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Davis
Surrebuttal
File No. EF-2024-0021

Exhibit No.:

Issue(s): *Net Present Value,
Post Financing Order,
Bond Terms and Conditions*

Witness: *Mark Davis
Ducera Partners, LLC*

Sponsoring Party: *MoPSC Staff*

Type of Exhibit: *Surrebuttal Testimony*

Case No.: *EF-2024-0021*

Date Testimony Prepared: *March 22, 2024*

**BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION**

SURREBUTTAL TESTIMONY

OF

**MARK DAVIS
DUCERA PARTNERS, LLC**

**UNION ELECTRIC COMPANY,
d/b/a AMEREN MISSOURI**

CASE NO. EF-2024-0021

*Jefferson City, Missouri
March 2024*

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MARK DAVIS
DUCERA PARTNERS, LLC
UNION ELECTRIC COMPANY,
d/b/a AMEREN MISSOURI
CASE NO. EF-2024-0021**

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1 **SURREBUTTAL TESTIMONY**
2 **OF**
3 **MARK DAVIS**
4 **DUCERA PARTNERS, LLC**
5 **UNION ELECTRIC COMPANY,**
6 **d/b/a AMEREN MISSOURI**
7 **CASE NO. EF-2024-0021**

8 Q. Please state your name and business address.

9 A. Mark Davis. I am a partner at Ducera Partners LLC (along with its affiliates,
10 collectively, “**Ducera**”) located at 2121 Avenue of the Stars, 29th Floor, Los Angeles, CA
11 90067., and am duly authorized to submit this declaration (this “**Declaration**”).

12 I am not being compensated separately for this Declaration or testimony. Except as
13 otherwise set forth in this Declaration, I have personal knowledge of the facts set forth herein
14 and, if called as a witness, I could and would testify thereto. The Net Present Value (NPV)
15 analysis presented in this testimony assumes taxes would be applied under amortization and
16 makes assumptions around taxes and amortization in a securitization scenario, and the NPV
17 savings calculated by our model assume the accuracy and do not assume any changes to the
18 approach utilized by the issuer occurred. The statements in this testimony are, except as
19 otherwise noted, based on my personal knowledge or opinion, information that is publicly
20 available, provided by Ameren, its professionals, its advisors, or other interested parties, and
21 Ducera’s employees working directly with me or under my supervision or direction. If called
22 upon to testify, I would testify to the facts set forth herein.

DUCERA’S QUALIFICATIONS

1
2 Q. Can you describe Ducera’s expertise and services in the investment
3 banking sector?

4 A. Ducera is an independent investment bank with expertise in a range of corporate
5 financing advisory services, including restructuring services. Ducera professionals, with roots
6 in complex corporate finance, offer impartial and independent strategic advice to stakeholders
7 in a broad range of industries and situations, have extensive experience with investing and
8 analyzing claims of debtors and their estates, and specialize in, among other things, providing
9 clients with leading-edge capital structure and restructuring advice and services in workout and
10 bankruptcy situations.

11 Q. Please describe your professional qualifications and experience, and educational
12 background.

13 A. I have more than 15 years of investment banking experience working on a broad
14 range of advisory assignments across industry sectors, including leading Ducera’s power and
15 utility efforts. Prior to joining Ducera as a founding member, I worked as a director at Perella
16 Weinberg Partners and previously at Kramer Capital Partners. I have extensive experience
17 advising on complex financial advisory transactions including utility securitizations across the
18 United States, including advising on financing order and/or securitization transactions in five
19 states involving over ten utilities and over \$15 billion of transaction volume. I have provided
20 advice to several state utility regulatory commissions in other complex proceedings, including
21 as it relates to securitization and other financial matters. I am registered with the Financial
22 Industry Regulatory Authority (“FINRA”) and have dual degrees in economics and finance,
23 from the WP Carey School of business at Arizona State University, summa cum laude.

1 Q. Have you testified before the Missouri Public Service Commission
2 (“Commission”)?

3 A. I have testified before the Commission on behalf of the Commission Staff for
4 The Empire District Electric Company, d/b/a Liberty (“Liberty”) Case No. (EO-2022-0040 and
5 EO-2022-0193) and Evergy Missouri West (EF-2022-0155) (“Evergy West”).

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

7 A. I am testifying as an expert witness on behalf of the Staff of the Missouri Public
8 Service Commission (“Commission Staff”).

9 **REBUTTAL TESTIMONY**

10 Q. What is the purpose of your surrebuttal testimony and what topics is your
11 testimony intended to address?

12 A. I will address the Rebuttal testimony of the Office of the Public Counsel (OPC)
13 witness David Murray concerning the net present customer benefits standard relative to
14 traditional recovery methods, including addressing the lowest cost standard. I will also address
15 the degree of flexibility afforded to The Union Electric Company, d/b/a Ameren Missouri
16 (“Ameren”) in establishing the terms and conditions of the bonds and commission staff,
17 (“Staff”), as designated by the Commission and supported by external advisor(s), involvement
18 in the securitization process, including reviewing, providing input and collaborating in all facets
19 of the process.

20 Q. Can you please describe the role and approach of Ducera in reviewing Ameren’s
21 proposed NPV savings?

22 A. Ducera reviewed workpapers and models provided by Ameren and Staff, as they
23 relate to traditional rate making and securitization. Ducera made certain modifications to the

1 | workpapers of Ameren witness Lansford to reflect Staff’s views and assumptions regarding
2 | traditional rate making and our knowledge of securitizations. Such modifications include the
3 | exclusion of approximately \$22.0 million in securitization costs, evaluating alternative discount
4 | rates and evaluating alternative costs of securitization.¹

5 | **NET PRESENT VALUE (NPV) BENEFIT TO RATEPAYERS**

6 | *Applicable Customary Recovery Method*

7 | Q. On pages 2-3 of his rebuttal testimony, OPC witness Murray discusses his
8 | opinion on the “traditional” recovery method for utility property in question. What is presented
9 | in Ameren’s proposal as the traditional recovery method that he disputes?

10 | A. In the Schedule MJL-D4 of the Direct Testimony of Ameren witness Michael J.
11 | Lansford (“Lansford Testimony”), Ameren presents the traditional recovery method as an
12 | amortization of qualified extraordinary costs over 15 years with levelized payments and
13 | inclusion of the unamortized balance in the rate base, during the recovery period. This was used
14 | as the basis for calculating the benefit of securitization, which Ameren estimated in the schedule
15 | at approximately \$120.4 million (approximately \$75.2 million on a NPV basis)².

16 | Q. On page 4 of his rebuttal testimony, OPC witness Murray discusses the
17 | “traditional method of financing” under the Missouri securitization statute. What is
18 | Commission Staff’s position on traditional cost recovery?

¹ Schedule KM-r4. Consists of reduced Rush Island Net Plant in Service of approximately \$2.4 million and excluded costs of approximately \$2.5 million for asset retirement obligations (AROs) on the Ash Pond, \$4.6 million for Water Treatment and Monitoring, \$3.7mm of community transition costs, and \$9.0 million of the \$13.0 million in abandoned capital projects costs.

² Lansford Revised Workpapers, Schedule MJL-D4.

1 A. Per Staff testimony,³ the cost recovery through an Amortization of 15 years
2 would be appropriate and the likely method absent securitization. We note
3 Section 393.1700.2(1)(f), RSMo⁴, states that the comparison must be made to “the traditional
4 method of financing” and Section 393.1700.2(3)(c)b, RSMo, states that the Commission must
5 find that securitization must be “expected to provide quantifiable net present value benefits to
6 customers as compared to recovery of the components of securitized utility tariff costs that
7 would have been incurred absent” securitization, both provisions requiring comparison of the
8 cost of securitization to a single method. In addition, Staff believes the comparison of costs
9 should also incorporate the revisions described in Staff testimony, such as the quantum of costs
10 permissible for recovery.

11 Q. As noted on page 3 of his rebuttal testimony, does OPC agree with Staff and
12 Ameren’s position on traditional cost recovery?

13 A. David Murray on behalf of the Office of Public Counsel, criticizes this approach,
14 contending that if a plant is not used and useful, no return during recovery should be allowed.

15 ***Total Quantum of Rush Island Costs***

16 Q. On page 3 of his rebuttal testimony, OPC witness Murray notes the total energy
17 transition costs of \$512.8 million. What is Staff’s position on the total quantum of recoverable
18 costs for Energy Transition Costs associated with the Rush Island plant?

19 A. The Staff’s testimony outlines proposed adjustments to the quantum of charges
20 available to securitize, estimated at approximately \$497.5 million⁵. Such amount includes

³ Majors Rebuttal at pg. 19.

⁴ Citations to Section 393.1700 are to RSMo (Supp. 2021).

⁵ Majors Revised Workpaper, Schedule KM-11.

1 \$491.0 million of Rush Island Energy Transition Costs, \$0 of carrying costs prior to recovery
2 (given timing of recovery), and illustrative upfront financing costs of approximately
3 \$6.5 million.

4 *Applicable Carrying Costs*

5 Q. On page 13 of his rebuttal testimony, OPC witness Murray notes his primary
6 recommendation of no carrying charges. What applicable carrying costs has Staff proposed for
7 each scenario?

8 A. The Staff has not proposed any carrying costs prior to recovery as Ameren has
9 not proposed any carrying costs prior to recovery. If carrying costs were introduced prior to
10 recovery, the Staff contends that such costs should not be calculated at the Weighted Average
11 Cost of Capital (“WACC”) of 6.821% as requested by Ameren, but, rather, at the latest cost of
12 long-term debt of 4.051% as noted on page 5 of witness Murray’s rebuttal testimony.

13 Regarding rates during recovery, as noted herein, the Staff has not objected to the notion
14 Ameren would recover its cost of debt and equity financing during the 15-year amortization
15 period at the utility WACC of 6.821% using traditional rate making.

16 David Murray, on behalf of the Office of Public Counsel, contending there are no
17 current identifiable issuances associated with carrying Rush Island on page 13, lines 3-5 of his
18 rebuttal testimony. As noted above, Staff has testified it does not agree with this position. If the
19 issuer were able to finance such costs for free, it is unlikely that other forms of financing,
20 including securitization, would be better (all else equal and prior to considering impacts such a
21 decision may have on the overall utility cost of capital).

Discount Rate

Q. How is present value determined in the Rush Island case by Ameren?

A. Ameren calculates the present value of cost recovery from securitization and amortization using a 6.821% WACC discount rate, based on the WACC from ER-2022-0337⁶.

Discount Rate Sensitivity Analysis

Q. Does Ameren demonstrate present value savings at discount rates other than the WACC?

A. **

**

Q. The statute requires a comparison between the net present value of the costs to customers that are estimated to result from the issuance of securitized utility tariff bonds and the costs that would result from the application of the customary method of financing and recovery. What range of discount rates beyond the utility WACC may be sensitized in each method to evaluate the customer cost of capital?

A. Beyond the utility WACC, additional discount rates that have been analyzed in other instances include the cost of securitization, utility cost of debt, and cost of consumer borrowing, among others. As a result of a variety of issues and factors, there is no single discount rate that applies uniformly to all customers. Some customers may have cash on hand invested in a safe and liquid manner such as a savings account or a certificate of deposit, some may need to withdraw balances from equity investments, while others may be carrying balances

⁶ Lansford Testimony, pg. 13.

1 on credit cards and their cost of financing incremental costs could be in the double digits. Such
2 rates could range from the low single digits to the 20% context in the case of credit card debt.

3 In the previous Liberty Empire securitization case, the Commission decided that
4 “The WACC of 6.77 percent suggested by Liberty and Staff is appropriate and is adopted” for
5 the discount rate on Asbury plant costs⁷. These costs are of the same nature as the Rush Island
6 plant cost used in this case. Under Ameren’s workpapers the proposed amortization schedule
7 under securitization and traditional rate making align. As such, mathematically the discount
8 rate under these models may impact the implied amount of NPV savings, but not whether or
9 not NPV savings are achieved by the transaction. For the avoidance of doubt, the Issuance
10 Advice Letter and Issuer Certification should represent the approach utilized by Ameren
11 represents traditional ratemaking.

12 ***Structuring and Pricing vis-à-vis Lowest Cost Standard***

13 Q. On page 6 of his rebuttal testimony, OPC witness Murray references the pricing
14 of Liberty and Evergy West securitization bond issuances. In its estimate of NPV savings to
15 customers from securitization, how does Ameren approach structuring and pricing of the
16 bonds?

17 A. Ameren outlined certain structural elements of its proposal in the Direct
18 Testimony of Katrina T. Niehaus (“Niehaus Testimony”), including a single issuance of
19 securitized utility tariff bonds in two tranches with different weighted average lives (“WALs”)
20 and a maximum overall cash flow length of 15 years, and a final legal maturity of 17 years⁸.

⁷ Liberty Financing Order, File No. EO-2022-0040 & EO-2022-0193 at pg. 74.

⁸ Niehaus Testimony, at pg. 5.

1 The bonds are assumed to amortize in a mortgage-style levelized payment method. The
2 estimated interest rate on the bonds was estimated in the Niehaus Testimony at 5.591%.⁹

3 Q. How does this compare with that of precedent utility securitization bonds?

4 A. Typically, the number of tranches and other structuring elements will vary based
5 on a number of factors including the size of the issuance and opportunities to structure the bonds
6 to attract the lowest cost investor capital. The currently contemplated structure is not out of line
7 with recent market issuances, which have generally included two to three tranches for relevant
8 issuances and mortgage style levelized payments.

9 Since the date of Ameren's application under Case No. EF-2024-0021, US Treasury
10 rates, which are a common underlying benchmark rate for utility securitizations, have
11 declined by approximately 26 bps.¹⁰ As such, Ameren's expected weighted average cost
12 of securitization may be lower today (but remains subject to market volatility until such bonds
13 are priced).

14 Q. Have you sensitized NPV savings of securitization utilizing rates implied by the
15 move in the treasury?

16 A. Ducera has sensitized NPV savings of securitization utilizing rates implied by
17 the move in the treasury.

18 Q. Is it possible the utility WACC could change over time?

⁹ Schedule KN-2.

¹⁰ Since providing Niehaus Testimony on November 21, 2023, the rate quoted on the 5-Year US Treasury of 4.512% and 10-year US Treasury of 4.527% respectively, has moved over 25 basis points with the 5-Year and 10-Year US Treasury Rates as of March 21, 2024 being 4.253% and 4.267%, respectively, based on Bloomberg Data. The rates used in Schedule KN-2 of the EF-2024-0021 Niehaus Testimony are stated to be as of November 8, 2023.

1 A. The utility WACC may change from those utilized by Ameren in conjunction
2 with changes in the treasury rates or other risk-free rates. However, such volatility and future
3 changes in utility WACC for the duration of the charge period are unknown and Staff has
4 proposed use of the most recently approved WACC for purposes of evaluating NPV savings.¹¹

5 Q. Using Staff's calculation of securitized utility tariff costs for Rush Island, what
6 is the implied NPV benefit of the securitization of Rush Island costs?

7 A. The NPV of benefits from securitization may vary based on a number of factors,
8 including certain items that are currently unknown such as the cost of the bonds at the time they
9 are ultimately issued. Based on an assumed term of securitization of 15 years, an illustrative
10 interest cost of securitization of 5.591%, reflecting Niehaus's spread assumptions, and certain
11 other assumptions, the implied NPV benefit of securitization would be approximately
12 \$72.3 million, at an illustrative discount rate of the WACC, when compared to a 15-Year
13 Amortization utilizing Lansford's analytical framework adjusted for Staff's balance and rate
14 during recovery assumptions. Further adjusting for the approximately 26 bps decrease in
15 relevant rates results in an implied NPV benefit of securitization of \$80.0 million.¹²

16 A comparison to a range of other illustrative costs of securitization rates during the
17 recovery period and discount rates is illustrated in the workpapers is attached hereto as
18 Confidential Schedule MD-s1.

¹¹ Majors Surrebuttal at pg. 3.

¹² Reflects a revised cost of securitization 5.331%, which adjusts the treasury rates used in the EF-2024-0021 Niehaus Testimony to current rates while holding other assumptions in Schedule KN-2 constant.

Financing Costs

1
2 Q. On pages 6 and 9 of his rebuttal testimony, OPC witness Murray discusses the
3 upfront financing costs incurred under this securitization. What are the upfront financing costs
4 estimated by Ameren for the Rush Island Securitization?

5 A. Ameren estimates an initial upfront financing cost of approximately \$6.6 million
6 as presented in the Lansford Testimony¹³. Reducing the size of the Rush Island Securitization
7 is likely to reduce certain expenses that are ultimately tied to the size of the bond offering, such
8 as underwriter fees. In calculating illustrative NPV savings, such upfront cost assumptions need
9 to be adjusted to reflect a smaller securitized amount proposed by Staff. For a consistent
10 comparison between traditional rate making and securitization, estimates have been adjusted to
11 exclude Commission Staff's costs which will be borne by Ameren regardless of whether the
12 securitization is ultimately approved as outlined in the Act.

13 Q. Is it customary for upfront financing costs to be included in the principal amount
14 of the securitized utility tariff bonds?

15 A. This has been used in other recent utility securitizations including the Liberty &
16 Evergy securitization transactions.

17 Q. What are the estimated ongoing financing costs proposed by Ameren for the
18 Rush Island securitization?

19 A. Ameren estimates an initial ongoing financing cost per annum of approximately
20 \$0.8 million for Rush Island securitization per the Lansford Testimony.

¹³ Lansford Testimony, pg. 9.

1 Q. How might the upfront and ongoing transaction costs change from petition to
2 transaction close?

3 A. The amount of fees, both fixed and variable, are largely estimates or amounts
4 proposed to be determined in the Financing Order. However, such amounts may change as a
5 result of numerous factors including the ultimate size of the transaction, the length and
6 complexity of transaction execution, and negotiations with third parties, among other factors.

7 Q. For costs that are not yet known or finalized, what protections can be put in place
8 to ensure such costs are reviewed?

9 A. The Commission, through designated representative(s) from Commission Staff
10 and its advisor(s), has the statutory authority to ensure that the securitization transaction aligns
11 with the goal of obtaining the lowest possible cost for customers. Given such costs are incurred
12 for the life of the securitization, Commission Staff review of such amounts prior to such costs
13 being finalized is appropriate and provides both negotiating leverage with third parties and
14 ensures active participation in fulfilling the mandate to achieve the lowest possible costs,
15 thereby enhancing the net benefits to customers as envisioned in the statute.

16 **ESTIMATED RECOVERY CHARGES and RETAIL CUSTOMER RATE IMPACT**

17 Q. What variables may impact the amount of the securitized utility tariff charge?

18 A. Variables that may impact the securitized utility tariff charge can include, but
19 are not limited to, (a) the amounts authorized for recovery through securitization, including
20 recovery amounts, carrying costs rates prior to recovery, carrying cost rates during recovery,
21 and upfront financing costs, (b) the term of the securitization, (c) pricing of the bond(s), and
22 (d) ongoing costs of the financing.

1 Additionally, seasonality and rate base consumption trends can have an impact on the
2 total amount billed to a customer in any given period.

3 Q. Did Ameren provide an analysis of customer benefit analyses under sufficient
4 alternative cases?

5 A. Ameren did not provide alternative calculations for Rush Island to demonstrate
6 the potential benefits under different assumptions.

7 Q. Please describe alternative financial analysis that may be necessary and key
8 assumptions used.

9 A. Further analysis incorporating Staff's views which expands the analysis of the
10 customer benefit to include recovery under the 15-Year Amortization is attached hereto as
11 Confidential Schedule MD-s1.

12 Method and various securitization assumptions beyond the cases provided in Ameren's
13 testimonies and data request responses. These cases have been run in the model developed by
14 Mitchel J. Lansford, adjusting to reflect Staff's position on the reduction of \$22.0 million of the
15 cost to be securitized.

16 Q. What form of true-up mechanism would be most likely to support the highest
17 possible credit rating, and thus lowest cost pricing, for the bonds?

18 A. An ideal true-up mechanism, integral to achieving the highest possible credit
19 ratings and minimizing the cost of capital, should ensure adequate collections to meet bond
20 payments when due, including in rating agency stress test cases. For the purposes of attaining
21 the highest possible credit ratings and ensuring timely and sufficient debt service, the financing
22 order should provide for both mandatory annual and interim true-ups, with the opportunity to
23 conduct non-mandatory true-ups as required. Further, a true-up that is straightforward to

1 implement, easy to understand, and that requires timely action provides valuable support for
2 the bonds, its credit ratings, and the resulting cost of capital. This approach, coupled with a
3 comprehensive review and structuring aimed at achieving the lowest cost enables the lowest
4 pricing for the bonds.

5 **BENEFITS OF POST-FINANCING ORDER**
6 **COMMISSION REVIEW and INVOLVEMENT**

7 Q. What does Ameren propose in terms of Commission Staff review and
8 involvement of a securitization transaction after the financing order becomes non-appealable?

9 A. According to Ameren, the Commission shall have the authority to designate a
10 representative or representatives from Commission Staff to collaborate with Ameren in all
11 facets of the process undertaken by Ameren for securitization so the Commission's
12 representative(s) can provide the Commission with an opinion on the reasonableness of the
13 pricing, terms, and conditions of the securitized utility tariff bonds on an expedited basis¹⁴.
14 Ameren indicates that neither the designated representatives from the Commission Staff
15 nor any financial advisors advising Commission Staff shall have authority to direct how
16 Ameren places the securitized utility tariff bonds to market although they shall be permitted to
17 attend all meetings convened by Ameren to address placement of the securitized utility tariff
18 bonds to market¹⁵.

19 These responsibilities should commence once the financing order is approved, rather
20 than waiting for it to become non-appealable.

21 Q. Is the review process proposed by Ameren adequate?

¹⁴ Ameren's Petition for a Financing Order, File No. EF-2024-0021 at pg. 48.

¹⁵ Ameren's Petition for a Financing Order, File No. EF-2024-0021 at pgs. 48-49.

1 A. Not as specifically proposed.

2 Ameren has proposed that the Commission appoint members to Staff who are advised
3 by external advisor(s) to serve as the finance team (“Finance Team”), with the right to provide
4 input and collaborate on the structuring, marketing, and pricing of the bonds¹⁶. However, the
5 scope of Finance Team role is modified from past Missouri Finance Orders, reducing the overall
6 involvement of the Staff. Ameren’s draft financing order includes the right to provide input and
7 collaborate on all aspects of structuring, marketing, and pricing of the bonds, however it
8 excludes the explicit right to “review.”. This right to review proposals from the issuer and
9 underwriters is an important element of ensuring an adequate review process. Additionally, the
10 Finance Team’s role in underwriter selection is more limited from previous financing orders,
11 and the proposal should be modified to ensure it captures the Finance Team’s right to review,
12 provide input, and collaborate on the number of underwriters selected and those selected as
13 participants on top of the already provided rights around underwriter allocations and economics.
14 Ensuring a complete underwriter selection process with a complete syndication team is
15 important to accessing a broad universe of investors and achieving the lowest cost.

16 Q. Is the timing of commencement of the Finance Team responsibilities
17 appropriate?

18 A. Ameren has proposed that the Finance Team’s responsibilities commence upon
19 the financing order becoming non-appealable¹⁷. Given recent past precedent of the appeals
20 process in Missouri, and an active market where moving quickly at the end of an appeals process
21 may be advantageous, we believe that the Finance Team’s responsibilities should commence

¹⁶ Ameren’s Petition for a Financing Order, File No. EF-2024-0021 at pg. 48.

¹⁷ Ameren’s Petition for a Financing Order, File No. EF-2024-0021 at pg. 48.

1 upon approval, as there are relevant processes the issuer may undergo while waiting for the
2 issuance to become non-appealable. Establishing the Finance Team early may help mitigate
3 risk of lack of collaboration on certain long lead time items, such as running an RFP process
4 for lead and joint underwriters, communicating with rating agencies, and preparing the rating
5 agency presentation and developing the registration statement. Furthermore, certain fixed costs
6 may become final during this process, thereby limiting the Finance Team’s ability to review
7 and collaborate on such costs.

8 **DEGREE OF FLEXIBILITY AFFORDED TO Ameren IN**
9 **ESTABLISHING BOND TERMS AND CONDITIONS**

10 Q. What does Ameren propose in terms of its ability to establish bond terms and
11 conditions?

12 A. As part of its proposed Financing Order, Ameren proposes that Ameren and the
13 Special Purpose Entity (“SPE”) must be afforded flexibility in establishing the terms and
14 conditions of the securitized utility tariff bonds, including the final structure of SPE, repayment
15 schedules, term, payment dates, collateral, credit enhancement, required debt service, interest
16 rates, use of original issue discount, and other financing costs and the ability of Ameren to have
17 one or more series of securitization at its discretion.

18 Q. Would interim review by Commission Staff during the post-financing order
19 process provide benefits from a market perspective?

20 A. Interim review and participation by Commission Staff and its advisor(s) can
21 provide comfort to market participants that the Commission, which has ultimate rejection
22 authority, is apprised of developments well in advance of the submission of the issuance
23 advice letter.

1 Q. What degree of flexibility is reasonable for Ameren in establishing bond terms
2 and conditions?

3 A. As set forth herein, market conditions have continued to evolve, including
4 sizable movements in benchmark rates following Ameren filing its application. As such, there
5 may be value in providing flexibility for Ameren to respond to market conditions at the time of
6 the transaction, and with the benefit of rating agency feedback, and underwriter
7 recommendations at the time, while ensuring ratepayer interests are protected.

8 Ameren should have the flexibility to establish elements such as (a) repayment
9 schedules, (b) coupons, (c) financing costs, and (d) other bond terms and conditions, so long as
10 the Finance Team is provided the necessary interim check-ins described earlier in testimony,
11 including the ability to provide input and collaborate, and notify the Commission of any
12 objections as necessary, ideally well in advance of furnishment of the issuance advice letter.

13 **EXPIRATION DATE OF FINANCING ORDER AUTHORIZATION**

14 Q. On what date should Ameren's authority to issue securitized utility tariff bonds
15 expire?

16 A. Pursuant to Section 393.1700, RSMo, the authority to issue securitized utility
17 tariff bonds will expire not earlier than one year after the date the financing order is no longer
18 subject to appeal. The statute does not impose an explicit outside date.

19 Q. What period has Ameren proposed?

1 A. Ameren has proposed that financing authority should not expire until 24 months
2 have elapsed after the financing order is no longer subject to appeal, subject to a 90-day
3 extension as a result of severe disruption in the financial markets¹⁸.

4 Q. Is the length of time proposed reasonable?

5 A. Subject to the items highlighted in the paragraphs herein, an outside date of
6 24 months following the financing order becoming unappealable provides a substantial amount
7 of time to issue the bonds and address market conditions, provided protections are in place to
8 review the bonds' structure, marketing, and pricing at the time to adapt to the then current
9 market environment.

10 Q. What financial risks exist, if any, if the period is prolonged between the
11 financing order becoming unappealable and the issuance of the bond(s)?

12 A. Principal risks of prolonging issuance may include exposure to interest rate risk
13 (both in benchmark rates and spreads) uncertainty until the financing is ultimately completed.
14 Customers may also face carrying costs rates prior to recovery that, as proposed by Ameren and
15 rejected by OPC, may exceed the cost of securitization.

16 Q. Could the existence of a Finance Team, mitigate any downside financial risk if
17 time to issuance is prolonged?

18 A. The time requested by Ameren may be valuable in allowing it to adapt to market
19 conditions. However, Finance Team involvement in all facets of the process and review of items
20 such as the time period of involving carrying costs rates prior to recovery may be necessary in
21 order to protect ratepayer interests.

¹⁸ Ameren's Petition for a Financing Order, File No. EF-2024-0021 at pg. 52.

CONCLUSION

1
2 Q. As the Staff's investment banking professional, and as permitted by statute, are
3 there any additional financial recommendations to the Commission to achieve the
4 Commission's stated goal of endeavoring to structure and price securitized utility tariff bonds
5 that would reasonably result in the lowest securitized utility tariff charges consistent with
6 market conditions at the time the bonds are priced?

7 A. From an investment banking perspective, there are no additional changes
8 proposed other than those set forth herein to assist the Staff with helping to drive toward the
9 statutory objective.

10 Q. Does this conclude your surrebuttal testimony?

11 A. Yes, it does.

Case No. EF-2024-0021

SCHEDULE MD-s1

HAS BEEN DEEMED

CONFIDENTIAL

IN ITS ENTIRETY

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Petition of Union)
Electric Company d/b/a Ameren Missouri)
for a Financing Order Authorizing the Issue)
of Securitized Utility Tariff Bonds for)
Energy Transition Costs Related to Rush)
Island Energy Center)

Case No. EF-2024-0021

AFFIDAVIT OF MARK DAVIS

STATE OF CALIFORNIA)
)
COUNTY OF Los Angeles) ss.

COMES NOW MARK DAVIS and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Surrebuttal Testimony of Mark Davis*; and that the same is true and correct according to his best knowledge and belief.


Further the Affiant sayeth not.



MARK DAVIS

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Los Angeles, State of California, at my office in Beaumont City, on this 21st day of March 2024.



Val Galbert
Notary Public

