be securitized is approximately \$142. See Figure CTE-1 below for further specifics.
12

Figure CTE-1



13

⁴ Company Witness Tisha Sanderson ER-2021-0312 p. 24, Figure 6.

1 **Q. Is the Company seeking to utilize securitized utility tariff bonds for the entire**
2 **amount of Asbury's energy transition costs.**

3 A. Yes. The Company is requesting a financing order for the total amount of its energy
4 transition costs estimated to be \$141,732,514, including carrying charges through the
5 issuance date of the securitized utility tariff bonds, along with another \$3,287,122 in
6 upfront financing costs. For further discussion on the respective energy transition costs
7 related to Asbury refer to the direct testimony of witnesses Doll, Landoll, Rooney, and
8 Graves.

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

12 A. Yes, the Securitization Statute specifies eight requirements, each of which are met by
13 the Company's petition.

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

15 A. Section 2.(1)(a) of the Statute requires a description of the electric generating facility
16 or facilities that the electrical corporation has retired or abandon. Detailed descriptions
17 are provided by witnesses Rooney, Landoll and Graves.

18 **Q. What is the second requirement?**

19 A. Section 2.(1)(b) requires the Company include the energy transition costs in its petition,
20 which the Company clearly has provided within its petition here

21 **Q. What is the third requirement and how is it met?**

22 A. Section 2.(1)(c) requires that the utility indicate whether it will finance all or a portion
23 of its energy transition costs. The Company is seeking to recover all of its energy
24 transition costs via securitization.

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

2 A. Section 2.(1)(d) requires an estimate of the financing costs that will be incurred. I
3 discuss those costs throughout my testimony, which satisfies the statutory requirement.

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

5 A. Section 2.(1)(e) requires an estimate of the rates the Company will charge and an
6 indication of the period over which those rates will be in effect, and I provide that later
7 in my testimony. The bonds issued will have a scheduled 13-year life (which aligns
8 with the Company's Storm Uri securitization filing) which also represents the
9 approximate time the charges to recover their costs will be in effect.

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

11 A. Section 2.(1)(f) requires a comparison of the Net Present Value ("NPV") of the costs
12 to customers from using securitization to recover the energy transition costs to the NPV
13 of the costs that customers would bear if the same costs were recovered using the
14 traditional method of financing. Section 2.(2)(f) additionally requires that the
15 comparison demonstrate that securitization benefits retail customers. My testimony
16 includes that comparison and demonstrates that securitization will create
17 approximately \$32 million in customer savings, expressed on an NPV basis.

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

19 A. Section 2.(1)(g) requires that the Company describe the method by which the costs of
20 securitization and the amounts that it recovers through rates will be reconciled, and I
21 address this item later in my testimony within my true up and reconciliation discussion.

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

2 A. Section 2.(1)(g) requires that Liberty file direct testimony supporting its petition.
3 Including myself, five other witnesses have filed direct testimony in support of this
4 petition. Later in my testimony I introduce these respective witnesses.

5 **III. REVENUE REQUIREMENT**

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

7 A. Next, I discuss the calculation of the revenue requirement for the securitization bonds,
8 which is the amount of revenue that Liberty must recover from its customers to pay the
9 bonds, financing costs, and other requirement amounts and charges payable under the
10 bonds.

11 **Q. What is included in the revenue requirement?**

12 A. The revenue requirement is the sum of categories of cost that must be recovered to
13 service the bonds, the first being the payment that will be made on the bonds and the
14 second being ongoing costs to administer the bonds. I calculated the monthly revenue
15 requirement required to cover the bonds until the first true-up, which will occur on at
16 least an annual basis which is intended to correct any overcollections or under-
17 collections, and more frequently, if needed, to correct for any forecasted
18 undercollection. The true-up process is to ensure the expected recovery of amounts are
19 sufficient to timely provide all payments of debt service and other required amounts
20 and charges in connection with the securitized utility tariff bonds⁵.

21 **Q. What determines the total value of the bonds that will be issued?**

22 A. Proceeds from the bonds must be large enough to offset the energy transition costs the
23 Company incurred related to the retirement of the Asbury generating plant as well as

⁵ See RSMo §393.1700-1.(2)(g).

1 the costs of issuing the bonds themselves. Therefore, the total issuance is equal to the
2 sum of the two categories of costs, the energy transition costs, including carrying
3 charges through the issuance date of the securitization bonds, and deferred legal costs,
4 plus the upfront financing costs to issue the bonds.

5 **Q. Please describe the energy transition costs and carrying charges.**

6 A. The Company has included energy transition costs, including carrying charges through
7 the issuance date of the Securitization Bonds of approximately \$142 million in energy
8 transition costs related to the retirement of the Asbury generating plant on behalf of its
9 customers. The costs and the circumstances around the energy transition are further
10 described in the Direct Testimony of Company witnesses Doll, Landoll, Rooney, and
11 Graves. Since Liberty has incurred or anticipates incurring these costs, the Company
12 has applied a carrying charge based on its Weighted Average Cost of Capital
13 (“WACC”), which the Commission set at 6.77% in Case No. ER-2019-0374.

14 **Q. What is included in the upfront financing costs?**

15 A. The upfront financing costs total approximately \$3.3 million and include estimated fees
16 to the Company’s legal and structuring advisors, consultants, underwriting fees,
17 auditing fees, and other fees as well as rating and filing fees necessary to secure the
18 bonds. Additional discussion regarding the upfront costs are provided in the Direct
19 Testimony of witness Katrina Niehaus. An itemization of the estimated upfront
20 financing costs is also included in **Direct Schedule CTE-1**, attached hereto.

21 Liberty has not included an estimate for the Commission’s advisor and legal
22 counsel fees since these can vary widely depending on the third parties hired. I have
23 been advised there are a wide range in estimates, including \$50,000 for the
24 Commission’s costs in Texas for an AEP Texas securitization in September 2019 to

1 \$2.95 million by the Florida Commission for a Duke Florida securitization in June
2 2016.

3 **Q. Will the Commission review the final amount of the upfront financing costs?**

4 A. Yes, through the issuance advice letter process discussed by Witness Niehaus.
5 Furthermore, if the actual upfront financing costs are less than the upfront costs
6 included in the principal amount securitized, the periodic billing requirement, defined
7 below, for the first annual true-up adjustment must be reduced by the amount of such
8 unused funds (together with interest, if any, earned on the investment of such funds).
9 If the actual upfront financing costs are more than the upfront financing costs included
10 in the principal amount securitized, Liberty may request recovery of the remaining
11 upfront financing costs via a regulatory tracking account with recovery in a future
12 proceeding

13 It is anticipated the bonds will be issued in a single issuance or series, but
14 Liberty is requesting authority to be able to issue the bonds in one or more series subject
15 to market conditions in order to ensure the issuance of the bonds results in the lowest
16 securitized utility tariff charges consistent with market conditions at the time the bonds
17 are priced and the conditions of a financing order issued by this Commission.

18 **Q. Please summarize the total issuance of the bonds.**

19 A. The sum of these categories is about \$145 million as shown in Table CTE-1:

20 **Table CTE-1. Bond Issuance Amounts**

Energy transition costs, including Carrying Charges	\$141,732,514
Upfront costs	\$3,287,122
Total	\$145,019,637

21

1 **Q. What is the interest rate and term of the bonds?**

2 A. While the final interest rate will depend upon market conditions at the time of the bond
3 offering, witness Niehaus explains in her direct testimony that she has structured the
4 Asbury retirement costs to match the final legal maturity of the deal referenced in the
5 previous testimony filed in January 2022 relating to Winter Storm Uri, which is a
6 weighted average coupon rate of 2.47% and a term of 13 years.⁶

7 **Q. What will be the monthly payment on the bonds?**

8 A. The final monthly payment on the bonds will depend on market conditions at the time
9 of issuance, the actual upfront financing costs and the Commission's advisor and legal
10 costs. However, based on current estimates, the monthly payment would be
11 approximately \$1.1 million. My calculations are shown in **Direct Schedule CTE-2**.

12 **Q. Please explain the estimated ongoing costs.**

13 A. The ongoing costs include fees associated with the U.S. Securities and Exchange
14 Commission ("SEC") review process, indenture trustee fees, and rating agency
15 surveillance fees and any applicable taxes. Additionally, Liberty has estimated ongoing
16 fees for auditing/accounting, legal, printing and others. Liberty also estimates an
17 ongoing return on the Capital Account discussed by Witness Niehaus at its average
18 WACC. An itemization of these estimated fees is shown in **Direct Schedule CTE-1**,
19 and the combined amount of these estimated fees is expected be \$346,599 per year, or
20 \$28,883 per month.

21 **Q. Please summarize the revenue requirement.**

22 A. The estimated monthly revenue requirement for securitization of Asbury energy
23 transition cost is approximately \$1.1 million per month, which is the sum of the

⁶ EO-2022-0040 Direct Testimony of Katrina T. Niehaus, Schedule KN-3.

1 estimated bond repayment, estimated ongoing costs, each of which are shown in Table
2 CTE-2 and described in **Direct Schedule CTE-2**:

3 **Table CTE-2. Estimated Revenue Requirement (\$/month)**

Bond payment	\$1,087,784
Ongoing costs	<u>\$28,883</u>
Revenue requirement	\$1,116,668

4 This is the amount Liberty will need to recover from its customers, in the aggregate,
5 each month over the life of the bonds.

6 **Q. Will Liberty update these costs prior to the issuance of the bonds?**

7 A. Yes. As discussed by witnesses Landoll and Graves, the energy transition costs the
8 Company incurred to date are known with certainty, but other costs, such as the
9 decommissioning costs, environmental compliance costs, additional carrying charges
10 until bond issuance and some of the upfront financing costs, are estimates. Liberty will
11 therefore update the costs immediately before the bonds are issued.

12 **IV. BENEFITS OF SECURITIZATION**

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

14 A. In this section, I compare the costs to customers of securitizing the energy transition
15 costs related to the retirement of the Asbury generating plant to those the customers
16 would customarily bear if these costs were recovered without securitization through
17 traditional ratemaking treatment. My analysis shows that securitization creates
18 significant quantifiable savings for customers.

19 **Q. Why have you conducted this comparison?**

20 A. Section 2.1(f) of the Securitization Statute requires a comparison of costs customers
21 would pay if securitized utility tariff bonds were issued, and the costs customers would
22 pay if the transition energy costs were recovered using the traditional method of

1 financing. My comparison demonstrates that the Company's proposal to use
2 securitization to finance the energy transition costs fulfill this requirement.

3 **Q. If the costs in question were not securitized, how would the Company recover**
4 **them?**

5 A. As mentioned earlier in my testimony, if the energy transition costs were not securitized,
6 the Company would seek recovery in a general rate case proceeding.

7 **Q. If the Company can recover the transition energy costs over time, why is it**
8 **proposing to securitize them?**

9 A. As previously discussed, securitization results in a lower overall cost to customers and
10 the Company and other stakeholder agreed to securitization of these costs in the 4th
11 Stipulation Agreement in Case Number ER-2021-0312.

12 **Q. How does securitization result in lower overall cost to customers?**

13 A. Securitization affords access to financing at much lower rates for the Company and its
14 customers. As I explained previously, the Company currently estimates that the interest
15 rate on the securitized utility tariff bonds that will be issued is 2.47%. If the Company
16 were to carry the cost and amortize it over time, the Company would carry the balance
17 as a regulatory asset and apply a carrying charge equal to its WACC. Using the
18 Company's approved WACC of 6.77%, customers' costs would be much higher, even
19 when out-of-pocket financing costs are considered.

20 **Q. Have you estimated how much Liberty's customers will save from securitizing the**
21 **costs?**

22 A. Yes. As I explain above and as detailed in Direct Schedule CTE-2, the revenue
23 requirement for the securitized bonds and the associated estimated costs is about \$1.1
24 million per month. Over the course of the scheduled thirteen-year period, customers

1 would pay a total of about \$165 million. For comparison, I calculated the monthly cost
 2 that would accrue to customers if the Company amortized its energy transition costs
 3 (the actual costs plus carrying charges) over a period of equal length with a carrying
 4 charge equal to the WACC. Note that for the comparison I eliminated the upfront
 5 financing costs and the ongoing financing costs. Under this scenario, the Company
 6 would need to recover approximately \$1.4 million per month from customers, with
 7 such payments totaling approximately \$213 million over the thirteen-year period.
 8 Thus, the benefits to customers is approximately \$48.3 million. My calculations are
 9 included in **Direct Schedule CTE-3**.

10 **Table CTE-3 Summary of Securitization Benefits**

	Securitization	Amortization 13 Years
Total payments	\$165,188,564	\$213,461,593
Securitization benefit	-----	\$48,273,938

11 **Q. Have you developed any other comparisons?**

12 A. Yes. The Securitization Statute requires a comparison of costs on a Net Present Value
 13 (“NPV”) basis. To meet this requirement, I have included a comparison of the total
 14 value of the payments made by customers to securitize the energy transition costs,
 15 expressed on an NPV basis using Liberty’s WACC as a discount rate, to the total value
 16 of payments they would make, expressed on the same basis, if Liberty amortized the
 17 costs itself. My results are included in **Direct Schedule CTE-3** and are shown in Table
 18 CTE-4 below.

19 **Table CTE-4 Summary of Securitization Benefits on an NPV Basis**

	Securitization	Amortization 13 Years
NPV of total payments discounted at WACC	\$109,680,576	\$141,732,514
NPV Securitized Benefit	-----	\$32,051,938

1 **Q. What does this comparison show?**

2 A. This comparison demonstrates that the total amount Liberty’s customers will need to
3 pay to offset the energy transition costs the Company incurred will be lower, on a
4 nominal and NPV basis, if the costs are securitized as compared to traditional
5 ratemaking treatment.

6 **V. SECURITIZED METHOD OF ENERGY TRANSITION COST RECOVERY**

7 **Q. How would the energy transition costs be recovered from customers once costs**
8 **have been securitized (“Securitized Cost Recovery”)?**

9 A. As explained more fully in the Direct Testimony of witness Niehaus, in a Securitized
10 Cost Recovery, the utility seeks to accelerate the recovery of energy transition costs
11 and associated financing costs by issuing bonds and receiving one lump sum of cash
12 upon issuance. The Company is requesting Commission approval to securitize energy
13 transition costs arising out of the retirement of the Asbury generating plant with bonds
14 and recover these costs from customers via a non-bypassable SETC. This charge will
15 ensure the recovery of revenues is sufficient to provide for the payment of the bond
16 principal, interest, financing costs, and other fees, costs, and charges related to the
17 securitized utility tariff bonds. A Commission-approved SETC would be assessed to
18 all current and future retail customers of Liberty.

19 **Q. Please explain a non-bypassable SETC.**

20 A. Pursuant to the Securitization Statute, a non-bypassable charge shall be paid by all
21 existing or future retail customers receiving electrical service from an electrical
22 corporation or its successors or assignees under Commission-approved rate schedules
23 (except for customers receiving electrical service under special contracts as of August
24 28, 2021), even if a customer elects to purchase electricity from an alternative

1 electricity supplier following a fundamental change in regulation of public utilities in
2 Missouri.

3 **Q. Will Liberty collect the SETC?**

4 A. Yes. Liberty, as servicer, will collect the SETC and remit the funds to a collection
5 account. This is more fully described in the testimony of Witness Niehaus.⁷

6 **VI. SECURITIZED UTILITY TARIFF CHARGE**

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

8 A. In this section of my testimony, I explain the SETC that the Company proposes to use
9 to recover the costs of the securitization bonds.

10 **Q. Please summarize the calculation of the SETC.**

11 A. To calculate the SETC, I allocated the revenue requirement to each of the Company's
12 rate classes based on the updated results of the Class Cost of Service ("CCOS") study
13 presented by Company witness Timothy Lyons in his surrebuttal testimony in Liberty's
14 recent rate case (ER-2021-0312). I then used the billing determinants as agreed to by
15 the parties in the Non-Unanimous Partial Stipulation and Agreement dated January 28,
16 2022 to calculate Liberty's proposed SETC rates for each class.

17 **Q. How much is the proposed SETC designed to recover?**

18 A. As I explain above, the revenue requirement for the bonds is about \$1.1 million per
19 month; however, I have calculated the SETC on an annual basis. Thus, they are
20 designed to recover twelve times the monthly revenue requirement, or about \$13
21 million.

22 **Q. How did you determine how much revenue will be recovered from customer**
23 **classes?**

⁷ Direct Testimony of Katrina T. Niehaus, p. 9 at line 23.

1 A. Based on the class revenue targets from Lyons’ rate design which, as he explains in his
2 Surrebuttal Testimony filed in Case No. ER-2021-0312, was established by the updated
3 Class Cost of Service Study. Specifically, I calculated the percentage of the Company’s
4 total revenue requirement that would be contributed by each of Liberty’s rate classes
5 and used the result to determine how much of the cost of the securitization bonds should
6 be recovered from each class.

7 **Q. What was the next step in your calculation?**

8 A. Using the determinants as agreed on in the Non-unanimous partial stipulation and
9 agreement filed on January 28, 2022 in Case Number ER-2021-0312, I calculated the
10 SETC for each class. The results are shown in Table CTE-4 and detailed in **Direct**
11 **Schedule CTE-4.**

12 **Table CTE-5. Calculation of SETCs by Class**

Class	Allocation %	Revenue Target \$	Class Usage kWh	SETC \$/kWh
Residential	45.02%	\$6,032,078	1,726,927,308	\$0.00349
Commercial	9.05%	\$1,212,593	319,949,719	\$0.00379
Small Heating	2.02%	\$271,145	79,799,575	\$0.00340
General Power	18.01%	\$2,412,684	812,169,431	\$0.00297
Transmission	1.08%	\$144,662	70,481,082	\$0.00205
Total Electric Building	7.62%	\$1,021,703	319,940,627	\$0.00319
Feed Mill	0.02%	\$2,127	477,498	\$0.00445
Large Power	15.83%	\$2,121,560	875,159,495	\$0.00242
Misc. Service	0.00%	\$402	135,540	\$0.00297
Street Lighting	0.63%	\$84,364	287,677	\$0.29326
Private Lighting	0.70%	\$94,073	193,109	\$0.48715
Special Lighting	0.02%	\$2,618	601,937	\$0.00435
Total/Average	100.00%	\$13,400,011	4,206,122,998	\$0.00319

13

1 **Q. Is the Company seeking approval of a tariff at this time?**

2 A. No. If the Commission approves the Company's request to securitize the energy
3 transition costs, the Company will update its calculation for costs immediately before
4 the bonds are issued, and it will seek approval of the final tariff at that time. However,
5 I've attached the current draft tariff, based on the estimated costs, as **Direct Schedule**
6 **CTE-5**.

7 **Q. If approved, how will SETC appear on customer bills?**

8 A. The SETC will appear as a separate line item on a customer's bill and it will include
9 both the rate and the amount charged on each bill.

10 **VII. SETC TRUE-UP ADJUSTMENT AND RECONCILIATION PROCESS**

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

12 A. In this section of my testimony I summarize the true-up of the SETC that the Company
13 will conduct at least annually during the life of the securitization bonds. In addition, I
14 discuss the Company's proposal regarding a future ratemaking process pertaining to
15 the reconciliation process.

16 **Q. Please summarize the formula based true-up mechanism.**

17 A. The true-up adjustment will, at least annually, adjust the SETC for any overcollections
18 or under-collections to ensure the expected recovery of amounts are sufficient to timely
19 provide all payments of debt service and other required amounts and charges in
20 connection with the securitized utility tariff bonds.

21 **Q. Will Liberty complete any other reviews of the SETC?**

22 A. Yes. In addition to the reviews at least annually, Liberty may request a true-up at any
23 time during the term of the securitized utility tariff bonds to correct any under-
24 collection. Further, Liberty must be able to make a mandatory interim true-up

1 adjustment semi-annually (or quarterly beginning 12 months prior to the final
2 scheduled payment date of the last tranche of the securitized utility tariff bonds) to
3 ensure that the amount of the SETC matches any funding requirements approved by
4 the Commission.

5 **Q. Please describe the reconciliation process as required by RSMo 393.1700-2.(1)(g)**
6 **between securitized utility tariff bonds and final securitized costs incurred by**
7 **Liberty?**

8 A. Section 393.1700.2(1)(g) states the following:

9 A proposed future ratemaking process to reconcile any differences between
10 securitized utility tariff costs financed by securitized utility tariff bonds and the
11 final securitized costs incurred by the electrical corporation or assignee
12 provided that any such reconciliation shall not affect the amount of securitized
13 utility tariff bonds or the associated securitized utility tariff charges paid by
14 customers.

15 Because the Company is proposing to include the estimated amounts for
16 dismantlement/decommissioning costs, along with environmental compliance costs as
17 a component of the total amount of costs to be securitized the Company requests a
18 regulatory account to account for any differences between the estimates provided
19 within this proceeding and actual costs. The balance of the regulatory account will be
20 included in the Company's rate base in a future rate proceeding once the final
21 reconciliation process has been completed.

22 **Q. Please explain what happens to the SETC once the bonds and any related**
23 **financing costs have been repaid in full.**

1 A. Once the bonds and financing costs have been repaid Liberty will no longer bill
2 customers for the SETC.

3 **VIII. INTRODUCTION OF WITNESSES**

4 **Q. Please introduce the other witnesses who will be providing testimony in this**
5 **proceeding on behalf of Liberty.**

6 A. At this time, the following additional witnesses are providing direct testimony in
7 support of Liberty's request for a Financing Order for authorization of the issuance of
8 securitized utility tariff bonds regarding Asbury:

Witness	Topics
Drew W. Landoll	Provides a history of Asbury; details the decommissioning plan and costs for Asbury.
Shaen T. Rooney	Provides technical background on the changes in operations and maintenance practices previously implemented at Asbury to help the plant better compete in the SPP IM ahead of the eventual decision to retire the plant, in support of the prudence of the Company's decision to retire Asbury.
Aaron J. Doll	Provides Asbury's operating characteristics, the manner in which it participated in the SPP generation market and how it became uncompetitive in the years leading up to its retirement.
Frank C. Graves	Addresses the economic and regulatory policies supporting recovery and appropriate carrying charges through securitization of the remaining investment in Asbury and the prudence of retiring Asbury.
Katrina Niehaus	Provides an overview of the securitization process and an estimate of the financing costs related to the securitized utility tariff bonds.

9 **Q. Does this conclude your testimony?**

10 A. Yes.

VERIFICATION

I, Charlotte T. Emery, under penalty of perjury, on this 21st day of March, 2022, declare that the foregoing is true and correct to the best of my knowledge and belief.

/s/ Charlotte T. Emery