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SURREBUTTAL TESTIMONY

OF

DAVID MURRAY

Submitted on Behalf of the Office of the Public Counsel

**UNION ELECTRIC COMPANY
D/B/A AMEREN MISSOURI**

CASE NO. EF-2024-0021

March 22, 2024

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**UNION ELECTRIC COMPANY
D/B/A AMEREN MISSOURI**

FILE NO. EF-2024-0021

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

2 A. My name is David Murray and my business address is P.O. Box 2230, Jefferson City,
3 Missouri 65102.

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

5 A. I am employed by the Missouri Office of the Public Counsel (“OPC”) as a Utility
6 Regulatory Manager.

7 **Q. Are you the same David Murray who sponsored rebuttal testimony in this case?**

8 A. Yes.

9 **Q. Are you still testifying on behalf of OPC?**

10 A. Yes.

11 **Q. What are you addressing in your surrebuttal testimony?**

12 A. I am addressing the rebuttal testimonies of Staff witness Keith Majors and Renew Missouri
13 witness James Owen. I also discuss OPC’s concerns about the post-financing order process,
14 specifically as it relates to the Issuance Advice Letter (“IAL”), but also as it relates to
15 certification letters and limits on costs that can be added to the securitization process post-
16 financing order. Staff witness Mr. Majors responded to Ameren Missouri’s analysis that
17 securitization would result in savings to customers on a nominal and present value basis.
18 Because Mr. Majors did not sponsor his own financial model to compare the net present value
19 (“NPV”) of the securitization revenue requirement to the NPV of the traditional ratemaking
20 revenue requirement, I developed an analysis based on the ratemaking principles Ameren
21 Missouri witness Mitchell J. Lansford demonstrated when explaining the impact of
22 accumulated deferred income taxes (“ADIT”) on the revenue requirement charged to

1 ratepayers. Mr. Owen introduced a potentially less costly government-financed option to fund
2 the retirement of Rush Island. Although Mr. Owen’s introduction of this option is short on
3 details, to the extent it is practical, Ameren Missouri should be ordered to consider the
4 viability of this option before the Commission potentially approves Ameren Missouri’s
5 application to securitize its Rush Island energy transition costs.

6 **KEITH MAJORS**

7 **Q. What is Mr. Majors’ position as it relates to ratepayer benefits from Ameren**
8 **Missouri’s request to securitize Rush Island energy transition costs?**

9 A. Mr. Majors testifies that he agrees with Mr. Lansford’s conclusions that securitization
10 would produce savings for Ameren Missouri’s retail customers.¹

11 **Q. Did Mr. Majors sponsor his own financial model and/or analysis to demonstrate his**
12 **agreement with Mr. Lansford?**

13 A. No. Mr. Majors used Mr. Lansford’s model shown on Schedule MJL-D4 attached to Mr.
14 Lansford’s Direct Testimony. Mr. Majors adjusted Ameren Missouri’s requested recovery
15 amount to \$486,561,574, but otherwise adopted Mr. Lansford’s assumptions and approach
16 to conclude that securitization would result in savings for Ameren Missouri’s retail
17 customers.

18 **Q. What was Mr. Majors’ main reason for concluding that securitization would result**
19 **in savings to Ameren Missouri’s retail customers?**

20 A. He testifies that charging Ameren Missouri’s ratepayers a pre-tax rate of return (“ROR”)
21 on Rush Island would generally be more costly than the securitized bond rate. Therefore,
22 based on this assumption alone, he concludes that the proposed securitization transaction
23 would benefit ratepayers.²

¹ Majors Rebuttal Testimony, p. 19, lns. 7-14.

² *Id*

1 **Q. Do you consider this to be an intuitive conclusion regardless of whether Staff, you, or**
2 **Ameren Missouri sponsors a model to demonstrate it?**

3 A. Yes. Mr. Lansford’s comparison of securitization to traditional ratemaking assumed
4 ratepayers would be charged a pre-tax ROR of 8.36% on the Rush Island energy transition
5 costs. Consequently, the effective cost of the securitization transaction would have to be
6 above this return for it to be more costly at least on a nominal basis. Therefore, if Mr.
7 Major’s assumption that ratepayers would be charged an 8.36% pre-tax ROR on a retired
8 asset is reasonable, then unless a model has a critical flaw, it should show that securitization
9 with an effective bond cost below 8.36% would likely be less costly than traditional
10 ratemaking.

11 **Q. What was Mr. Majors basis for assuming the Commission would authorize a pre-tax**
12 **ROR of 8.36% on Rush Island energy transition costs?**

13 A. His testimony is not clear as to his rationale, as he testified that the pre-tax ROR³ “**might**
14 **have been required** of customers for the Rush Island retired investment in the general rate
15 case” (emphasis added).⁴ However, in response to OPC DR No. 0036, he provided a more
16 detailed explanation (attached as Schedule DM-S-1). In summary, Mr. Majors indicates
17 that unless Rush Island was transferred out of plant and into a regulatory asset, it would
18 remain in rate base and be allowed a pre-tax ROR.

19 **Q. How does Ameren Missouri anticipate Rush Island energy transition costs, which**
20 **includes the undepreciated balance of Rush Island, would be treated absent**
21 **securitization?**

22 A. As a regulatory asset.⁵

³ Mr. Majors uses the terminology “weighted average cost of capital return” (WACC). In utility regulation the authorized ROR is often used interchangeably with authorize WACC. In my opinion, utilities are authorized RORs higher than their WACC. However, for ease of communication, I accept using such interchangeably in this case.

⁴ *Id.*

⁵ Lansford Direct, p. 13, lns. 1-4.

1 **Q. Is allowing a pre-tax ROR on a regulatory asset an established traditional ratemaking**
2 **principle?**

3 A. No. In fact, in the recent Every Missouri West (“EMW”) rate case, Case No. ER-2022-
4 0130, in supporting its decision to not allow a ROR on the undepreciated balance of
5 EMW’s Sibley plant, the Commission explained that doing so would be inconsistent with
6 its prior decisions to not allow a ROR on assets that are not used and useful.⁶ The
7 Commission’s decision was consistent with the Staff’s, Missouri Energy Consumer
8 Group’s and OPC’s positions in that case.

9 **Q. For purposes of the Liberty and EMW securitization cases, did Staff analyze a variety**
10 **of assumed return scenarios for traditional ratemaking?**

11 A. Yes. Staff analyzed authorized returns ranging from 0% to the pre-tax ROR. The assumed
12 returns between this range were based on the Commission authorizing a return consistent
13 with each company’s embedded cost of debt at various historical dates.

14 **Q. In the Liberty and EMW securitization cases, what financial model did Staff use to**
15 **assess whether securitization would produce quantifiable NPV benefits for retail**
16 **customers?**

17 A. Staff used a model sponsored by its outside financial advisor, Ducera Partners LLP
18 (“Ducera”).

19 **Q. Does Missouri’s securitization law require the Commission to find that securitization**
20 **is expected to provide quantifiable NPV benefits to retail customers as compared to**
21 **traditional ratemaking?**

22 A. Yes.

23 **Q. Does the information disclosed in the Issuance Advice Letter (“IAL”) include a final**
24 **estimate of the quantifiable NPV benefits of securitization to retail customers?**

25 A. Yes.

⁶ Case No. ER-2022-0130, Report and Order, November 21, 2022, pgs. 38-39.

1 **Q. Is it important for public transparency and trust to ensure that the final estimate of**
2 **NPV benefits of securitization reflect a comparison to a realistic traditional**
3 **ratemaking scenario?**

4 A. Yes.

5 **Q. Have you developed a method to compare the cost of traditional ratemaking to**
6 **securitization?**

7 A. Yes, but not from scratch. Mr. Lansford's direct testimony provides a good example of
8 traditional ratemaking when describing his position regarding the value of tax benefits from
9 ADIT he contends should be reflected in the amount to securitize. The components and
10 results of Mr. Lansford's analysis are attached as Schedule MJL-D5 to his direct testimony.
11 Mr. Lansford's example in this schedule is much more consistent with traditional
12 ratemaking principles than the analysis he shows on Schedule MJL-D4. I have attached
13 my extension of Mr. Lansford's example as Schedules DM-S-2 and DM-S-3 to my
14 testimony.

15 **Q. Why is Schedule MJL-D5 much more consistent with traditional ratemaking**
16 **principles than Schedule MJL-D4?**

17 A. Mr. Lansford's traditional ratemaking scenario shown on Schedule MJL-D4 assumes
18 ratepayers will be charged a levelized monthly payment over 15 years just like a mortgage
19 payment. While this may be consistent with anticipated customer charges through a
20 securitization transaction, this is not consistent with traditional ratemaking.

21 **Q. Why not?**

22 A. Under traditional ratemaking, as shown on line 15 of Mr. Lansford's Schedule MJL-D5,
23 the revenue requirement for a depreciating investment declines over time. The revenue
24 requirement in year 1 is \$143.33 and declines to \$53.5 by the final year of its estimated
25 useful life.

1 **Q. Does using the most reasonable and accurate traditional ratemaking scenario make a**
2 **difference in quantifying the NPV of potential customer benefits?**

3 A. Yes. As I explained in my rebuttal testimony,⁷ assuming the use of the same discount rate
4 for securitization and traditional ratemaking, the timing and size of cash flows is an
5 important factor in a NPV analysis.

6 **Q. What do you mean?**

7 A. Because customer payments are higher in the near term under traditional ratemaking as
8 compared to securitization, and lower in the long-term as compared to securitization, the
9 present value of any potential savings/costs in later years will be worth less in present value
10 terms. Therefore, because under traditional ratemaking ratepayers should pay less in year
11 20 than under securitization, this savings is not worth as much to ratepayers as the near-
12 term savings they may receive from securitization.

13 **Q. Does Mr. Lansford's, and therefore your example, include any simplifying**
14 **assumptions?**

15 A. Yes. Both of our examples assume rates are reset every year.

16 **Q. Starting with Mr. Lansford's example, what is a good early retirement date for**
17 **illustrating how traditional ratemaking would impact the revenue requirement if the**
18 **plant is retired?**

19 A. At the end of the fifth year.

20 **Q. Why did you choose the end of the fifth year?**

21 A. Because under Mr. Lansford's example, after five years the plant is fully depreciated for
22 tax purposes. However, for regulatory book purposes, the plant will continue to be
23 depreciated for fifteen more years.

⁷ Murray Rebuttal, p. 16, lns. 12-21.

1 **Q. If the plant is retired after year five, what is the regulatory net book value of the**
2 **plant?**

3 A. \$750 (column 6, row 6).

4 **Q. Is this the balance to which an authorized ROR would be applied?**

5 A. No.

6 **Q. Why not?**

7 A. Because through year five retail customers paid \$187.5 (column 6, row 8) more in income
8 taxes than the company had to remit to the taxing authority. As shown in Mr. Lansford's
9 example, retail customers pay a ROR on the difference between \$750 and \$187.5, which
10 is \$562.5 (column 6, row 9).

11 **Q. Under traditional ratemaking, what amount of the retired plant would be transferred**
12 **to a regulatory asset?**

13 A. \$562.5, which means that ratepayers receive immediate consideration for the ADIT balance
14 at the date of retirement.

15 **Q. What is the present value of the remaining fifteen years of revenue requirement based**
16 **on treating the regulatory net book value (including the offset for ADIT) as a**
17 **regulatory asset?**

18 A. Using a 5% discount rate, the present value is \$816.42 (column 5, row 34).

19 **Q. How does this present value of revenue requirement compare to the scenario where**
20 **the plant remains used and useful, regulatory depreciation continues to be booked,**
21 **and retail customers continue to receive an annual offset for ADIT over the remaining**
22 **fifteen years?**

23 A. It is the same (column 5, row 53). Therefore, under traditional ratemaking, the current
24 value of ADIT should be deducted from the current plant balance to ensure retail customers
25 are at least not charged more for the shuttered plant than they would have been charged if
26 it remained used and useful.

1 **Q. Did your example assume that retail customers were charged the same ROR**
2 **regardless of the status of the plant (retired vs. used and useful)?**

3 A. Yes. Therefore, if a lower ROR, such as a cost of debt, were charged to retail customers
4 because the plant is no longer used and useful, then the traditional ratemaking scenario
5 would be less costly.

6 **Q. Can you illustrate the cost of securitization based on Mr. Lansford's example as well?**

7 A. Yes, but I will not include upfront or ongoing financing costs. For purposes of
8 securitization, I assumed that retail customers receive full credit for the *current* balance of
9 ADIT to determine the balance that should be recovered through securitization, which is
10 the \$562.5 balance. I assumed a 5% interest rate for securitization which is similar to the
11 rates Liberty and EMW received in their securitization transactions. I also recognized that
12 for income tax purposes, the revenues received through the Securitized Utility Tariff Rider
13 ("Rider SUR") will be offset by the interest portion of the debt service payment. Based on
14 these assumptions and a 5% discount rate, the present value of ratepayers' payments for
15 securitization of the remaining net asset balance is \$686.63 (column 5, row 40).

16 **Q. How does the magnitude of the discount rate impact the quantification of the NPV**
17 **benefits?**

18 A. A higher discount rate will cause later period savings from traditional ratemaking to be
19 worth less in present value terms than earlier period costs from traditional ratemaking. In
20 my example, I used a 5% discount rate. If I used a 7% discount rate, the quantified NPV
21 benefits would be \$125.65 as compared to \$129.79 using a 5% discount rate.

22 **Q. For purposes of the example, if you assumed only a debt return was allowed for**
23 **traditional ratemaking, would securitization be less costly to ratepayers?**

24 A. No (*see* column 5, row 41 on Schedule DM-S-3).

1 **Q. Did you apply the traditional ratemaking principles established in the example to the**
2 **requested recovery of Rush Island energy transition costs to determine the**
3 **quantifiable NPV benefits/costs of securitization?**

4 A. Yes. The results of my analysis are shown on Schedules DM-S-4 and DM-S-5.

5 **Q. Can you explain the main issues/assumptions in Schedule DM-S-4 that influence the**
6 **outcome of your analysis?**

7 A. Yes. For traditional ratemaking, I used the following inputs/assumptions:

- 8 • The Commission hypothetically allows a pre-tax composite ROR of 8.36%
- 9 on the Rush Island energy transition costs;
- 10 • A starting regulatory asset balance of \$447,245,644 (column 1, row 12)
- 11 consisting of the following items as of September 1, 2024:
 - 12 ○ Net plant - \$475,235,629 (column 1, row 3) plus
 - 13 ○ ADIT (column 1, row 8) – (\$118,990,949) plus
 - 14 ○ Energy transition costs (except NPV of Tax Benefits) identified in
 - 15 Mr. Lansford’s Schedule MJL-D1 (column 1, row 10) -
 - 16 \$91,000,965;
- 17 • A 15-year amortization; and
- 18 • A 5% discount rate.

19 For securitization I used the following inputs/assumptions:

- 20 • Principal bond amount - \$453,852,253
 - 21 ○ Regulatory Asset - \$447,254,644 plus
 - 22 ○ Upfront financing costs - \$6,606,609;
- 23 • 15-year bond term;
- 24 • 5.59% coupon rate;
- 25 • Amortizing loan with interest expense tax deductible.

1 **Q. Based on the above assumptions/inputs what does your analysis show as the**
2 **quantifiable NPV benefits of securitization compared to traditional ratemaking?**

3 A. Securitization implies customer savings of approximately \$70.2 million on a NPV basis
4 (Schedule DM-S-4, column 1, row 25).

5 **Q. What if you assumed traditional ratemaking treatment for Rush Island which allows**
6 **a more reasonable return based on Ameren Missouri's embedded cost of debt of**
7 **4.05% at December 31, 2023?**

8 A. Ratepayers would pay approximately \$48.5 million more for securitization as compared to
9 traditional ratemaking (Schedule DM-S-5, column 1, row 25). Therefore, it is clear that in
10 order for securitization to be framed as "creating" savings for customers, it must be
11 compared to a hypothetical scenario in which ratepayers are charged a composite pre-tax
12 ROR under the traditional ratemaking scenario.

13 **Q. Can you provide an estimate of quantifiable NPV savings/costs of securitization if the**
14 **Commission adopts OPC's recommended adjustments to Ameren Missouri's**
15 **requested recovery through securitization?**

16 A. Yes. The details of my analysis are shown on Schedules DM-S-6 and DM-S-7. OPC does
17 not agree with securitizing the amounts Mr. Lansford identifies on lines 4 – 6, and lines 8
18 – 12 identified in his Schedule MJL-D1. In addition to removing these costs from
19 securitization, OPC witness Jordan Seaver recommends a disallowance of \$34 million from
20 the undepreciated balance. After making these adjustments, OPC's recommendation for
21 potential amounts to be recovered through securitization is \$322,244,680.

22 As shown in detail on Schedule DM-S-6, comparing securitization to the hypothetical
23 traditional ratemaking scenario in which ratepayers are charged a debt return of 4.05%,
24 securitization would be approximately \$31.0 million more costly on a NPV basis. As
25 shown in detail on Schedule DM-S-7, comparing securitization to the hypothetical
26 traditional ratemaking scenario in which the ratepayers are charged a composite pre-tax
27 ROR on this amount, securitization would generate savings of approximately \$49.4 million
28 on a NPV basis.

1 **JAMES OWEN**

2 **Q. What issue does Mr. Owen address in his rebuttal testimony?**

3 A. Mr. Owen provides information on a potentially less costly financing alternative than
4 securitization.

5 **Q. Does Mr. Owen oppose Ameren Missouri’s request to securitize Rush Island energy
6 transition costs?**

7 A. No. Mr. Owen is simply providing information on a potentially less costly approach than
8 Ameren Missouri’s proposed securitization transaction in this case.

9 **Q. Is Ameren Missouri evaluating this option?**

10 A. Yes. Ameren Missouri provided responses to data requests OPC witness John A. Robinett
11 submitted to determine the due diligence Ameren Missouri may have performed to evaluate
12 this option. Mr. Robinett attached Ameren Missouri’s responses as Schedule JAR-R-2 to
13 his rebuttal testimony.

14 **Q. Are you familiar with the program Mr. Owen discusses in his testimony?**

15 A. Not in detail. I read the article Mr. Owen cited in his testimony, but I have not researched
16 the program any further.

17 **Q. Should the Commission require Ameren Missouri provide more detail about the
18 status and potential for lower costs to ratepayers of this option before authorizing
19 securitization?**

20 A. Yes. Ameren Missouri should be required to provide a detailed analysis showing the
21 feasibility, or lack thereof, of pursuing this potentially lowest-cost option before the
22 Commission authorizes Ameren Missouri to securitize Rush Island.

1 **ISSUANCE ADVICE LETTER AND POST FINANCING ORDER ISSUES**

2 **Q. Does OPC have concerns about the post-financing order process?**

3 A. Yes. Based on OPC's experience in the Liberty and EMW securitization cases, OPC
4 believes certain improvements should be made to increase transparency and limit the
5 changes/amendments that can be included in the IAL.

6 **Q. In the Liberty and EMW securitization cases, was OPC allowed to review the IALs
7 and their underlying workpapers before they were filed in the securitization cases?**

8 A. No. OPC did not have the opportunity to review this information until it was filed in the
9 cases. Although the Commission's Amended Report and Orders in the Liberty and EMW
10 securitization cases directed each company to submit their draft IALs to the "Finance
11 Team" no later than two weeks before the expected commencement of marketing the
12 securitized utility tariff bonds, OPC was not on the "Finance Team."⁸

13 In the Liberty securitization cases, Liberty filed its IAL on January 19, 2024. Liberty filed
14 its workpapers supporting the results reported in the IAL on January 22, 2024. The
15 Commission then ordered parties to file responses to the IAL by the close of business on
16 January 23, 2024.

17 In the EMW securitization case, EMW filed its IAL and its supporting workpapers on
18 Thursday, February 15, 2024. The Commission directed only Staff (not other parties) to
19 respond to the IAL by the second business day after EMW filed the IAL. Staff filed
20 Ducera's opinion regarding the IAL on Tuesday February 20, 2024 (Monday, February 19
21 was a state holiday).

22 **Q. Did OPC file a response to the IAL in the Liberty securitization case?**

23 A. Yes. OPC filed a response on January 23, 2024, expressing concerns about the inputs used
24 to determine the estimated NPV benefits of securitization. OPC observed that the inputs
25 used to determine the estimated quantifiable NPV benefits were not consistent with those

⁸ Case Nos. EO-2022-0040 and EO-2022-0193, Amended Report and Order, September 22, 2022, p. 124 and Case No. EF-2022-0155, Amended Report and Order, November 17, 2022, p. 111.

1 decided in the Commission’s financing order. OPC also noted that the Commission’s order
2 relied on exhibits from the case which assumed that absent securitization, Liberty may have
3 been allowed a return premised on Liberty’s cost of debt for Storm Uri costs. The
4 calculations in the IAL assumed that absent securitization, Liberty would have received a
5 return consistent with the after-tax ROR allowed on rate base (6.77%) in the Liberty’s 2019
6 rate case, Case No. ER-2019-0374.

7 **Q. Did OPC discover any other issues regarding Liberty’s IAL that it did not address in**
8 **its January 23, 2024, response to the Commission’s order?**

9 A. Yes. Liberty added \$2.117 million of income taxes to ongoing financing costs, which were
10 not identified as ongoing financing costs in the financing order.

11 **Q. Does the securitization law contemplate the involvement of Staff and designated**
12 **financial advisor(s) in the post financing order process to ensure the accuracy,**
13 **reliability, efficiency and fairness of implementing the financing order?**

14 A. Yes. The Commission designated a “Finance Team” for purposes of the post financing
15 order process. Staff’s financial advisor, Mark S. A. Davis of Ducera Partners was a key
16 member of the “Finance Team.”

17 **Q. Do you know the extent of Mr. Davis’ influence in this process?**

18 A. No. OPC was not part of the “Finance Team” so I have no firsthand knowledge of the
19 extent of his involvement or the influence he may have had in ensuring that the “structuring,
20 marketing and pricing of the Securitized Utility Tariff Bond resulted in the lowest charge
21 consistent with market conditions.”⁹

22 **Q. Did Ducera file a response to the IAL in the Liberty Securitization case?**

23 A. Yes. Pursuant to Ducera’s contract with the Missouri Public Service Commission, it was
24 required to provide Staff its opinion as to whether the “structuring, marketing and pricing
25 of the Securitized Utility Tariff Bond resulted in the lowest charge consistent with market

⁹ Case Nos. EO-2022-0040 and EO-2022-0193, *Order Directing Staff to Submit Ducera Report and Staff Recommendation*, January 11, 2024.

1 conditions.”¹⁰ Ducera’s contract required it to provide its opinion to Staff no later than
2 “Noon Central Time of the second business day after the submittal date of the IAL.”¹¹

3 **Q. Did Ducera’s contract allow its opinion to be qualified as it relates to relying on**
4 **information provided to it by other parties?**

5 A. Yes. The contract contained the following provision:

6 2.4.5 **Reliance:** The Contractor shall be entitled to rely on any certificate, record,
7 agreement, instrument, document and any other information provided to it by the
8 Commission, Commission Staff and any third-party without independent
9 investigation or verification.¹²

10 **Q. Is Ducera’s opinion available to the public?**

11 A. No. Ducera’s opinion was classified as confidential in its entirety.

12 **Q. Did you ask Ducera to provide its view as to whether it is required to provide a**
13 **“qualified” or “unqualified” opinion in this case?**

14 A. Yes. I requested Ducera to specify whether it would provide a “qualified” or “unqualified”
15 opinion related to Ameren Missouri’s IAL. Ducera replied that its contract does not require
16 it “...to provide an opinion related to Ameren Missouri’s filing of its Issuance Advice
17 Letter.”¹³ Ducera’s answer is technically correct as pursuant to its contract it is required to
18 provide its opinion about whether the “structuring, marketing and pricing of the Securitized
19 Utility Tariff Bond resulted in the lowest charge consistent with market conditions” within
20 1.5 days. However, the purpose of the IAL is to provide the final terms and conditions of
21 securitized bonds, which includes information related to the cost of the bonds.
22 Consequently, a more helpful response from Ducera would have been to simply state
23 whether its opinion would be qualified for any factors.

¹⁰ *Id.*

¹¹ Missouri Public Service Commission Consulting & Testifying Expert Witness Services Contract Case No. EO-2022-0040 – Empire/Liberty Financing Order (Ducera Partners LLC), Provision 2.4.4.2, pages 7-8.

¹² *Id.*, page 8.

¹³ Ducera’s response to OPC Data Request No. 0033.

1 **Q. Is the same “Reliance” provision contained in Ducera’s contract with Staff in this**
2 **case?**

3 A. Yes. See provision 2.4.5 shown page 7 of Schedule DM-S-8 attached to my testimony.

4 **Q. Did OPC file a response to the IAL in the Evergy securitization case?**

5 A. No. As I testified above, the Commission only requested its Staff respond to the IAL.

6 **Q. Does OPC consider the ROR inputs EMW used in the IAL to determine NPV savings**
7 **to be consistent with the Commission’s order?**

8 A. No. The Commission decided that a reasonable carrying cost to finance the extraordinary
9 costs related to Storm Uri should be based on EMW’s embedded cost of long-term debt
10 from its 2018 rate case (5.06%). Ducera’s quantifiable NPV benefit calculations used this
11 rate as the assumed ROR the Commission would allow if EMW recovered the
12 extraordinary costs through a regulatory asset amortization. EMW’s quantification of the
13 NPV of benefits from securitization assumed EMW would have received a pre-tax ROR
14 of 8.9% on this regulatory asset as it was amortized over fifteen years.

15 **Q. How much was Ducera compensated for its services in Liberty securitization case?**

16 A. A flat rate of \$225,000 per month with a cap of \$1.561 million.

17 **Q. How much was Ducera compensated for its services in the EMW securitization case?**

18 A. A flat rate of \$175,000 per month with a cap of \$1,560,484.

19 **Q. Did Ducera reach its cap in both cases?**

20 A. Yes.

21 **Q. When did OPC learn that Ducera received approximately \$1.561 million in total**
22 **compensation for each case?**

23 A. At the time each company filed its IAL, which provided an aggregate line item for
24 Commission Staff’s financial advisor and bond counsel fees.

1 **Q. Who pays the financial advisor and bond counsel fees included in the securitized bond**
2 **amount?**

3 A. Retail customers.

4 **Q. How much is Ducera being compensated for its services in this case?**

5 A. \$225,000 per month with a cap of \$2.75 million.

6 **Q. Why is Ducera's cap so much higher in this case?**

7 A. I do not know.

8 **Q. What is your understanding as to when Ducera commenced providing services in this**
9 **case?**

10 A. The underlying contract for services states the contract period is January 12, 2024 through
11 January 12, 2028. However, based on Staff's response to OPC Data Request No. 0029, it
12 appears Ducera started providing its services after rebuttal testimony was filed because
13 Staff indicated Ducera will be filing surrebuttal testimony in this case. Additionally, I did
14 not receive responses to DRs I submitted to Ducera until March 18, which was seven days
15 past their due date, implying Ducera was not actively participating in the case until
16 recently.

17 **Q. What does OPC propose to improve the transparency, efficiency, and accuracy of**
18 **securitization cases to provide the public confidence that securitization transactions**
19 **provide true and maximum quantifiable NPV benefits as well as the lowest securitized**
20 **utility tariff charges?**

21 A. The Commission should require the following in this case:

22 (1) The financial advisor shall identify information it relied upon, but did not
23 independently verify, for purposes of providing its opinion that the securitized
24 bonds were priced at the lowest possible costs consistent with the market conditions
25 at the time the bonds were issued;

1 (2) Require the certification letters/opinions filed by the financial advisor(s) and the
2 underwriters to redact specific confidential information rather than classifying the
3 entire document as confidential as was done in the Liberty and EMW securitization
4 cases;

5 (3) Require the IAL to include a comparable pricing analysis which compares the
6 spread of the utility securitized bond yields to the following: (1) comparable
7 maturity United States Treasury bonds, (2) comparable maturity 'AAA' rated
8 bonds and (3) other comparable recent utility securitized bond transactions. If the
9 yield spread on the transaction is higher than other primary and secondary
10 comparable yield spreads, an explanation should be provided as to why the prices
11 were higher for the placement of these bonds (an example of additional pricing
12 comparison details can be found on pages 21 – 23 of Schedule DM-S-9, which is a
13 draft IAL for a securitization proceeding, Case No. 2023-00159, before the
14 Kentucky Public Service Commission);

15 (4) Require the utility company to provide the IAL and supporting workpapers to
16 the other interested parties at the same time it provides this information to Staff's
17 Finance Team; and

18 (5) If Staff's financial advisor charges more than \$1.561 million in this case, a
19 detailed accounting and explanation as to the need for these additional charges shall
20 be included as an appendix to the IAL.

21 **Q. Does this conclude your surrebuttal testimony?**

22 **A. Yes.**

