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AUDIO TRANSCRIPTION  
MISSOURI PUBLIC SERVICE COMMISSION  
IN RE: THE PETITION OF EMPIRE DISTRICT ELECTRIC  
COMPANY, ET AL.  
CASE NOS. EO-2022-0040 & EO-2022-0193  
JUNE 16, 2022  
VOLUME 7

(Due to the quality of the recorded media, portions were unable to be transcribed and include inaudible portions. The transcript may also include misinterpreted words and/or unidentified speakers. The transcriber was not present at the time of the recording; therefore, this transcript should not be considered verbatim.)

TRANSCRIBED BY: MELISSA LANE

1 JASON HOLSMAN: Commissioner Holsman is on.

2 JUDGE WOODRUFF: Good morning,  
3 commissioner.

4 JASON HOLSMAN: Good morning. And Judge,  
5 how many witnesses do we have left?

6 JUDGE WOODRUFF: Five. We're going to  
7 start today with David Murray.

8 JASON HOLSMAN: Thank you very much.

9 JUDGE WOODRUFF: All right. So it's 8:30,  
10 so let's come to order. Okay. And we're ready for  
11 day four of this hearing on EO-2022-0040 and  
12 EO-2022-0193. I believe we're going to start today  
13 with David Murray for public counsel. All right.  
14 Take the stand. Raise your right hand. Do you  
15 solemnly swear or affirm the testimony you're about to  
16 give in this matter is the truth, the whole truth and  
17 nothing but the truth?

18 THE WITNESS: I do.

19 JUDGE WOODRUFF: Thank you. Inquire.

20 EXAMINATION

21 BY NATHAN WILLIAMS:

22 Q. Good morning, Mr. Murray.

23 A. Good morning.

24 Q. Would you please state and spell your name?

25 A. It's David Murray, D-A-V-I-D, M-U-R-R-A-Y.

1           **Q. Mr. Murray, did you prepare and cause to be**  
2 **pre-filed rebuttal testimony that has been marked as**  
3 **Exhibit 206, and then subsequently add an additional**  
4 **schedule to that testimony that's been pre -- was also**  
5 **pre-filed, and that has been marked as Exhibit 207?**

6           A. Yes.

7           **Q. Would those exhibits be your testimony here**  
8 **today or would you have any changes since then -- they**  
9 **were pre-filed?**

10          A. I'd like to an update and potential  
11 clarification regarding short-term debt. On page 8,  
12 lines 1 through 4, I explain the average monthly  
13 short-term debt interest rate for the period of  
14 February through June, and I want to make sure it's  
15 very clear that -- that that isn't an average monthly  
16 analyzed short-term interest rate. So in order to do  
17 so, I would insert -- on line 2, I would insert annual  
18 between monthly and short term which goes to the next  
19 line, and then to make sure it is absolutely clear  
20 what that month -- what that would convert to as a  
21 monthly interest rate, I would like to at the end of  
22 the sentence on line 4, indicate, quote, this converts  
23 to monthly rates of .03 percent, .03 percent,  
24 .02 percent, .02 percent, and .02 percent, comma,  
25 respectively.

1           **Q. With those revisions, are Exhibits 206 and**  
2 **207 your testimony here today?**

3           A. Yes.

4           NATHAN WILLIAMS: I offer exhibits 206 and  
5 207 as modified by -- or with the addition -- well, I  
6 just offer the exhibits.

7           JUDGE WOODRUFF: Exhibits 206 and 207 being  
8 offered, any objections to their receipt? Hearing  
9 none, they will be received.

10          NATHAN WILLIAMS: I tender the witness for  
11 examination by others.

12          JUDGE WOODRUFF: Thank you. And for cross,  
13 we begin with staff.

14          CURT STOKES: Thank you, Judge.

15                               EXAMINATION

16 BY CURT STOKES:

17           **Q. Mr. Murray, can you turn to page 9 of your**  
18 **rebuttal testimony?**

19           A. Yes.

20           **Q. That's where you talk about the net present**  
21 **value discount rate?**

22           A. Yes.

23           **Q. Then on page -- there's a portion of your**  
24 **rebuttal, you mention the all in cost?**

25           A. Yes.

1           **Q. Can you clarify what you mean by all in?**

2           A. What I meant by all in was determining what  
3 the net proceeds were to the company subtracting the  
4 issuance expense. So more or less that's the same  
5 thing as commonly as -- understood as an embedded cost  
6 of -- of debt because the company will have to pay,  
7 you know, the issuance expense, that is factored in  
8 by -- in determining an all-in rate.

9           **Q. Okay. And you mentioned embedded cost of**  
10 **debt. Can you define that?**

11          A. Embedded cost means it's -- once it's  
12 issued in the net proceeds and the interest expenses  
13 apply on a present value, future value basis, that  
14 determines the -- the cost as of that time of  
15 issuance.

16          **Q. Thank you. Now, on -- on page 12, at line**  
17 **2, it appears you use the 2.47 percent rate as the**  
18 **discount rate to calculate the net present value**  
19 **estimate?**

20          A. Yes.

21          **Q. Did you apply that to both the net present**  
22 **value of traditional financing and securitization**  
23 **financing?**

24          A. No.

25          **Q. Okay. What did you use the 2.47 percent to**

1 **discount?**

2 A. Just for securitization financing.

3 **Q. Okay. What -- what percentage rate did you**  
4 **use for traditional financing?**

5 A. I think I used a variety of discount rates  
6 for -- to test what the net present value estimates  
7 would be and -- and the main rate I used was a -- and  
8 it's highly confidential, so I won't indicate what the  
9 exact rate is but was a weighted average cost of  
10 capital determined by LUCO (phonetic) for purposes of  
11 assessing the fair value of its assets for goodwill  
12 impairment.

13 **Q. Okay. So you used -- for the traditional**  
14 **method of finance, you used a discount rate,**  
15 **approximately the weighted average cost of capital?**

16 A. Based on current cost. The problem I have  
17 with the -- if you don't mind, if I don't explain, the  
18 problem I have with the historical rate of return is  
19 that based on a rate of return an estimated cost of  
20 capital back in 2019. I wanted to look at how the  
21 company was estimating the present value of its  
22 anticipated cash flows going forward as recently as  
23 possible.

24 **Q. Okay. And then the -- you also mentioned**  
25 **earlier, though, that the 2.47 percent rate you don't**

1 **believe indicates like a currently accurate estimated**  
2 **securitization rate?**

3 A. I think -- if you don't mind, if I explain,  
4 the easiest way to -- to make my position clear is --  
5 is the securitization rate at the time of issuance  
6 which will be determined, you know, after this -- you  
7 know, whenever getting ready to go to market, that is  
8 the appropriate discount rate to apply to -- to  
9 payments under the securitization of -- of the  
10 whatever cost end up being, because it's just like  
11 issuing -- it's issuing a bond. And, so the -- the  
12 rate charged on -- on the securitized bond is the risk  
13 of those cash flows. And, so that -- it should be  
14 whatever that is at the time.

15 Q. Okay. Now, you agree that the interest  
16 rate that will be applied to -- that would be applied  
17 to securitization in the future, we don't know exactly  
18 what that is; right?

19 A. Yes.

20 Q. The best we can do is estimate it right  
21 now?

22 A. Yes.

23 Q. And it -- based on current estimates, do  
24 you believe it would be 2.47 percent?

25 A. No.

1 Q. Do you believe it would be higher?

2 A. Yes.

3 Q. Okay. Now, assuming that securitization  
4 bonds are going to have a lower interest rate than a  
5 company's approximate weighted average cost of  
6 capital, are you -- is that a safe assumption?

7 A. Yes.

8 Q. So using a weighted average cost of capital  
9 as a discount rate for traditional financing and a  
10 securitization interest rate as the discount rate for  
11 securitization financing, would that calculation ever  
12 yield a net present value benefit for customers from  
13 securitization?

14 A. It depends on what you use a weighted  
15 average cost of capital, so I don't -- I don't know  
16 the answer. That's -- there's too many hypotheticals,  
17 I'm sorry.

18 CURT STOKES: No further cross.

19 JUDGE WOODRUFF: Okay. For Renew Missouri?

20 ALICIA GREENWALD: No questions, Your  
21 Honor, thank you.

22 JUDGE WOODRUFF: For Liberty.

23 DEAN COOPER: Yes, Your Honor.

24 EXAMINATION

25 BY DEAN COOPER:



1           Q.    Mr. Murray, I think you say in your  
2    testimony and maybe this is linked to Mr. Stokes'  
3    question, but -- but then, again, maybe I didn't  
4    follow his question similar to you, but in your  
5    testimony on page 2, you indicate that if the  
6    commission used traditional and customary methods of  
7    financing to allow a rate of return, inclusive of an  
8    ROE securitization will be less costly to ratepayers;  
9    correct? And I'm referring to what the commission  
10   authorized with the rate of return.

11           A.    So, yes. I mean, it's not updated. So,  
12   yeah, I'm following along with some of these  
13   assumptions used by other parties, specifically your  
14   witness in direct testimony.

15           Q.    Right. And how about this statement, would  
16   you agree with this, this is from Ms. Niehaus'  
17   surrebuttal, while the pricing of triple A bonds will  
18   increase with general market volatility, pricing of  
19   traditional methods of financing will as well, meaning  
20   if -- if we see the price of the triple A bonds going  
21   up, other types of financing will likely follow; would  
22   you agree with that?

23           A.    By the same issuer. I mean, that's a very  
24   broad -- but typically, by the same issuer with the  
25   same terms, and you know, tenors and what-have-you,

1 there's a lot of assumptions there, but generally,  
2 yes.

3 **Q. Generally, yes; correct?**

4 A. Yes.

5 **Q. Now, I understand you recommend no carrying**  
6 **costs for -- for Asbury; correct?**

7 A. Yes.

8 **Q. And as I read your testimony, that's based**  
9 **on OPC's position in the 2021 rate case; correct?**

10 A. Yes.

11 **Q. And not based upon any particular reading**  
12 **of the securitization statute itself. You're not**  
13 **making an argument that the security -- that the**  
14 **securitization statute will not allow carrying costs;**  
15 **correct?**

16 A. I'm not interpreting the statute.

17 **Q. Yeah. You're making no -- no**  
18 **representation as to the statute at all; correct?**

19 A. I would say that I put in quotations  
20 customary and traditional, and I notice there's  
21 discrepancies in the statute, and I noticed they're  
22 not defined in the statute, so I -- and from that  
23 laymen's perspective, I consider that definition to be  
24 up in the air.

25 **Q. But that's all you were focused on was --**

1     **was just those terms; correct?**

2             A.    Yes.

3             **Q.    Customary and traditional?**

4             A.    And not -- I -- I do not know that statute  
5   backwards and towards.  I looked at the first three,  
6   four pages which really, you know, get to the crux of  
7   estimating a securitization amount.

8             DEAN COOPER:  That's all the questions I  
9   have, Your Honor.

10            JUDGE WOODRUFF:  All right.  We'll come up  
11   for questions from the bench.  Are there any questions  
12   from the commissioners on line?

13            RYAN SILVEY:  Judge, this is Commissioner  
14   Silvey.  I have no questions at this time.

15            JUDGE WOODRUFF:  Thank you.

16            JASON HOLSMAN:  Judge, this is Commissioner  
17   Holsman.  I also have no questions at this time.

18            JUDGE WOODRUFF:  Thank you.  I have some  
19   questions.  First of all, what's the timeframe for  
20   which your 4.65 percent WACC, weighted average cost of  
21   capital was calculated?

22            THE WITNESS:  Sorry, I don't think I  
23   calculated a 4.65 percent.  I think that might be  
24   the -- the staff's recommended cost of long-term debt.

25            JUDGE WOODRUFF:  What was your weighted

1 average cost of capital?

2 THE WITNESS: I used -- we would probably  
3 need to go into -- because I used an internal  
4 document --

5 JUDGE WOODRUFF: Okay.

6 THE WITNESS: -- for purposes of goodwill  
7 analysis.

8 JUDGE WOODRUFF: You don't need -- it's in  
9 your rebuttal testimony.

10 THE WITNESS: Yes, it is.

11 JUDGE WOODRUFF: You don't need to repeat  
12 it here then. And what timeframe was that?

13 THE WITNESS: It is 2020 is the latest  
14 update I've received. They've updated since then, but  
15 I do not have a copy of that.

16 JUDGE WOODRUFF: Okay.

17 THE WITNESS: The company has.

18 JUDGE WOODRUFF: In your calculations  
19 submitted on June 9th, you included financing cost for  
20 the traditional financing scenario. Please explain  
21 why you did this, given that other parties did not  
22 include financing costs for the traditional financing  
23 scenario.

24 THE WITNESS: Sorry, I'm confused by that  
25 question. I'm not -- I'm not following.

1 JUDGE WOODRUFF: I'll repeat it. You  
2 included financing costs for the traditional financing  
3 scenario; is that correct?

4 THE WITNESS: I included financing costs  
5 for the carrying cost, so I did not include anything  
6 other than for -- for the carrying cost.

7 JUDGE WOODRUFF: Okay. Why did you do  
8 that?

9 THE WITNESS: I did that because, you know,  
10 Storm Uri is a much bigger issue because. It's from  
11 February 2021 through estimated time of issuance of  
12 the bonds, which may be December 2022, and -- and I  
13 provided the cost of short-term debt because that's  
14 how they funded, and actually, that is, in my opinion,  
15 customary to how you would fund a working capital  
16 need, so that's why I included the -- the cost of  
17 short-term debt which was, you know, very low until  
18 recently. And, so that's why those rates seem very  
19 low and may have been assumed by some to be a mistake,  
20 but it -- the cost of short-term debt on an annual  
21 basis was 4.25 percent. And, so I used that to -- to  
22 provide information to the commission as to similar to  
23 AFUDC that -- since I did not include that in my  
24 capital structure in the generate case, that that  
25 should be captured somewhere in the ratemaking that's

1 considered by -- you know, Empire's rate charged to  
2 ratepayers.

3 JUDGE WOODRUFF: Okay. And in your NPV  
4 comparison calculations, you use difference discount  
5 rates for the securitization and traditional financing  
6 in NPV calculations. Can you explain why?

7 THE WITNESS: This is a situation that  
8 I'm -- that I feel -- don't feel -- just don't feel  
9 strong about, but I think it's a very fundamental  
10 concept of finance, that just like when you issue --  
11 if I bought a bond today at four and a half percent, I  
12 am going to receive four and a half percent to coupon  
13 payments. And, so the appropriate discount rate is  
14 the expected cost of -- of financing, because I am  
15 going to receive an annuity, and the whole purpose of  
16 securitization is to, you know, achieve the highest  
17 credit rating possible and fund this by all debt and  
18 provide the proceeds to the company, and then you have  
19 this true-up process where it's a separate line item.  
20 The assurance of payment to the company are -- is --  
21 when I say the company, the special purpose entity  
22 is -- you know, to make sure that there's very little  
23 to no risk on this -- on this issuance through this  
24 process, so the -- the risk -- using a rate of return  
25 assumes an overall corporate cash flow. And, so

1 that's why a weighted average cost of capital which  
2 you would hope would be synonymous with a rate of  
3 return would make sense in that situation, but with  
4 securitization, the whole purpose is to make these  
5 payments literally almost, you know, no risk. And, so  
6 that's why it's just like -- when I say it's just like  
7 buying a bond today, the principal amount would be the  
8 present value, because your -- your expected interest  
9 rate is what you're buying your bond for today.

10 JUDGE WOODRUFF: Okay. That's all the  
11 questions I have. Are there any questions based on  
12 the questions from the bench or any recross from  
13 staff?

14 CURT STOKES: No, Your Honor.

15 JUDGE WOODRUFF: Renew Missouri?

16 ALICIA GREENWALD: No, Your Honor.

17 DEAN COOPER: No questions, Your Honor.

18 JUDGE WOODRUFF: Then redirect.

19 NATHAN WILLIAMS: Thank you. I think just  
20 a few.

21 EXAMINATION

22 BY NATHAN WILLIAMS:

23 Q. Do you recall when staff was asking you  
24 about the -- this is Nathan Williams, by the way --  
25 asking you about the discount rates, the NPV versus

1       **securitization and traditional ratemaking?**

2           A.    Yes.

3           **Q.    And you indicated that you looked at**  
4 **goodwill impairment and you based on a confidential**  
5 **company document?**

6           A.    Yes.

7           **Q.    And you also mentioned LUCO in your**  
8 **response.  Would you explain why you were looking at**  
9 **LUCO?**

10          A.    LUCO is the main holding company for all  
11 the U.S. regulated utility assets.  When I say holding  
12 company, it's -- it's -- it's an indirect holding  
13 company.  There -- they have a -- Liberty Utility  
14 Central is -- is the immediate holding company, but  
15 LUCO is, you know, handles all their corporate -- when  
16 I say LUCO, the company holds all the corporate  
17 financing activities that through a financing  
18 subsidiary named Liberty Utility Finance Company, I  
19 believe.  And, so -- but they are responsible for all  
20 of the, you know, accounting and financial performance  
21 and, you know, I guess reporting of -- of how their  
22 regulated utility assets in the United States are --  
23 are doing.

24          **Q.    Then in response to a question from staff**  
25 **counsel, you indicated that you believe that by the**



1     **time of issuance, the securitization rate will be**  
2     **greater than 2.47. Would you explain why you believe**  
3     **that?**

4             A.     That's based on the current interest rates.  
5     I'm not -- I'm not going to plan to be a market  
6     procrastinator. Current interest rates are, in my  
7     opinion, are the best predictor of future interest  
8     rates. That's what's embedded in the current market.  
9     And you know, obviously, we have a lot of things going  
10    on in the market right now with concern about  
11    inflation and the feds just increasing the fed rate by  
12    75 basis points yesterday.

13            NATHAN WILLIAMS: No further questions.  
14    Thank you.

15            THE WITNESS: Thank you.

16            JUDGE WOODRUFF: Mr. Murray, you can step  
17    down.

18            THE WITNESS: Thank you.

19            NATHAN WILLIAMS: May he be excused?

20            JUDGE WOODRUFF: Yes.

21            NATHAN WILLIAMS: Thank you.

22            JUDGE WOODRUFF: I believe the next witness  
23    is Fred Graves for Liberty. Please raise your right  
24    hand. Do you solemnly swear or affirm that the  
25    testimony you're about to give in this matter is the

1 truth, the whole truth, and nothing but the truth?

2 THE WITNESS: I do.

3 JUDGE WOODRUFF: Thank you. You may  
4 inquire.

5 DIANE CARTER: Thank you.

6 EXAMINATION

7 BY DIANE CARTER:

8 **Q. If you'll please state your full name.**

9 A. Yes. Frank, middle initial C, last name  
10 Graves, G-R-A-V-E-S.

11 **Q. How are you employed and in what capacity?**

12 A. I am a what we call a principal which is  
13 essentially a partner in -- in a consulting firm  
14 called the Brattle Group, B-R-A-T-T-L-E with  
15 headquarters in Boston, Massachusetts.

16 **Q. And did you have cause to prepare -- excuse**  
17 **me. Did you prepare and have cause to be pre-filed in**  
18 **this case testimony on behalf of the Empire District**  
19 **Electric Company?**

20 A. Correct.

21 **Q. And that was both direct testimony and**  
22 **surrebuttal testimony?**

23 A. That is correct.

24 **Q. And have those documents been marked as**  
25 **exhibits 16 and 17?**

1 A. Subject to check, I believe that's right.

2 Q. Do you have any changes for that pre-filed  
3 testimony?

4 A. I do not.

5 Q. If I asked you those same questions today,  
6 would your answers be substantially the same?

7 A. Yes, they would.

8 Q. And are those answers -- answers true and  
9 correct to the best of your information, knowledge,  
10 and belief?

11 A. Certainly.

12 DIANE CARTER: I would move for the  
13 admission of Exhibit 16 and 17 and tender Mr. Graves  
14 for cross examination.

15 JUDGE WOODRUFF: Thank you. 16 and 17 have  
16 been offered. Any objection to their receipt?  
17 Hearing none, they will be received. For cross  
18 examination, we begin with Renew Missouri.

19 ALICIA GREENWALD: No questions, Your  
20 Honor. Thank you.

21 JUDGE WOODRUFF: For staff.

22 CURT STOKES: Thank you, Your Honor. Curt  
23 Stokes on behalf of staff.

24 EXAMINATION

25 BY CURT STOKES:

1           **Q. Mr. Graves, how much are you being paid to**  
2 **testify today?**

3           A. My billing rate is \$725 an hour.

4           **Q. Thank you. Liberty's asking ratepayers to**  
5 **pay for all of Asbury's remaining costs; correct?**

6           A. It's unrecovered net costs, that's true.  
7 Yes.

8           **Q. The -- those full unrecovered costs would**  
9 **be the same rates that Liberty ratepayers would pay as**  
10 **if Asbury were in service and providing electricity;**  
11 **correct?**

12          A. I don't think that's quite correct. If the  
13 arrangement is that the unrecovered costs will be  
14 securitized, it will be paid by customers at a lower  
15 rate than it would have, otherwise, been paid and on a  
16 different schedule.

17          **Q. Okay. So -- but other than the timing and**  
18 **interest rate differences, Liberty's seeking full**  
19 **recovery of all Asbury costs?**

20          A. That is correct.

21          **Q. Now, Asbury did not provide electricity to**  
22 **customers during Winter Storm Uri; is that correct?**

23          A. That's my understanding.

24          **Q. And Asbury will never again provide**  
25 **electricity to Liberty customers; is that correct?**

1           A.    As far as I know, there's no plan for any  
2 future recovery. So yes, I agree with that.

3           **Q.    So Liberty really is not seeking any sort**  
4 **of costs sharing of Asbury's retirement with**  
5 **ratepayers?**

6           A.    I'm not sure how that's related to the  
7 previous question, but there is an embedded cost  
8 sharing by virtue of the fact that Asbury's been  
9 providing lots of benefits for which ratepayers didn't  
10 have to pay any of the advantages. They just paid the  
11 costs. Now, it's not as economical as it used to be,  
12 and it's better to replace, but since there was no  
13 gain sharing in the past, there should be no loss  
14 sharing now. In my view, there's already been the  
15 right amount of sharing.

16          **Q.    You are not suggesting that the commission**  
17 **reject the use and useful standard; correct?**

18          A.    I think it can be used, but it's a very  
19 blunt instrument that, basically, only tells you if  
20 the asset is performing. Pretty much that's it. It  
21 doesn't tell you about the economic drivers of its  
22 situation, causes, responsibility, what's replacing it  
23 and whether that's more valuable or not. So it's a  
24 starting point for wondering how much cost recovery  
25 should be allowed and in what form, but it's not

1 informative by itself.

2 **Q. Okay. But the commission should not reject**  
3 **that principal entirely?**

4 A. Only if it's the only principal they're  
5 going to use, then would reject it in its entirety.

6 CURT STOKES: No further cross.

7 JUDGE WOODRUFF: Okay. And public counsel.

8 NATHAN WILLIAMS: Nathan Williams. No  
9 questions, thank you.

10 JUDGE WOODRUFF: All right. Come up for  
11 questions from the bench then. Commissioners on the  
12 line do you have any questions?

13 JASON HOLSMAN: No questions, Judge.  
14 Commissioner Holsman.

15 JUDGE WOODRUFF: Thank you. And I have no  
16 questions. So no recross. Any redirect?

17 DIANE CARTER: No, Judge, thank you.

18 JUDGE WOODRUFF: And Mr. Graves, you can  
19 step down.

20 THE WITNESS: All right. Thank you much.

21 JUDGE WOODRUFF: I believe the next witness  
22 then is Katrina Niehaus.

23 DEAN COOPER: Judge, I'm waiting for a  
24 document that one of our folks was supposed to bring  
25 back from my office. Could you give me about five

1 minutes to locate where that is?

2 JUDGE WOODRUFF: Before this witness  
3 testifies?

4 DEAN COOPER: Before this witness  
5 testifies.

6 JUDGE WOODRUFF: Yes, we can do that.

7 DEAN COOPER: Thank you. I apologize, Your  
8 Honor.

9 JUDGE WOODRUFF: We'll take a five-minute  
10 break. That'll bring us back at -- well, 9:01, so.  
11 Thank you.

12 All right. Let's go ahead and get started.  
13 I don't think I've sworn you in yet.

14 THE WITNESS: You have not.

15 JUDGE WOODRUFF: All right. Please raise  
16 your right hand. Do you solemnly swear or affirm that  
17 the testimony you're about to give in this matter is  
18 the truth, the whole truth, and nothing but the truth?

19 THE WITNESS: Yes, sir.

20 JUDGE WOODRUFF: Thank you. You may  
21 inquire.

22 DEAN COOPER: Thank you, Your Honor.

23 EXAMINATION

24 BY DEAN COOPER:

25 Q. Would you please state your name?

1 A. Katrina Niehaus.

2 Q. By whom are you employed and in what  
3 capacity?

4 A. Goldman Sachs, and I run part of our  
5 structured finance there.

6 Q. Are you appearing today on the Empire  
7 District Electric Company which does business as  
8 Liberty?

9 A. Yes.

10 Q. Have you caused to be prepared for the  
11 purposes of this proceeding certain direct testimony  
12 for both cases, EO-2022-0040 and for EO-2022-0193?

13 A. Yes.

14 Q. And then you also have prepared surrebuttal  
15 testimony that was filed in both cases; correct?

16 A. Yes.

17 Q. Is it your understanding that your -- that  
18 those pieces of testimony have been marked as Exhibits  
19 18, 19, and 20 for identification?

20 A. Yes.

21 Q. Do you have any changes that you would like  
22 to make to that testimony?

23 A. Not at this time.

24 Q. If I ask you the questions which are  
25 contained in Exhibits 18, 19, and 20 today, would your



1 **answers be the same?**

2 A. I think the only difference would be,  
3 obviously, marketing are continuing to move. And, so  
4 rates on the securitization would be in a different  
5 place today than they would be in the future.

6 **Q. And with that, that caveat, are your**  
7 **answers true and correct to the best of your**  
8 **information, knowledge and belief?**

9 A. Yes.

10 DEAN COOPER: Your Honor, at this time I  
11 would offer Exhibits 18, 19, and 20 into evidence.

12 JUDGE WOODRUFF: 18, 19, and 20 have been  
13 offered. Any objections to their receipt? Hearing  
14 none, they will be received. And for cross  
15 examination, we begin --

16 DEAN COOPER: Judge, I'd like to go ahead  
17 and mark the other document that I had referred to  
18 previously.

19 JUDGE WOODRUFF: Okay.

20 DEAN COOPER: If we could do that.

21 JUDGE WOODRUFF: Sure. (Inaudible) 24.

22 DEAN COOPER: 24, yes.

23 (Silence in audio.)

24 **Q. (By Dean Cooper:) Do you recognize what**  
25 **has been marked as Exhibit 24?**

1 A. Yes.

2 Q. And is that a document that was prepared by  
3 you or at your direction?

4 A. Yes.

5 Q. And is that a document that would be of  
6 assistance to you in answering questions 1 through 3  
7 of the notice of commission questions that was issued  
8 on -- let's see. I think June 9th?

9 A. Yes.

10 DEAN COOPER: Judge, I think we'll leave it  
11 there for the time-being, and we would tender  
12 Ms. Niehaus for cross examination.

13 JUDGE WOODRUFF: Very good. We will begin  
14 for cross examination with Renew Missouri.

15 ALICIA GREENWALD: No questions, Your  
16 Honor. Thank you.

17 JUDGE WOODRUFF: For staff.

18 CURT STOKES: Thank you, Your Honor. Curt  
19 Stokes on behalf of staff.

20 EXAMINATION

21 BY CURT STOKES:

22 Q. Ms. Niehaus, were you listening to the  
23 testimony of Mr. Mocindy (phonetic) yesterday morning?

24 A. I was not.

25 Q. Oh, okay. Is it your understanding that

1     **there is usually an informal process that takes place**  
2     **to review an issuance advice letter where everybody**  
3     **involved goes around and shares that they're all on**  
4     **board with that?**

5             A.     Yes. We would welcome that input.

6             **Q.     Okay. What -- how far in advance of that**  
7     **issuance advice letter does that process usually take**  
8     **place?**

9             A.     Generally, that would happen in the few  
10    weeks leading up to a transaction.

11            **Q.     Okay.**

12            A.     Pricing.

13            **Q.     And does not doing that or along the way**  
14    **create potential for a delay?**

15            A.     Yes. Our goal would be that everyone has  
16    agreed to the contents of the issued advice letter of  
17    advance of bringing a transaction to market. We  
18    wouldn't want to have any disagreements during the  
19    marketing or pricing process.

20            **Q.     Okay. Now, in your direct testimony that**  
21    **was filed in January of this year; correct?**

22            A.     Yes, that sounds right.

23            **Q.     And you referenced a -- at that time an**  
24    **expected weighted average bond interest rate of**  
25    **2.47 percent?**

1 A. Yes.

2 Q. I believe you said on direct that, you  
3 know, the markets are continuing to change?

4 A. Yes.

5 Q. So I hope I'm not putting you on the spot  
6 too much. If you refresh that testimony, to reflect  
7 an expected weighted average rate based on current  
8 market conditions, what would that rate be today?

9 A. So we have -- in this newest exhibit  
10 submitted pricing as of Friday. Obviously, I was  
11 traveling yesterday evening. And, so have not updated  
12 my pricing as of this morning, and there has been  
13 significant market movement with the FOMC announcement  
14 yesterday as well as where futures are today and  
15 treasure rate movements. As of the pricing of Friday  
16 for a blended securitization, it would be around  
17 4.28 percent. What I would note is that is, as of  
18 Friday, markets are evolving, and we would expect to  
19 adjust our pricing and structure thoughts in  
20 conjunction with the market to get to the best outcome  
21 for the ratepayers of Missouri.

22 Q. Okay. Can you -- can you state how that --  
23 the rate as of Friday, the 4.28 percent, can you kind  
24 of walk us through how that rate was derived?

25 A. Sure. So there's generally two components

1 to how investors think about the interest rate they  
2 should receive on bonds. One is the base rate or the  
3 risk free rate. That would be the treasury reference,  
4 and then the second would be the risk premium. That  
5 would be the spread to treasuries that's outlined in  
6 my materials. And, so both of those move in  
7 conjunction with market sentiments. Treasury rates is  
8 something that is definable and knowable based on  
9 spot -- you know, where you can see treasury rates  
10 trading. The credit spread is something that we will  
11 discover during a marketing process. This is our best  
12 estimate as to where credit spreads are today based on  
13 where other comparable transactions are pricing and  
14 trading in the secondary market.

15 **Q. Okay. You said, you know, based on other**  
16 **transactions. How many securitizations have been**  
17 **issued since January of 2022?**

18 A. I would have to get back to you on that.  
19 When you talk about utility securitizations which  
20 would be the most relevant comparison, there are a  
21 handful, though, not all of them look at your  
22 transaction, so I think it's probably been four or so,  
23 but we can come back with the exact number. And, you  
24 know, then as far as transactions, as a whole, it  
25 would be a number. Actually, I do have the count

1 here. I can count one, two, three, four, five, six,  
2 seven. So since January 2022, there have been seven  
3 securitizations.

4 **Q. Okay. And is that?**

5 A. Utility securitizations.

6 **Q. Is that from appendix A of what has been**  
7 **marked as Exhibit 24?**

8 A. Yes.

9 **Q. Okay. That's what you were counting?**

10 A. Yeah, yeah.

11 **Q. This kind of goes to what has been marked**  
12 **as Exhibit 24. Would the rate be different for Uri**  
13 **and Asbury securitizations, if they were separated?**

14 A. Our current expectation is the rate would  
15 be different. When investors assign that risk  
16 premium, one of the things that is important to them  
17 is liquidity in the securitizations. The Asbury  
18 securitization is a bit smaller than the Uri  
19 securitization. And, so as such, an investor may  
20 require more of a risk premium because there would be  
21 less liquidity in those bonds, and it may be more  
22 difficult for them to exit out of their investment in  
23 the future.

24 **Q. Okay. Another putting you on the spot**  
25 **question. How would you expect the interest rate to**

1 **change between now and the anticipated date of**  
2 **issuance?**

3 A. I wish I knew that. I don't know that I'd  
4 be sitting here if I could tell you. I do not have a  
5 crystal ball. It is hard for me to say what direction  
6 things will move in. There are obviously  
7 macroeconomic events that can cause significant  
8 changes to the market environment. Sitting in my seat  
9 in January, when we filed our original testimony,  
10 we're in a very different place. I don't think -- you  
11 know, people did not envision the Russia Ukraine  
12 situation unfolding in the capacity that it did. And,  
13 so events like that can create material changes to the  
14 market for the positive and for the negative, so I  
15 wouldn't feel comfortable projecting what's going to  
16 happen with rates going forward.

17 Q. Now, assume that the commission issues a  
18 financing order and the issuance of bonds is delayed  
19 by an appeal, about 12 months, would you expect --  
20 what would you expect the effect on the interest rate  
21 change to be if that were to happen, if you know.

22 A. That is unknowable.

23 Q. And then I think getting -- getting into --  
24 and if you want to refer to Exhibit 24, please do.  
25 Can you summarize the benefits and downsides of

1 **combining the Winter Storm Uri and the Asbury**  
2 **securitizations?**

3 A. Sure. So as we think about the benefits to  
4 combining the transactions, I think there are a  
5 couple. First is we would expect to the upfront  
6 transaction costs for a combined transaction to be  
7 less than the sum of two separate transactions. There  
8 are certain transaction costs that scale based on  
9 size, but there are a number of costs that are fixed  
10 costs, so by issuing a single transaction as opposed  
11 to two separate transactions, you would reduce the  
12 occurrence of those fixed costs to a single cost. The  
13 second is, we would expect that a larger transaction  
14 would have more liquidity in it, and as I described  
15 would be more desirable to investors, and therefore,  
16 should result in a lower interest rate which would  
17 ultimately be passed forward and through to the  
18 ratepayers in Missouri.

19 Q. Okay. Now, as far as downsides or risks of  
20 **issuing a single financing order and a single bond**  
21 **issuance, would exposure to interest rate volatility**  
22 **be one of those potential risks?**

23 A. A single transaction, so --

24 Q. I guess -- I withdraw that question, Your  
25 Honor.



1                   So let's preface my question on the idea  
2                   that if the commission issued one order in one case  
3                   that was not appealed and an order in a separate case  
4                   that was appealed and that resulted -- that allowed  
5                   Liberty to move forward quickly with one of the  
6                   securitizations, but not the other compared to a  
7                   situation where the commission used one financing  
8                   order and everything is held up by an appeal, would  
9                   exposure to interest rate volatility for the one that  
10                  would not have been appealed, would that be a --

11                 A.    It would be a consideration.

12                 Q.    Okay.

13                 A.    Yes.

14                 Q.    And you don't -- there's probably no way to  
15                  actually call calculate and quantify that; correct?

16                 A.    I would be -- I am not able to project what  
17                  will happen in the markets.

18                 Q.    Is it possible that interest rates could  
19                  reach a level where they would no longer be  
20                  quantifiable net present value benefit from  
21                  securitization?

22                 A.    If you look at historical utility cost of  
23                  capital as compared to current interest rates, there  
24                  could theoretically be a point where that, that  
25                  occurred, but in general, as interest rates increase

1 for the securitization, one would expect that the  
2 utilities cost of capital would also increase, given  
3 they're both referencing similar investor bases and  
4 tied to the same treasury base rate calculation.

5 **Q. Okay. You had mentioned spread earlier.**  
6 **Can you explain what that -- what spread is?**

7 A. Yes. So when investors think about  
8 deploying their capital, they look at the risk free  
9 premium which is the treasury rate, and then a spread  
10 which is what they demand in return for the risk of a  
11 particular transaction. For example, generally, a  
12 triple A rated securitization would have a lower  
13 spread than a single A rated securitization because  
14 the risk associated with repayment is lower in a  
15 triple A securitization than in a double A -- or  
16 single A securitization.

17 **Q. And would the triple A securitization be a**  
18 **proxy or comparison point for a utility securitization**  
19 **like Liberty seeking in this case?**

20 A. Yes.

21 **Q. And the single A would be a proxy or**  
22 **approximate comparison for, like, traditional**  
23 **financing by utility?**

24 A. Not necessarily. I'm just saying, you  
25 know, in general, for when investors are looking at

1 securitizations broadly, utility securitizations have  
2 historically been rated triple A, but there are many  
3 other kinds of securitizations, some which do not have  
4 triple A ratings. There would be other appropriate  
5 comparisons for the utilities cost of debt in equity.

6 **Q. Okay. Do you know the level of the**  
7 **interest rate on securitization would have to hit**  
8 **before there would no longer be a quantifiable net**  
9 **present value benefit?**

10 A. Well, the -- if the securitization cost of  
11 capital exceeded the cost of the utilities blended  
12 cost of debt in equity, there would not be a  
13 perceivable NPV savings unless the utilities cost of  
14 debt in equity was reset, then, to the current market  
15 rates.

16 **Q. Uh-huh. But in that net present value**  
17 **benefit calculation, you also have to take into**  
18 **account financing costs; correct?**

19 A. Correct.

20 **Q. So it would be not necessarily exceeding**  
21 **the utilities cost of capital, it would be something**  
22 **slightly lower?**

23 A. Sure. Yes.

24 **Q. Depending on?**

25 A. Slightly lower.

1           **Q. It would depend on maybe, you know, the**  
2           **size of the security?**

3           A. The size of the securitization, the  
4 magnitude of the financing cost, and the duration of  
5 the securitization.

6           **Q. Let's switch gears to the proposed**  
7           **certificate to be filed by Liberty utilities. Liberty**  
8           **does propose the certificate be filed with the**  
9           **commission by the underwriters; is that correct?**

10          A. Yes.

11          **Q. And can you tell me what the underwriters**  
12          **do?**

13          A. So the -- the structuring advisor and  
14 underwriters do a number of different things. First,  
15 we work with the utility to structure a transaction  
16 that is desirable to the market. We will help guide  
17 the utility through their rating agency process to  
18 approve the highest cost -- highest possible rating  
19 which ultimately will result in the lowest cost of  
20 capital. We will work with the utility and their  
21 lawyers to create appropriate disclosure and marketing  
22 materials, and we will work to market the bonds  
23 through -- to -- through our sales force to a variety  
24 of investors and guide the utility and their  
25 commission and advisors through the marketing and

1 pricing process.

2 **Q. Okay. So there's a lot of coordination, it**  
3 **sounds like. Is there something called like a**  
4 **Sindacat (phonetic) team?**

5 A. Yes. Our Sindacat is a group of  
6 individuals who would be guiding the transaction  
7 through the ultimate marketing pricing and the  
8 marketing and pricing of the transaction.

9 **Q. Okay. You are also proposing that Liberty**  
10 **itself file a certificate with the commission;**  
11 **correct?**

12 A. That is my understanding, yes.

13 **Q. Now, that certificate states that there are**  
14 **quantifiable net present value benefits with the bonds**  
15 **as structured?**

16 A. Correct.

17 **Q. Are -- are there qualifications or**  
18 **disclaimers on such certificate?**

19 A. I wouldn't be able to comment on the  
20 details of Liberty's certificate.

21 **Q. Okay. Now, what about -- on the**  
22 **underwriter certificate, are there qualifications or**  
23 **disclaimers?**

24 A. Yes. The underwriters' certificate do  
25 generally have qualifications and disclaimers around

1 achieving best pricing at the time based on the  
2 current -- then current market environment. And those  
3 qualifications are relevantly standard across utility  
4 securitizations.

5 **Q. Is there a copy of such a certificate**  
6 **attached to the proposed order in this case?**

7 A. We have not filed a draft of our  
8 certificate yet, I don't believe.

9 **Q. I believe your testimony references a -- a**  
10 **draft issuance advice letter being circulated before**  
11 **the actual issuance advice letter?**

12 A. Yes.

13 **Q. Would a draft of those certificates also be**  
14 **circulated?**

15 A. Generally, we would circulate that in  
16 advance as well.

17 **Q. Okay. Now, do the underwriters have any**  
18 **fiduciary responsibility to Liberty utility**  
19 **ratepayers?**

20 A. No.

21 **Q. Does Liberty have any fiduciary duty to its**  
22 **ratepayers?**

23 A. I wouldn't be able to comment on that.

24 **Q. What would it cost Liberty to finance Uri**  
25 **costs absent securitization?**

1           A.    I assume they would be financing them at  
2 their blended weighted average cost of capital, so  
3 debt and equity.

4           **Q.    Okay.  And do you know that what the cost**  
5 **of that is today or recently?**

6           A.    I -- I believe it was in the 6 percent  
7 area, but I don't know the exact number.

8           **Q.    Have you read staff rebuttal testimony by**  
9 **Sarah Lange proposing cost allocations to all customer**  
10 **classes based on an energy allocator?**

11          A.    Yes.

12          **Q.    And would you anticipate that such an**  
13 **allocation would have any adverse impacts on the bond**  
14 **issuance?**

15          A.    There are a lot of components that go into  
16 creating the tightest structure possible.  The  
17 allocation of costs is something that is more of a  
18 political discussion than a ratings discussion, so I  
19 wouldn't want to comment on the fairness of her  
20 proposal.  And, so what we would do is work with --  
21 once we have a proposal for how costs should be  
22 allocated, work to make sure there are appropriate  
23 true-up mechanisms between classes, so that in the  
24 case of a securitization, there aren't any shortfalls  
25 that would result in a shortfall of bond payments, but

1 commenting on the appropriateness of allocations is --  
2 is generally not something I would do.

3 **Q. Okay. Assuming the commission agreed with**  
4 **staff's position that if a customer in one class moved**  
5 **to another class that the kilowatt hours associated**  
6 **with that customer moves with the customer and that**  
7 **the energy allocation kind of takes care of itself**  
8 **without having to over, under recover from different**  
9 **classes, with that understanding, would you believe**  
10 **that that would be a lower risk cost allocation and**  
11 **true-up mechanism?**

12 A. We have worked through a number of  
13 different allocation mechanisms. I wouldn't  
14 necessarily say that one is lower risk or not. It's  
15 more assuring that the document appropriately reflects  
16 the mathematical accuracy of how the calculation is  
17 going to work and that there is never a case where you  
18 are not able to true-up for a customer movement.

19 **Q. Okay. And, so segueing into that true-up**  
20 **mechanism, does Liberty agree that the mandatory**  
21 **true-up -- at least every six months with an interim**  
22 **optional true-up is that ideal?**

23 A. I can't comment on what Liberty would say,  
24 but what I can say is that would be standard for  
25 utility securitizations and would allow us to comply



1 with rating agency criteria to achieve the triple A  
2 rating putting aside any other impairments to the  
3 structure.

4 **Q. Okay. Now, you had mentioned one benefit**  
5 **of a consolidated offering is avoiding duplicative**  
6 **financing costs; correct?**

7 A. Yes.

8 **Q. So I'm guessing that to date Liberty has**  
9 **not incurred any duplicative costs?**

10 A. I do not believe so, but you would have to  
11 check with Liberty to confirm that.

12 **Q. At least with Goldman Sachs they haven't?**

13 A. They have not.

14 **Q. Now, you can agree that it's important for**  
15 **the staff -- for a staff designated representative and**  
16 **financial advisor to be able to provide the commission**  
17 **guidance on the issuance advice letter; correct?**

18 A. Yes. We would welcome your input.

19 **Q. Okay. And to be able to provide that**  
20 **guidance, the -- you agree that the commission would**  
21 **have to proceed input and collaborate in all facets;**  
22 **correct?**

23 A. I think there is specific language around  
24 the commission and their advisors' involvement in the  
25 transaction. I am not one who is in a position to

1 comment on the appropriateness of that. I -- I have  
2 worked in many different states where there are  
3 different involvements from the commission and their  
4 financial advisor in the process, and I follow the  
5 rules and guidance of the legislation and the  
6 commission, and adhere to the policy that's set for  
7 me.

8 **Q. Okay. How much is Goldman Sachs being paid**  
9 **as part of this securitization case?**

10 A. So we would hope eventually to be an  
11 underwriter. I think our -- and we are receiving a  
12 structuring fee of -- what are we getting here?  
13 \$255,000, I believe.

14 **Q. Okay. And are you being paid as an expert**  
15 **witness?**

16 A. No.

17 **Q. In this fee? Okay. No further questions,**  
18 **Your Honor.**

19 JUDGE WOODRUFF: All right. Public  
20 counsel?

21 NATHAN WILLIAMS: Thank you. Nathan  
22 Williams for public counsel.

23 EXAMINATION

24 BY NATHAN WILLIAMS:

25 **Q. Good morning.**

1 A. Good morning.

2 Q. I want to start with what Mr. Cooper's  
3 probably hoping someone does, on Exhibit 24, there are  
4 a number of things in there that are not clear to me  
5 as to exactly what they mean.

6 A. Sure.

7 Q. So my questions are going -- starting off  
8 are going to be about clarification. So if you turn  
9 to Exhibit 24, in the line that talks about liquidity  
10 and offering, there's a reference to a minimum size  
11 of -- I'm not sure what that symbol, but 250 plus MM.  
12 What is that saying -- in English, what does that say?

13 A. Yes. So I would say generally investors  
14 when they consider a liquid securitization would look  
15 to see a transaction that is around 250 million, so  
16 approximately 250 million in size for a minimum  
17 transaction size to be viewed as liquid. Below that,  
18 investors will view it as a smaller transaction, and  
19 you may have impacts on pricing and liquidity.

20 Q. So price MM throughout this document with  
21 reference to monetary, it means millions?

22 A. Millions, yes, sir.

23 Q. Then there's line estimated upfront  
24 financing costs, and then there's in parenthetical  
25 from Hunton. What is Hunton?

1           A.    Hunton is the law firm who is representing  
2 Liberty in this transaction.

3           **Q.    I assume TBD means to be determined?**

4           A.    That is correct.

5           **Q.    Over on the second page where you have a  
6 table that are classes and there are some letters?**

7           A.    Yes.

8           **Q.    What is WAL referring to?**

9           A.    It refers to weighted average life.  And  
10 so, that is the average period of time in which  
11 principal is repaid for a particular class of bonds,  
12 when investors look to reference --

13          **Q.    That's good enough.  I'm just looking for  
14 what the letters mean?**

15          A.    Of course.

16          **Q.    TSY tenor, what does that mean?**

17          A.    The treasury tenor that we are reflecting  
18 from the pricing perspective.

19          **Q.    And TSY spread?**

20          A.    That would be spread to the treasury rate.

21          **Q.    Spread between what?**

22          A.    That would be the risk -- as I mentioned,  
23 when an investor prices a bond, they look for the risk  
24 free rate, which is the treasury rate plus the risk  
25 premium of the spread, so that would be the spread to

1 the treasury rate that gets to your all interest  
2 costs.

3 **Q. What is prin window mean -- or I assume**  
4 **principle, PRIN, window is principal?**

5 A. It is the period of time in which principal  
6 is repaid to investors. So you'll note in the class  
7 A1 principal is repaid to investors starting on the  
8 first payment date which would be slightly after  
9 issuance which would be year 0 through year 9.  
10 Securitization class A2 principal is returned to  
11 investors between years 9 and 13.

12 **Q. Thank you. EXP final?**

13 A. That would be the expected final maturity  
14 of the bonds. And, so you can see the -- that would  
15 be the last date that principal would be expected to  
16 be repaid to investors.

17 **Q. And then following the word Asbury, you**  
18 **have 10 BPS wider, bases points?**

19 A. Basis points. So that's a note due to the  
20 liquidity.

21 **Q. And basis points is how much of a percent?**

22 A. One basis point is equal to one, one  
23 hundredth of a percent. So Asbury would price  
24 approximately --

25 **Q. I think you've answered my question. Are**

1     **the revenues that bondholders receive from these**  
2     **securitization bonds, if they're issued in this case**  
3     **or the bonds that are the subject of this case, would**  
4     **those be subject to federal or state income tax?**

5             A.     Yes.     These would be taxable bonds.

6             NATHAN WILLIAMS:     No further questions.

7     Thank you.

8             JUDGE WOODRUFF:     All right.     We'll come up  
9     for questions from the bench.     Any questions from the  
10    commissioners on line?

11            RYAN SILVEY:     Thank you, judge.     This is  
12    Commissioner Silvey.     I have a question.

13            JUDGE WOODRUFF:     Go ahead.

14            RYAN SILVEY:     Thank you.

15                                 EXAMINATION

16    BY RYAN SILVEY:

17            **Q.     You were asked a question about duplicative**  
18    **financing cost, if the commission were to issue two**  
19    **orders instead of one.     Could you --**

20            A.     Yes.

21            **Q.     -- provide some sort of ballpark or range**  
22    **on what duplicative costs may be, if the commission**  
23    **decides to issue two orders instead of one?**

24            A.     Yes.     So I think there are a number of  
25    costs that we are not a party to negotiating, like the

1 commission's own advisory costs, which I assume would  
2 be less in a single transaction than if you were to  
3 issue two transactions, but I think we believe that it  
4 would save based on what we've submitted for  
5 Exhibit 24, somewhere in the order of magnitude around  
6 a little over a million dollars. So somewhere between  
7 a million and \$1.3 million, if I'm doing the math  
8 right on the spot that someone should check that, and  
9 we did submit the exhibit that shows the differential.

10 **Q. Okay. So your estimate is between 1 and**  
11 **\$1.3 million in duplicative costs, if we were to issue**  
12 **two orders instead of one?**

13 A. That is correct.

14 **Q. Is that accurate?**

15 A. That is my estimate.

16 **Q. Okay.**

17 A. Based on my knowledge as of today.

18 RYAN SILVEY: Okay. Thank you, Judge. No  
19 further questions.

20 JUDGE WOODRUFF: All right. And I do have  
21 some additional questions, and I'll start out by  
22 saying that my initial questions about the combining  
23 costs have pretty much been answered with your  
24 Exhibit 24, so I won't go into that. But some more  
25 general questions. How have interest rates changed

1 from 2018 to current? Have they generally increased  
2 or decreased and by how much?

3 THE WITNESS: Generally increased. I would  
4 have to go back and look at what treasury rates were  
5 in 2018, but there has been a general increase.

6 JUDGE WOODRUFF: Okay. And there's more --  
7 even more volatility in the last few months.

8 THE WITNESS: Yes. Including last night.

9 JUDGE WOODRUFF: Okay. Can you please  
10 explain your role as financial advisor to Liberty?

11 THE WITNESS: My -- my goal is to help them  
12 appropriately prepare and file for this transaction,  
13 get to the points -- point where we have a serviceable  
14 financing order and begin the preparatory work for rate  
15 agency process and provide guidance on transactions  
16 structure and what might be received by the -- might  
17 be best received by the market.

18 JUDGE WOODRUFF: Okay. And I assume  
19 Goldman Sachs has experience in this role?

20 THE WITNESS: Yes, sir.

21 JUDGE WOODRUFF: Does Goldman Sachs also  
22 have experience as an underwriter?

23 THE WITNESS: Yes, sir.

24 JUDGE WOODRUFF: And will Goldman Sachs be  
25 the underwriter for this transaction?



1 THE WITNESS: I hope so, but I suspect  
2 there will be a selection process that we will be a  
3 part of.

4 JUDGE WOODRUFF: Okay. And that -- is that  
5 up to Liberty to decide who is going to be the  
6 underwriter?

7 THE WITNESS: That is my understanding.

8 JUDGE WOODRUFF: Okay. If you were to be  
9 the underwriter, does that create any potential  
10 conflicts of interest in performing the two roles as  
11 advisor and underwriter?

12 THE WITNESS: I do not believe so. It is  
13 standard practice for the financial advisor to also be  
14 the underwriter and the majority of transactions, the  
15 financial advisor is best positioned to be the  
16 underwriter and able to actually create efficiencies  
17 in process by having continuity of advice to the  
18 utility.

19 JUDGE WOODRUFF: Okay. Can you explain the  
20 difference between rule 144-A reg A bonds versus bonds  
21 registered with the SCC?

22 THE WITNESS: Well, I'm not a lawyer, but  
23 rule 144-A bonds are a form of private placement that  
24 do not require registration with the SCC or as much  
25 government regulatory oversight. In general, there

1 may be slightly more upfront costs with an SCC  
2 registered transaction because you do have to file  
3 with the SCC and prepare compliant documentation.  
4 That said, SCC registered deals generally are more  
5 liquid than rule 144-A deals and perceived by the  
6 market in a favorable fashion which would ultimately  
7 result in a lower interest cost and savings for  
8 ratepayers.

9 JUDGE WOODRUFF: Okay. My understanding  
10 that Liberty's planning on issuing bonds registered  
11 with the SCC; is that still the plan?

12 THE WITNESS: That is my expectation as  
13 well.

14 JUDGE WOODRUFF: Okay. Are there any  
15 conditions under which Liberty should consider issuing  
16 the rule 144-A bonds?

17 THE WITNESS: The majority of the  
18 transactions that have been issued within the utility  
19 space have been SCC registered, because the goal is to  
20 achieve the lowest cost possible to the extent you did  
21 not issue SCC registered bonds. I would expect  
22 certifications would have qualifications around that  
23 point.

24 JUDGE WOODRUFF: Okay. Questions about the  
25 bond marketing and pricing process --

1 THE WITNESS: Sure.

2 JUDGE WOODRUFF: -- generally. Does the  
3 commission's decision to issue a single financing  
4 order or two, effect either positively or negatively  
5 the ability of Liberty in and the underwriters to  
6 successfully market price and issue a combined bond  
7 offering?

8 THE WITNESS: We are -- we would -- we  
9 expect to be able to successfully issue bonds  
10 regardless of the free mark for a single offering or  
11 two.

12 JUDGE WOODRUFF: Okay. What effect, if  
13 any, would the appeal to a court of the commission's  
14 financing order have on the underwriters' ability to  
15 proceed with the bond issuance process?

16 THE WITNESS: We are not able to proceed  
17 with bond issuance until the financing order is final  
18 and non-appealable.

19 JUDGE WOODRUFF: Would a single -- I kind  
20 of got into this with staff's questioning, but if the  
21 commission were to issue two separate financing orders  
22 and -- and only one of them were appealed, would --  
23 would that provide any benefits?

24 THE WITNESS: I think what you're asking  
25 is -- maybe I can reframe the question to make sure

1 I'm answering appropriately. A delay caused by the  
2 appeal in a financing order would delay the  
3 transaction. We do not have the ability to foresee  
4 what will happen with markets over time. So by taking  
5 risk off the table for a single issuance, let's say  
6 one of the orders was not appealed, I think a  
7 statement was made earlier, you are taking less market  
8 risk through that process, though in return, we expect  
9 there may be more upfront financing costs and less  
10 efficiency in execution for the second smaller  
11 transaction.

12 JUDGE WOODRUFF: What would happen if  
13 process of -- after the commission has issued its  
14 financing order, before the bond can be priced, and so  
15 forth, what would happen if the market were to change  
16 such that there would no longer be a benefit for the  
17 financing as you described earlier with --

18 THE WITNESS: I presume there would be some  
19 pretty serious discussions about whether to proceed  
20 with the transaction.

21 JUDGE WOODRUFF: Okay. So the -- would the  
22 commission have any say any more as to whether that  
23 transaction would proceed?

24 THE WITNESS: I am not a lawyer, but my  
25 understanding is that Liberty in their certification

1 does need to show savings. And, so if they were  
2 unable to show savings, I assume there would need to  
3 be further discussion about how to proceed.

4 JUDGE WOODRUFF: Okay. Now, what's the  
5 minimum dollar value of secured property in which a  
6 reasonable underwriter would expect sufficient  
7 investor interest liquidity and triple A bond rating  
8 such that the bond were issued at the lowest available  
9 cost for Liberty's customers.

10 THE WITNESS: So as I mentioned 250 million  
11 is the rule of thumb, though, we have done  
12 securitizations that are much smaller, and our goal is  
13 always to get the best execution for the ratepayers  
14 based on the framework that we are living within. If  
15 we end up moving forward with two separate  
16 transactions, we would do our best to get -- assuming  
17 we were the underwriters, we would do our best to get  
18 best execution for both transactions based on the  
19 facts and circumstances of those particular  
20 transactions.

21 JUDGE WOODRUFF: Okay. So if, for example,  
22 you had a -- you had a bond issue of 150 million  
23 instead of 250?

24 THE WITNESS: I would expect less focus  
25 from investors.

1 JUDGE WOODRUFF: Okay. Would that imply a  
2 higher interest rate?

3 THE WITNESS: Yes.

4 JUDGE WOODRUFF: And do you know how much?

5 THE WITNESS: In the filings, in  
6 Exhibit 24, we imply that it would be approximately  
7 ten basis points, based on our best estimates in  
8 today's market.

9 JUDGE WOODRUFF: Okay. So if it was a -- a  
10 \$75 million issuance, it would be something higher  
11 interest again?

12 THE WITNESS: That level of precision is  
13 challenging to articulate, but, yes.

14 JUDGE WOODRUFF: Okay. Question about the  
15 estimated financing cost proposed in Liberty's  
16 petition is fixed versus variable costs.

17 THE WITNESS: I don't have that off top of  
18 my head. There are certain costs that are fixed, like  
19 legal fees, trustee fees, et cetera. There are  
20 certain costs that are variable like -- and related to  
21 transaction size like rating agency fees, underwriting  
22 fees, and SCC registration fees. I have not done the  
23 breakout for you, though.

24 JUDGE WOODRUFF: Okay. And just looking at  
25 Exhibit 24, there are -- there's a listing of various

1 financing costs. Would the TBD, to be determined,  
2 would that tend to be the ones that are variable?

3 THE WITNESS: No. I think we just didn't  
4 have certain amounts. So, for example, we have the  
5 commission's initial advisory fees as to be  
6 determined. Those are generally not variable based on  
7 transaction size, but we have not been provided with  
8 that information.

9 JUDGE WOODRUFF: I see. Thank you. Now,  
10 questions about the post-financing order process,  
11 should the commission require that a bond advisory  
12 body be established consisting of Liberty, the  
13 commission, the -- the commission staff, and any  
14 designated staff or consultant advisor to Liberty  
15 that -- basically, with commission staff, basically, a  
16 bond advisory team; is that something you would  
17 suggest or oppose or --

18 THE WITNESS: I follow the rules as they  
19 are outlined to me and, so I don't feel that it's  
20 appropriate for me to comment on that.

21 JUDGE WOODRUFF: Okay.

22 THE WITNESS: I'm excited to work with the  
23 commission and their team in the capacity as  
24 determined that's appropriate.

25 JUDGE WOODRUFF: So you'll work with

1 whatever you're told to work?

2 THE WITNESS: Correct. That's what you pay  
3 me for.

4 JUDGE WOODRUFF: Okay. What would be the  
5 perimeters of the bonds establishing the terms and  
6 conditions of the bonds, including but not limited to  
7 repayments schedules, expected interest rates, and  
8 financing costs?

9 THE WITNESS: What would be the perimeters?

10 JUDGE WOODRUFF: Yes.

11 THE WITNESS: So my understanding is the  
12 recovery period for these bonds is 13 years. We are  
13 targeting level debt service. And, so those are the  
14 two main perimeters. We would then, you know, upfront  
15 costs are going to be what they will be, and we will  
16 create a structure that is appropriate based on market  
17 demand at the time of issuance. But the two main  
18 perimeters that I believe you're asking to be set are  
19 the final expected final payment date, which I believe  
20 is something like 13 years, and the shape of the debt  
21 service schedule which my understanding is a level  
22 debt service schedule.

23 JUDGE WOODRUFF: Should a procedure be  
24 established that allows or requires the staff to audit  
25 the ongoing financial costs post issuance of the



1 bonds?

2 THE WITNESS: Generally, in order to  
3 achieve a triple A rating, review of -- are you  
4 talking about the true-up mechanism?

5 JUDGE WOODRUFF: Yes.

6 THE WITNESS: The -- the only input that  
7 can be had on the true-up mechanism by the commission  
8 is to check the mathematical accuracy of the  
9 calculation.

10 JUDGE WOODRUFF: That is established by the  
11 statute?

12 THE WITNESS: Yes.

13 JUDGE WOODRUFF: Okay. Do traditional  
14 financing methods incur financing costs also?

15 THE WITNESS: Traditional being a  
16 investment grade utility offering?

17 JUDGE WOODRUFF: Yes.

18 THE WITNESS: Yes.

19 JUDGE WOODRUFF: And what kind of costs  
20 would those be?

21 THE WITNESS: I do not do investment grade  
22 utility bond offerings. It is something I could come  
23 back on, but there would generally be legal fees. If  
24 you need an order of magnitude, I cannot comment on  
25 that, but I would expect the cost to be in similar

1 categories including legal expenses, rating agency  
2 fees, as well as under writing fees.

3 JUDGE WOODRUFF: Why weren't financing  
4 costs included in Liberty's traditional financing NPV  
5 scenario? If you know.

6 THE WITNESS: I can't comment on that.

7 JUDGE WOODRUFF: Okay. You weren't  
8 involved in --

9 THE WITNESS: No.

10 JUDGE WOODRUFF: -- creating that? Based  
11 on your bond experience, are these activities part of  
12 the process to be undertaken by the utility or to  
13 place bonds on marketing -- first of all, selection of  
14 the underwriters; is that part of the process?

15 THE WITNESS: Underwriters must be selected  
16 in order to proceed with a bond offering. The process  
17 around selection of the underwriters, it would be a  
18 conflict for me to comment on given I hope to be an  
19 underwriter.

20 JUDGE WOODRUFF: Okay. How about preparing  
21 for and registering the bonds with the SCC?

22 THE WITNESS: That -- are you asking if  
23 that would be --

24 JUDGE WOODRUFF: Part of the process.

25 THE WITNESS: -- part -- yes. The

1 underwriter. Once the underwriters were selected,  
2 generally, they would help to prepare offering  
3 documents and register the bonds with -- with the SCC  
4 in conjunction with the utility and their counsel.

5 JUDGE WOODRUFF: Okay. And preparing for a  
6 meeting with rating agencies?

7 THE WITNESS: Yes.

8 JUDGE WOODRUFF: Preparing for and  
9 marketing the bonds?

10 THE WITNESS: The underwriters would be  
11 involved in preparing and marketing the bonds, yes.

12 JUDGE WOODRUFF: Okay. Are there any other  
13 activities that are part of the process?

14 THE WITNESS: There's preparation of other  
15 ancillary materials, so investor presentations, cash  
16 flow analysis, marketing calls, preparation of a model  
17 and cash flows for the rating agencies, there is a  
18 number of other steps that go into the preparation of  
19 these transactions.

20 JUDGE WOODRUFF: Okay. Does issuing two  
21 financing orders require two separate bond issuances  
22 or can one transaction be created from two financing  
23 orders? One for Uri and one for Asbury?

24 THE WITNESS: It would be more complicated,  
25 but I am sure the -- the lawyers can figure it out.

1 JUDGE WOODRUFF: Okay. It sounds like  
2 that's not something you would recommend.

3 THE WITNESS: We have created transactions  
4 in multiple -- we have structured transactions based  
5 on multiple frameworks including having, you know, two  
6 or more utilities each with their own financing order  
7 issuing a single bond, so it is possible but  
8 simplicity is always helpful.

9 (Silence in audio.)

10 JUDGE WOODRUFF: Going back to my earlier  
11 question about the bond advisory body to be  
12 established, and you indicated you would work with  
13 whatever you --

14 THE WITNESS: Yes.

15 JUDGE WOODRUFF: -- we've ordered.  
16 Assuming Liberty doesn't have responsibility regarding  
17 the structuring marketing and pricing of the bonds,  
18 should the commission order and input advice from  
19 other members of the bond advisory team be required?

20 THE WITNESS: It is not required.  
21 Different states do it in different ways. My only  
22 guidance I can give is that it is important that  
23 whoever be involved in the process be ready to move  
24 efficiently and quickly. We are creating a marketing  
25 and pricing process that aligns with market

1 expectations as well as the internal processes of  
2 investors and to the extent you are not adhering to  
3 market standard or you are not complying or creating a  
4 process that matches the internal investor hedging and  
5 committee processes you may have investors that might  
6 opt out of the transaction which would result in a  
7 worth outcome for the ratepayers of Missouri.

8 JUDGE WOODRUFF: Okay. Can you explain a  
9 little bit about what the process -- expected process  
10 would be?

11 THE WITNESS: Action. I would note that  
12 the process changes depending on the market  
13 environment in more distress markets. Sometimes our  
14 process will be extended or if there is a efficiency  
15 in the market, we may wish to compress the process to  
16 take risk off the table, but generally, once all of  
17 our marketing materials have been prepared so that  
18 would be the registration statement generally an  
19 investor presentation as well as sometimes an investor  
20 term sheet. We would begin our marketing process.  
21 That process generally lasts three to five days and  
22 would comprise of a series of one-on-one calls, a  
23 broad group investor call, and providing information  
24 to investors through a road show website, and once  
25 marketing has commenced, at some point, we would share

1 with investors initial thoughts on pricing. Those are  
2 referred to, I think, in some of these documents as  
3 IPTs or initial price thoughts, that helps to guide  
4 investors to expectations around where -- what the  
5 relative value of these bonds are. Depending on  
6 investor demand, investors at that point would start  
7 to place orders on the bonds. Depending on investor  
8 demand, we may have the ability to tighten our IPTs in  
9 or bring our spread in to result in a lower spread to  
10 treasuries. If investor demand is not sufficient, we  
11 may need to widen our spreads out in order to garner  
12 more support for the transaction and be able to clear  
13 all of the bonds in the market. Those decisions are  
14 made quickly at checkpoint calls with the commission,  
15 if appropriate, as well as the utility, and then once  
16 we have figured out the right price through the series  
17 of market testings, we will announce to investors that  
18 we are going to price the deal. We will notify them  
19 of the allocations, how many bonds they're going to  
20 get, and we will price the transaction and spot the  
21 relevant treasury rate at that point in time. There  
22 is then generally a five-day period between pricings  
23 and closing where we will finalize transaction  
24 documents, and then the utility will receive their  
25 funds, five days post pricing in most cases.

1 JUDGE WOODRUFF: Okay. So from what I'm  
2 hearing, there's -- there's not going to be any time  
3 for somebody to come back and say, hey, commission do  
4 you think this is a good idea?

5 THE WITNESS: Generally, the rules of what  
6 everyone is comfortable with are determined up front  
7 and in the processes that I think result in the best  
8 outcome for ratepayers, there is -- it is everyone  
9 working together and pulling in the right direction in  
10 the same direction to move efficiently through the  
11 process so that we can get as much investor demand as  
12 possible which allows us to drive that credit spread  
13 in as tightly as possible and get to the best outcome  
14 for the ratepayers.

15 JUDGE WOODRUFF: Okay. Should the  
16 commission require that Liberty, the underwriters, and  
17 any independent financial advisor deliver to the  
18 commission independent written certifications without  
19 material or qualifications confirming what they have  
20 done has, in fact, resulted in lowest cost of funds  
21 and the lowest recovery charges consistent with market  
22 conditions at the time of bond pricing, so we're  
23 looking for --

24 THE WITNESS: The expectation that the  
25 underwriters and -- and the utility will be providing

1 such certifications.

2 JUDGE WOODRUFF: Okay. I believe that's  
3 all the questions I have then. Any recross based on  
4 questions from the bench beginning with Renew  
5 Missouri?

6 ALICIA GREENWALD: No. Excuse me. No  
7 questions, Your Honor.

8 JUDGE WOODRUFF: All right. For staff.

9 CURT STOKES: Yes, Your Honor. Thank you.

10 EXAMINATION

11 BY CURT STOKES:

12 Q. You mentioned a -- or you were asked about  
13 a bond advisory team. Have you worked with  
14 commissions that had a bond advisory team previously?

15 A. Yes.

16 Q. And the team has been consisting of members  
17 of, like, designated staff that would be able to  
18 respond quickly?

19 A. Yes.

20 Q. Ideally. Okay. In your experience, has  
21 that been an effective way to alleviate concerns  
22 raised by staff or financial advisor and help them  
23 provide guidance to the commission on the issuance  
24 advise letter once it's finally issued?

25 A. Yes.



1           **Q. You were asked about two financing orders**  
2 **authorizing one bond offerance or one -- one bond**  
3 **offering. Are you familiar with the bond issuance in**  
4 **taxes recently where they -- my understanding is that**  
5 **they securitize, like, all the utilities --**

6           A. The cost securitization, yes.

7           **Q. Can you explain how that worked?**

8           A. That was a very different structure than  
9 what we're trying to achieve here, and due to a number  
10 of structural considerations, they were actually -- it  
11 did not look like a traditional IOU securitization. I  
12 don't know that that is the best comparison, if you  
13 are looking to a transaction with multiple utilities  
14 or multiple financing orders. I think probably the  
15 better comparisons would be either the first energy  
16 deal in Ohio that was issued, I want to say, in 2014  
17 or NSTAR did a deal in Massachusetts a number of years  
18 before.

19           **Q. Okay. That's all I was going to ask, if it**  
20 **was a useful comparison or not.**

21           A. I -- I am very aware of it. I don't know  
22 that it is the best comparison given Texas has a  
23 different legal and regulatory framework than  
24 Missouri.

25           **Q. Now, you had mentioned that, you know,**

1 two -- if there were two bond offerings that you'd  
2 have a ten basis point increase. Assuming the  
3 approximately \$145 million associated with Asbury,  
4 what does ten basis points equate to for \$145 million?

5 A. I don't have a calculator up here. Or  
6 maybe I do actually. Well, it would be ten basis  
7 points per year. I guess the duration on the cash  
8 flows is probably something, you know, we can come  
9 back -- we can actually come back and do the math for  
10 you, but it would be the duration times the ten basis  
11 points times the total bond offering size. So, you  
12 know, it could be meaningful in the millions of  
13 dollars over the life of the transaction.

14 Q. You estimated, though, it would be more  
15 than the \$1 million in savings from consolidation?

16 A. Yes. I believe so, but I guess the point  
17 is, it would be compounding the savings of  
18 consolidation.

19 Q. Yeah. That's where I was getting to.

20 A. Yes. Yes.

21 Q. Yeah.

22 A. Correct.

23 CURT STOKES: Yeah. No further questions,  
24 Your Honor.

25 JUDGE WOODRUFF: Public counsel.

1 NATHAN WILLIAMS: Thank you. Nathan  
2 Williams again.

3 EXAMINATION

4 BY NATHAN WILLIAMS:

5 Q. In response to bench questions, you  
6 indicated that there have been securitizations below  
7 the 250 million that you indicated as preferable; do  
8 you recall that?

9 A. Yes.

10 Q. How low have -- how much below the 200 --  
11 well, I don't think I want to get it in that way.  
12 What amount of securitizations have been that -- done  
13 that were below the 250 million?

14 A. So I submitted as part, I believe of my  
15 testimony a list of all of the transactions and  
16 relevant transaction sizes. There have been a handful  
17 of deals that have been sub 100 million, though most  
18 of them a bit older at this point in time, going back  
19 to the inaugural period sound securitization in 1997  
20 that was \$35 million. And there have been a couple of  
21 transactions that have been smaller. The goal is,  
22 obviously, to get best execution regardless of the  
23 transaction size, and we will be able to successfully  
24 execute a smaller transaction. It just may not price  
25 as efficiently as the larger transaction.

1 JUDGE WOODRUFF: Redirect.

2 DEAN COOPER: Thank you, Your Honor.

3 JASON HOLSMAN: Judge, this is Commissioner  
4 Holsman. I have a question.

5 JUDGE WOODRUFF: Go ahead.

6 JASON HOLSMAN: Thank you.

7 EXAMINATION

8 BY JASON HOLSMAN:

9 Q. Given the market volatility of late, what  
10 specific market conditions would be present that would  
11 make you -- make the bond yield disadvantageous?

12 A. I'm sorry, can you repeat that? The bond  
13 yield to what?

14 Q. It would be disadvantageous, that would --  
15 what conditions would be present that would  
16 essentially suggest that it wasn't worth doing?

17 A. I believe the metric that has been set is  
18 present value savings relative to the utility's  
19 blended cost of capital. And, so to the extent we had  
20 continued rate hikes by the fed or market volatility  
21 such that investors demanded significantly higher  
22 credit spreads to treasuries, you could be in a  
23 position where the cost of the securitization exceeded  
24 historical costs or historical weighted costs of the  
25 utility, but I would note that my guess is that if you

1 updated those costs, like, in the next rate  
2 proceeding, the utilities blended cost of capital  
3 would also likely increase in line with what is  
4 happening in the securitization markets given everyone  
5 references the same treasury yields.

6 **Q. Given that the fed has already announced**  
7 **that they are going to increase interest rates, is**  
8 **there a sense of urgency to try to get this done, does**  
9 **the timing of this play a factor?**

10 A. You know, I don't have the ability to  
11 foresee where rates and credit spreads are going.  
12 That said, I think taking advantage of markets when  
13 they are open is always a good practice and is the  
14 advice that we generally would give to our clients.  
15 Whether they be utilities or otherwise.

16 JASON HOLSMAN: Okay. Thank you, Judge.

17 JUDGE WOODRUFF: Thank you. Any further  
18 recross based on those questions from the  
19 commissioner? Staff? I see shaking hands. We'll go  
20 to redirect.

21 DEAN COOPER: Thank you, Your Honor.

22 EXAMINATION

23 BY DEAN COOPER:

24 **Q. Ms. Niehaus, I apologize. I'm sure this is**  
25 **going to be disjointed as I work back through my notes**

1 here, but let's start with a recent you had -- you  
2 were asked to comment on an (inaudible) kind of  
3 combined, perhaps securitization that was recent, and  
4 I think you said you thought if you start talking  
5 about a combination of -- of orders and that sort of  
6 thing, that the -- the more appropriate sort of  
7 reference point might be an order from 2014 or another  
8 that was older than that; is that correct?

9 A. Yes.

10 Q. So you can't think of any that would be  
11 similar to that within the last -- without going back  
12 eight years?

13 A. I cannot, no.

14 Q. There were questions about sort of the  
15 implications of delay and the securitization process.  
16 Is one of the factors that can impact delay, the fact  
17 that commonly carrying charges continue to accrue  
18 during that -- that time period?

19 A. That is a factor, yes.

20 Q. Okay. If we assume two separate  
21 financings, Uri, Asbury here, is there necessarily  
22 some delay for one or the other in terms of trying to  
23 move forward with those -- those two securitizations?  
24 I guess what I'm asking is, can they just run forward  
25 on a parallel track or necessarily are you going to

1 **have to take one first followed by another?**

2 A. They could theoretically run together on a  
3 parallel track, and you could bring one, and then  
4 bring the other when it was appropriate.

5 **Q. Say that again, I apologize.**

6 A. They could begin progressing in their life  
7 cycle on a parallel track, if the decision was made to  
8 do two separate securitizations. If one was ready to  
9 go and the other was not, you could theoretically  
10 bring one to market while the other continued on  
11 through its regulatory process.

12 **Q. You mentioned a \$255,000 fee. Is that a**  
13 **per transaction?**

14 A. I believe we were charging the -- the  
15 structuring advisor fee per transaction, yes.

16 **Q. In response to questions from, I believe it**  
17 **was -- the law judge, you reference that during the --**  
18 **I think it was the marketing, and the pricing process**  
19 **that decisions need to be made quickly; is that the**  
20 **word you used?**

21 A. Yes.

22 **Q. When you say quickly, are you talking**  
23 **months, weeks, days or something shorter than that?**

24 A. In some cases, it will be minutes. We will  
25 get feedback from an account, we will know that we are

1 fully allocated for our transaction, and there will be  
2 a decision that needs to be made about whether we are  
3 ready to move forward and price the transaction.  
4 Delays outside of the normal timing are generally not  
5 well received by the investors as they expect a  
6 certain cadence to a transaction.

7 (Silence in audio.)

8 **Q. Some of the questions I think necessarily**  
9 **went to your -- your experience in both the utility**  
10 **securitization sort of space as well as your personal**  
11 **experience with transactions. What is your experience**  
12 **with utility securitization efforts?**

13 A. I have -- the first utility securitization  
14 I worked on was in 2005 for Jersey Central Power and  
15 Light. I've been involved in the structuring and/or  
16 underwriting. I believe 18 transactions totaling  
17 north of \$17 billion in issuance.

18 **Q. Have these been in a variety of states?**

19 A. Yes. They are across a number of states.

20 **Q. If you -- if you know or if you have**  
21 **experience, would -- would you describe the Missouri**  
22 **statute in regard to the participation of the -- of**  
23 **the advisor to be more or less descriptive in other**  
24 **states you've worked with?**

25 A. I would say it's pretty close to down the



1 middle of the fairway.

2 Q. Okay. And I'm going to -- I'm sure this is  
3 where I'm going to finish. You were asked questions  
4 about the impact of the markets, you know, how -- is  
5 there a level where suddenly we get to a point that  
6 securitization is not -- there are no quantifiable net  
7 present value benefits for the customers, and you may  
8 have been in here earlier. I asked Mr. Murray about  
9 this statement in your surrebuttal where you say,  
10 while the pricing of triple A bonds will increase with  
11 general market volatility, pricing and traditional  
12 methods of financing will as well; would you expand  
13 on -- on that as it -- as it relates to this question  
14 of what about rising markets?

15 A. Sure. So I would say generally, but not  
16 always markets move together especially when you are  
17 talking about rising treasury rates or base rates.  
18 A -- investment grade utility, first mortgage bond or  
19 other more traditional form of offering will reference  
20 the same rates and same base rates as a utility  
21 securitization, so as the fed resets rates or rates  
22 rise, both -- in both cases, the utilities senior cost  
23 of regular way debt will rise likely in conjunction  
24 with the rising of the utility cost of capital.  
25 Additionally, these are both high quality bond

1 offerings, so it would not be outside of expectation  
2 for market volatility to impact both a utility's  
3 regular form of debt offering as well as equity  
4 markets in addition to their securitization cost of  
5 capital, so I think -- you know, I think the point you  
6 may be getting at is there may be a time disjointment  
7 between the comparisons of the utilities cost of debt  
8 and equity from their prior rate proceedings as  
9 opposed to a current market on the securitization  
10 because we would be bringing a market in today's rate.

11 DEAN COOPER: That's all the questions I  
12 have, Your Honor. I would offer Exhibit 24 at this  
13 time.

14 JUDGE WOODRUFF: All right. 24 has been  
15 offered. Any objections to its receipt? Hearing  
16 none, it will be received. Thank you, Ms. Niehaus. I  
17 believe the next witness would be then Mr. Davis. Do  
18 we need to take a little break?

19 CURT STOKES: Correct, Your Honor. He'll  
20 be appearing remotely, so maybe a five-minute break to  
21 make sure we have connectivity.

22 JUDGE WOODRUFF: Let's go ahead and take a  
23 10-minute break. We'll come back at 10:20.

24 CURT STOKES: Thank you.

25 JUDGE WOODRUFF: All right. Let's go ahead

1 and resume then. Our next witness is Mark Davis for  
2 staff. And he is testifying via Webex. I see on my  
3 screen he's just taken a seat, so. I -- you may  
4 inquire.

5 CURT STOKES: Thank you, Your Honor. Curt  
6 Stokes on behalf of staff.

7 JUDGE WOODRUFF: Let me swear him in first.  
8 I almost forgot. Please raise your right hand. Do  
9 you solemnly swear or affirm that the testimony you're  
10 about to give in this matter is the truth, the whole  
11 truth, and nothing but the truth?

12 THE WITNESS: I do.

13 JUDGE WOODRUFF: Thank you. Now you may  
14 inquire.

15 CURT STOKES: Thank you, Your Honor.

16 EXAMINATION

17 BY CURT STOKES:

18 Q. Good morning, Mr. Davis. Before we get  
19 started, I just wanted to remind you again, we are  
20 recording this. We don't have a court reporter  
21 present, but a court reporter will be transcribing  
22 later from the recording, so to the extent you can  
23 talk slowly, unlike I do sometimes, and you know, wait  
24 so that there's no overlap, that's most helpful for  
25 the record.

1 A. Understood.

2 Q. Can you please state your full name for the  
3 record?

4 A. Mark S.A. Davis.

5 Q. Thank you. How are you employed and in  
6 what capacity?

7 A. I am a partner of Ducera Partners,  
8 Investment Bank.

9 Q. And have you prepared in these proceedings  
10 rebuttal testimony marked as Exhibit 107 and a -- a  
11 work paper marked as Exhibit 117?

12 A. Yes.

13 Q. And do you have any corrections to make to  
14 these documents?

15 A. I do.

16 Q. Can you state what those are?

17 A. Yes. On page 5, paragraph 2, line 2, I'd  
18 like to change based on the short term or to say,  
19 should also be evaluated based on. Separately, on  
20 page 14, paragraph 2, line 3, I'd like to change  
21 exceeds to state is less than --

22 UNIDENTIFIED MALE: I apologize,  
23 Mr. Stokes, can you direct me to Mr. Davis's --

24 CURT STOKES: I think just for the parties'  
25 clarifications, page 14, is it line number 8?

1 THE WITNESS: Paragraph 2, line -- I  
2 believe that is line 8. In the case interest rates,  
3 it should now say is less than the discount rate under  
4 securitization.

5 Q. (By Curt Stokes:) Okay. Thank you. With  
6 those corrections, if I were to ask you the same  
7 questions in those documents, would your answers be  
8 the same?

9 A. Yes.

10 Q. And are those corrected answers true and  
11 correct to the best of your knowledge and belief?

12 A. Yes.

13 CURT STOKES: And Your Honor, I don't  
14 know -- I think Exhibit 117 would be helpful answering  
15 some of the commission questions for -- would I be  
16 able to lay a quick foundation for that and let the  
17 parties move?

18 JUDGE WOODRUFF: Please do.

19 Q. (By Curt Stokes:) Mr. Davis, can you  
20 briefly describe what Exhibit 117 is?

21 A. Yes. This is underlying -- an update of  
22 underlying work papers that were attached to my  
23 testimony, updated to explicitly address questions  
24 posed by the commission.

25 Q. Okay. Going -- going to the second page,

1 for example, can you kind of walk us through -- for  
2 example, where it says consolidated, kind of tell us  
3 what that first -- what the -- what each of the lines  
4 is doing there?

5 A. Yes. So on page 2, on the right-hand side  
6 of the page, under -- under the term consolidated,  
7 this looks at a comparison of the net present value  
8 savings of a ten-year AAO to a 13-year securitization.  
9 It also looks at the implied break even interest rate  
10 for there to be positive NPV savings under that  
11 scenario.

12 Q. And then to the left, on the Uri, where it  
13 says Uri standalone, can you just briefly describe  
14 that?

15 A. Yes. So to the left under Uri standalone  
16 is a similar analysis looking strictly at the Uri  
17 securitization, on a standalone basis, not including  
18 the impacts of a consolidated deal with Asbury and the  
19 added amounts that would be securitized as well  
20 incremental fees that would be associated with an  
21 Asbury securitization.

22 Q. Thank you. And then there are two rows  
23 indicated with a blue background. Can you -- can you  
24 describe the difference between those two rows?

25 A. Yes. The -- the first row indicates the

1 implied NPV comparison of the cases based on using the  
2 same discount rate for AAO and securitization. The  
3 second case uses a discount rate for AAO based on the  
4 carrying costs approved by the commission and uses a  
5 discount rate for securitization at the utility's  
6 weighted average cost of capital.

7 **Q. Thank you. Turning to page 3 of that**  
8 **document, there are scenarios 1 through 4 at the top.**  
9 **Can you very briefly describe what you were doing in**  
10 **the four scenarios?**

11 A. Yes. So there's four scenarios referenced  
12 that serve the basis for a footnote in my testimony,  
13 looking at the impacts of different carrying costs and  
14 different discount rates on the NPV savings associated  
15 with securitization. Scenario 1 uses the weighted  
16 average cost of capital as the discount rate and  
17 carrying cost for both winter storm Uri and for  
18 Asbury. Scenario 2 adjusts those amounts to use  
19 the -- is highlighted with the blue arrows, use the  
20 cost of debt for the discount rate associated with  
21 Winter Storm Uri AAO as well as adjust the discount  
22 rate for securitization to reflect the portion  
23 associated with -- with Winter Storm Uri at that cost  
24 of debt, and the portion associated with Asbury at the  
25 weighted average cost of capital. Scenario 3 further

1 adjusts those scenarios to look at the carrying costs  
2 for Winter Storm Uri at the long-term cost of debt  
3 rate, and the consolidated AAO at the weighted average  
4 interest rate -- or carrying cost associated with  
5 Winter Storm Uri at the long-term cost of debt rate  
6 and Asbury at the weighted average cost of capital.  
7 The final scenario, scenario 4, discounts all of those  
8 amounts, those carrying cost amounts at the long-term  
9 cost of debt rate. So discounts both the AAO -- or  
10 sorry, the Winter Storm Uri cash flows as well as the  
11 Asbury cash flows at that long-term cost of debt rate.

12 **Q. Thank you. And then can you very briefly**  
13 **describe what pages 4 through 8 -- what -- what those**  
14 **documents are?**

15 A. Sure. So pages 4 through 8 provide a range  
16 of different terms that could be approved in an AAO  
17 and terms associated with securitization and also  
18 evaluate a securitization of both Asbury and Uri on a  
19 standalone basis as well as on a consolidated basis to  
20 provide various sensitivities around the -- the NPV  
21 savings associated with the various assumptions that  
22 are illustrated. They further provide a look at the  
23 potential impacts of a time delay on those NPV  
24 savings.

25 **Q. Thank you. And then can you briefly**



1 **describe the page 9 calculations?**

2 A. Yes. Page 9 calculates the -- the AAO --  
3 or the ADIT adjustments associated with a 10, 13 or  
4 15-year securitization adjusting those balances to  
5 reflect the NPV of the ADIT amount which serves the  
6 basis for the portion of ADIT that's included in the  
7 Asbury securitization amount.

8 **Q. Thank you. And then, finally, just -- can**  
9 **you explain what -- what page ten is?**

10 A. Yes. Page ten illustrates the cost  
11 assumptions put out by Liberty for Winter Storm Uri  
12 and for Asbury, both in terms of upfront costs and  
13 ongoing costs and what those would look like on a  
14 consolidated basis. They further include a -- an  
15 illustration of the potential maximum savings that  
16 could be achieved through -- through issuing the  
17 securitization as a consolidated transaction avoiding  
18 potentially duplicative costs to the extent they  
19 haven't otherwise been incurred.

20 **Q. And -- and does that document also break**  
21 **out fixed and variable costs?**

22 A. It does. So this -- the starting point in  
23 the -- under the upfront costs and under ongoing  
24 costs, there's a total line item for the fixed  
25 amounts, and then below those amounts are percentages

1 associated with variable amounts. So there's no  
2 savings illustrated associated with those variable  
3 amounts such as the underwriting fees, SCC  
4 registration fees, and bond rating fees, but potential  
5 savings associated with the fixed amounts.

6 **Q. Thank you.**

7 CURT STOKES: Your Honor, based on that, I  
8 would offer Exhibits 107 and 117 into evidence.

9 JUDGE WOODRUFF: 107 and 117 have been  
10 offered. Any objections to their receipt?

11 NATHAN WILLIAMS: Judge, I don't have an  
12 objection to the exhibits, but I question the -- the  
13 designation of 117 as being highly confidential. I  
14 don't see how it falls within the scope of the  
15 protective order, and I'm not advocating necessarily  
16 that it be made public, but I want to understand why  
17 it should not be.

18 JUDGE WOODRUFF: That was going to be my  
19 question as well.

20 CURT STOKES: Let me lay a foundation maybe  
21 for that designation with Mr. Davis, if I may.

22 JUDGE WOODRUFF: Well, first of all, is it  
23 your plan to offer this as a C or HC?

24 CURT STOKES: I believe we would appreciate  
25 having it marked as HC; is that correct, Mr. Davis,

1 that the commission's protective order would apply to  
2 this document?

3 THE WITNESS: That's correct.

4 Q. (By Curt Stokes:) And can you briefly  
5 explain the propriety and intellectual property of --  
6 of this document?

7 A. Yes. So this represents a propriety  
8 financial analysis prepared, you know, by my team or  
9 under my direction looking at, you know, various --  
10 various scenarios and -- and analyses.

11 Q. And in your opinion, does that -- does  
12 this -- do these financial calculations derive  
13 financial value to you and to Sarah?

14 A. They do.

15 Q. And if -- if shared with competitors or  
16 people in competition with you, would -- would it be  
17 valuable to them?

18 A. It may be.

19 Q. Based on that, we're just asking that the  
20 commission's protective order apply and that,  
21 therefore, the nondisclosure agreement document apply  
22 to this document?

23 NATHAN WILLIAMS: Judge, if I might.

24 JUDGE WOODRUFF: Go ahead.

25 NATHAN WILLIAMS: How would these -- I

1 mean, it says on it that they're illustrative,  
2 illustrative, I'm sorry, why would they confer  
3 potential value to others that would compete with you?

4 THE WITNESS: So the methodology in the way  
5 that -- that, you know, have approached it and put it  
6 together as well as, you know, compared the various  
7 scenarios, you know, I view to be propriety in nature.  
8 And -- and something that, you know, could be used --  
9 could be used by competitors to, you know, form the  
10 basis of -- you know, their analysis or, you know,  
11 roles in other -- other you know, similar engagements.

12 CURT STOKES: And Your Honor, maybe some  
13 clarification might help.

14 Q. (By Curt Stokes:) So the value from these  
15 documents derives from the documents themselves;  
16 correct?

17 A. That's correct.

18 Q. So if somebody wanted to just cite, for  
19 example, page 3, scenario 3 showing a net present  
20 value calculation showing a net NPV benefits of you  
21 know, 25.7 million, that would be -- that -- there  
22 would be no problem with that; right? It would just  
23 be, you know, attaching or copying the entire document  
24 itself?

25 A. That's exactly right. So the manner that

1 it's prepared, put together and -- and compared as  
2 opposed to the illustrative assumptions that are built  
3 in there.

4 **Q. Okay. But the -- like, the percentages and**  
5 **the net present value benefit derived calculations,**  
6 **those numbers standing alone outside of the document**  
7 **could be made public; correct?**

8 A. That's correct.

9 CURT STOKES: Does that help, Your Honor?

10 JUDGE WOODRUFF: It does. I think -- one  
11 more clarification on this. You've asked it to be  
12 highly confidential. Is simply a highly confidential  
13 designation sufficient, that would make it -- it would  
14 make it, so it's not viewable by the public or other  
15 competitors, but everyone in the case would be able to  
16 see it with -- where it's highly confidential means  
17 only the attorneys can see it.

18 DEAN COOPER: Your Honor, Dean Cooper for  
19 Liberty. I -- I guess that would be the position that  
20 I would like to -- I guess ask Mr. Stokes to consider  
21 as well, because I think the highly confidential  
22 material was more applicable to really a different  
23 sort of market than we're talking about here, and I  
24 think that this sort of marketing information as to --  
25 just kind of normal market situations fits within a

1 couple of the categories probably in the regular  
2 confidential rule that the commission has.

3 CURT STOKES: Let me ask Mr. Davis. So  
4 Mr. Davis on the understanding that it -- if this  
5 document is confidential, it's not available to the  
6 public, it would be available to all of the attorneys  
7 to the -- to the -- to the -- to the attorneys for the  
8 parties to the case and to their high experts. I know  
9 there are a lot of outside experts, one from the  
10 Brattle Group, one from Utilicast, one from Goldman  
11 Sachs. Based on that, are there competitive concerns  
12 about anyone from Brattle, Utilicast or Goldman Sachs  
13 being able to see this entire document?

14 A. So I think our preference would be for it  
15 to be highly confidential, if it would please the  
16 commission, you know, sharing it with those parties  
17 something, we can take up before.

18 JUDGE WOODRUFF: Sorry, I didn't understand  
19 your last statement. You kind of got garbled on the  
20 line.

21 THE WITNESS: Sorry. If sharing with  
22 those -- our preference would be for it to be highly  
23 confidential. If sharing it with those parties would  
24 please the commission, you know, I think we would be  
25 okay with that.

1 JUDGE WOODRUFF: Okay. So I take that as  
2 confidential would be sufficient? You prefer highly  
3 confidential?

4 CURT STOKES: Yeah. I think that would be  
5 the preference, but confidential at least.

6 JUDGE WOODRUFF: All right. We'll accept  
7 it as confidential then --

8 CURT STOKES: Okay.

9 JUDGE WOODRUFF: -- rather than HC. All  
10 right. Does that take care of your concerns,  
11 Mr. Williams?

12 NATHAN WILLIAMS: Sounds like I've gotten  
13 it as public as I'm going to, so I think so.

14 JUDGE WOODRUFF: Okay. Then 107 and 117  
15 will be received.

16 CURT STOKES: And I tender the witness for  
17 cross.

18 JUDGE WOODRUFF: Okay. Cross examination.  
19 Then we begin with Renew Missouri.

20 ALICIA GREENWALD: No questions, Your  
21 Honor, thank you.

22 JUDGE WOODRUFF: MECG? Counsel?

23 NATHAN WILLIAMS: No questions, thank you.

24 JUDGE WOODRUFF: Liberty.

25 DEAN COOPER: No questions.

1 JUDGE WOODRUFF: All right. We'll come up  
2 for questions from the bench. Any questions from the  
3 commissioners on the line?

4 RYAN SILVEY: Commissioner Silvey has no  
5 questions.

6 JASON HOLSMAN: Commissioner Holsman has no  
7 questions.

8 JUDGE WOODRUFF: Well, I do have some  
9 questions. The first is the basic question, should  
10 the commission issue a single financing order  
11 addressing Winter Storm Uri and Asbury securitizations  
12 or should we do separate financing orders? In your  
13 opinion?

14 THE WITNESS: In my opinion, there's value  
15 in a single financing order given the potential for  
16 both cost savings associated with that up front and  
17 ongoing costs as well as the liquidity benefits that,  
18 you know, I think have been described to the  
19 commission as well around issuing these amounts  
20 through a -- a single financing order.

21 JUDGE WOODRUFF: And I'm going to ask you  
22 some of the same questions that I asked Ms. Niehaus.  
23 What would be the effective appeal to a court of a  
24 commission's financing order on the ability -- on the  
25 underwriter's ability to proceed with a bond issuance



1 process?

2 THE WITNESS: So there's -- there's the  
3 potential that an appeal could delay the issuance of  
4 all or a portion of the bonds. In -- in doing that,  
5 the -- the utility would be subject to interest rate  
6 risk on, you know, the value of the -- of the amount  
7 that's securitized during that time period.

8 JUDGE WOODRUFF: Does a single financing  
9 order or two separate financing orders provide a  
10 benefit or detriment during the bond issuance process  
11 all else being equal?

12 THE WITNESS: All else being equal a single  
13 financing order would (inaudible).

14 JUDGE WOODRUFF: Does a single financing  
15 order or separate financing orders provide a benefit  
16 or detriment in the event of only one of the  
17 securitization subject matters being appealed?

18 THE WITNESS: There would be uncertainty in  
19 terms of interest rate risk, so there's the potential  
20 for savings associated with the upfront and ongoing  
21 costs on one hand and uncertainty around interest rate  
22 risks on -- on the other hand. As part of the work  
23 papers that we prepared, we looked at a potential  
24 increase in interest rates of approximately ten basis  
25 points where you know, where words were at, at the

1 time and based on those four words, there was still  
2 savings associated with a delay of the securitization.  
3 There's potential benefits of still issuing the entire  
4 financing together given the financial avoided cost in  
5 the overall transaction.

6 JUDGE WOODRUFF: What would be the minimum  
7 dollar value of securitized property at which a  
8 reasonable underwriter would expect sufficient  
9 investor interest liquidity in triple A bond rating  
10 such that the bond rates are at the lowest cost  
11 available for Liberty's customers, so what's the  
12 minimum that could be financed possibly?

13 THE WITNESS: I don't know that I can  
14 quantify the minimum amount that could be financed.  
15 There was reference earlier to an exhibit that's been  
16 filed in testimony with the list of the size of each  
17 securitization that have been issued back to 1997 only  
18 a handful of those have been under, you know, the 60  
19 million threshold for, you know, staff's proposal for  
20 Asbury, I believe it was six yields are listed in  
21 there under \$60 million, so there is a potential to  
22 issue smaller amounts all be it, you know, relatively  
23 uncommon given the, you know, high cost upfront costs  
24 and ongoing costs associated with -- with  
25 securitization, you know, subscale.

1 JUDGE WOODRUFF: The updated financing  
2 costs proposed in Liberty's petition is fixed versus  
3 variable costs; do you know?

4 THE WITNESS: Sorry, I -- the -- it didn't  
5 come through clearly. Could you repeat the question?

6 JUDGE WOODRUFF: Sure. How much of the  
7 estimated financing costs proposed in Liberty's  
8 petition is fixed costs, and how much is variable  
9 costs?

10 THE WITNESS: So they use -- and I'm  
11 referencing page 10 of the exhibit that we -- we spoke  
12 through earlier, the -- the upfront fixed fees are  
13 estimated at approximately \$2.5 million for Winter  
14 Storm Uri and a similar amount for Asbury. And then  
15 ongoing costs are estimated at approximately \$225,000  
16 per year fixed ongoing costs for Uri and fixed ongoing  
17 costs for -- for Asbury. There's roughly -- the  
18 percentage of variable costs, I don't show the dollar  
19 amount of variable costs on page ten.

20 JUDGE WOODRUFF: In his opening statement  
21 staff's counsel stated that you prepared quantitative  
22 analysis which compares the cost and benefits of a  
23 combined, but delayed securitization with the cost and  
24 benefits of separate securitization where one bond  
25 issuance is delayed, but the other bond issuance is

1 not delayed. Is that part of the analysis that you  
2 include in Exhibit 117?

3 THE WITNESS: It is.

4 JUDGE WOODRUFF: Okay. Do you believe  
5 having two financing orders, one for Storm Uri, and a  
6 second for Asbury will prevent a combined -- prevent a  
7 combined financing in the event that no party appeals  
8 either financing orders?

9 THE WITNESS: I want to make sure I  
10 understood the question. Did you say it would prevent  
11 a combined financing order to have --

12 JUDGE WOODRUFF: Could you have two  
13 separate -- could you have two financing orders and  
14 one bond issuance?

15 THE WITNESS: I -- I don't know if, you  
16 know, from a legal perspective, it's something that  
17 could be -- could be combined, if they're issued or if  
18 they're approved under separate financing orders.

19 JUDGE WOODRUFF: You don't know if it could  
20 be combined?

21 THE WITNESS: I don't.

22 JUDGE WOODRUFF: Okay. What is your  
23 experience with bonds, specifically securitization  
24 bonds?

25 THE WITNESS: So I've been -- since the

1 beginning of this, you know, cycle of securitizations,  
2 I personally, in my firm, been, you know, highly  
3 active within the space advising, you know, regulators  
4 on, you know, either commissions or commission staff  
5 on utility securitizations, I'm currently involved in  
6 securitization transactions in -- you know, four  
7 states with total issuance volume anticipated either  
8 through those financing orders or active processes in  
9 excess of \$10 billion.

10 JUDGE WOODRUFF: And you said Sarah's  
11 involved in this process as an advisor to various  
12 commissions, regulators; is that what you said?

13 THE WITNESS: That's correct. I said we  
14 don't serve in an underwriting capacity. We -- we  
15 serve in -- in an advisory role to, you know,  
16 commission, so with commission staff.

17 JUDGE WOODRUFF: Okay. In Sarah's roles  
18 serving public clients with securitization bonds, what  
19 has been your level of involvement in the structuring  
20 marketing and pricing phases?

21 THE WITNESS: So as advisor to, you know,  
22 the -- the designated, you know (inaudible) or finance  
23 team role, I've been highly involved in, you know,  
24 respectively all facets of that process, so involved  
25 from the, you know, early days of the -- the designing

1 what the process ultimately should look like and what  
2 the commission staff review process should look like  
3 to the underwriter selection process, making sure that  
4 use sufficient information is garnered by the  
5 commission staff in order to evaluate what the  
6 structure marketing and pricing proposals look like  
7 from the ultimate underwriter team, and then, you  
8 know, building from that to reviewing the structure of  
9 the -- of the proposal being involved in overseeing  
10 the marketing process from commission staff's  
11 perspective, including evaluating the length of the  
12 marketing process, the steps involved, the investors  
13 that are targeted as part of that process to  
14 ultimately inclusion in the pricing process, so  
15 investor calls, the different pricing levels,  
16 reviewing what the order book looks like, so the  
17 degree of subscription from investors into the order  
18 book and ultimately that -- the decisions of the  
19 utility and their underwriters, how to tighten that  
20 pricing in order, you know, to achieve the statutory  
21 objectives within, you know, the -- the particular  
22 states or financing orders requirements.

23 JUDGE WOODRUFF: And did you -- did you  
24 participate in meetings with rating agencies?

25 THE WITNESS: For the rating agencies, I've

1 received access to recorded calls with the rating  
2 agencies and reviewed presentation materials that will  
3 be presented to the rating agencies. The discussions  
4 directly with the rating agencies have -- in the  
5 incentives I've been involved have taken place  
6 directly between the issuer underwriter with the  
7 rating agencies, you know, transcripts or notes  
8 provided, you know, provided to -- to, you know, the  
9 advisor to the relevant commission staff.

10 JUDGE WOODRUFF: And Mr. Mocindy's  
11 surrebuttal testimony said there should not be any  
12 additional protocols or procedures added to the  
13 finance order that could lead to delays in completing  
14 the transaction. What's been your experience with the  
15 impact of protocols or procedures to the finance  
16 order? Have you seen them cause delays?

17 THE WITNESS: No. I -- as it relates to  
18 the procedures that are put in place, having steps in  
19 place that provide for an organized process outlining,  
20 you know, what the role of the finance team is, items  
21 that, you know, would be, you know, effectively  
22 reviewed along the way establishing what that review  
23 process looks like, in my mind, have created  
24 efficiencies in the process, so you don't end up in a  
25 world where there's a -- you know, draft issuance

1 advice letter in front of, you know, commission staff  
2 or a designated representative that could -- you know,  
3 could be problematic and could require, you know,  
4 revisiting various steps that had already taking place  
5 to having, you know, those steps put in place from the  
6 onset of the process. I believe has been helpful in  
7 providing for, you know, a smooth issuance process.

8 JUDGE WOODRUFF: In Mr. Mocindy's  
9 surrebuttal testimony, again, he states, in my  
10 opinion, the marketing and pricing of these bonds is  
11 not fundamentally different from traditional debt  
12 securities issues by Liberty; do you agree with that  
13 statement?

14 THE WITNESS: Not necessarily. So the --  
15 the traditional securities issued by Liberty aren't,  
16 you know, necessarily the -- the direct or as directly  
17 tied to the, you know, ratepayer as the securitization  
18 bond which are, you know, a hundred percent paid for  
19 by the ratepayer and service and others collected by  
20 the utility, but not necessarily, you know, part of  
21 the utility balance sheets, so they're a little bit  
22 different in that regard. They're also typically  
23 marketed to a different universe of investors than you  
24 would see in traditional utility finance. So often  
25 times you'll market the securitization bonds to a



1 combination of ABS investors and corporate investors  
2 which may be different than, you know, a corporate  
3 investor that -- or banks that often times invest in,  
4 you know, utility finance, so a bit of different  
5 investor union vary as well between the securitization  
6 bonds and corporate finance, so I think, you know, a  
7 number of differences between -- between the two.

8 JUDGE WOODRUFF: On page 4 of Mocindy's  
9 testimony, he -- he infers that (inaudible) has  
10 implied that Liberty is unsuited to manage the  
11 structuring marketing and pricing process. Did you  
12 make any such statement, and if so, why? To make such  
13 implication?

14 THE WITNESS: So the -- there are  
15 natural -- there's a lot of natural alignment between  
16 the utility and the ratepayers in a securitization  
17 transaction. At the same time there's also, you know,  
18 areas where the utility and ratepayer may have  
19 different -- different incentives including, you know,  
20 items like a servicer fee or administrative fee. So  
21 items that are paid directly from the ratepayer to the  
22 utility, in a utility securitization transaction. So  
23 there are, you know, degrees of -- of differences  
24 between -- between -- you know, degrees of differences  
25 in the -- in the alignment of Liberty and the -- the

1 ratepayers. There's also, you know, degrees of  
2 disalignment between the ratepayer, and ultimately the  
3 investor that's acquiring these securities that would  
4 look for, you know, the highest interest rate that  
5 they can achieve on the -- on the issuance, and the  
6 ratepayer that wants to pay, you know, lowest rate  
7 effectively on -- on the securitization, and the  
8 underwriters are -- are in a position without any  
9 fiduciary responsibility to the ratepayer. And, so  
10 there's value in making sure that the ratepayers, you  
11 know, effectively also have a -- you know, seat at the  
12 table in that issuance process.

13 JUDGE WOODRUFF: In Mocindy's surrebuttal  
14 testimony, page 7, this time, he says, communication  
15 with rating agencies will generally be limited to one  
16 person from Liberty, and a representative from the  
17 lead underwriter. Is this statement consistent with  
18 your experience, and what has your experience been?

19 THE WITNESS: Yeah. I don't -- I don't  
20 disagree with -- with that statement.

21 JUDGE WOODRUFF: And why would that be  
22 appropriate to limit that communication?

23 THE WITNESS: So the communications are  
24 typically recorded or there's -- there's, you know --  
25 and any communications get posted to data sites that

1 are shared with all of the rating agencies through a  
2 17-G5 site. And, so often times the -- the direct  
3 communication is, you know, takes place between issuer  
4 and rating agency, but access to that information  
5 access to what the rating agencies are asking  
6 interested in making sure that the -- ultimately, the  
7 structure of the bonds as proposed include the  
8 components necessary to get the highest possible  
9 credit rating and the lowest cost are items that are  
10 through that 17-G5 site and access to information  
11 that's presented to rating agencies in review of what  
12 they're asking about, that, you know, commission staff  
13 can receive information on, if the structuring is  
14 ultimately, you know, appropriate to -- to achieve the  
15 lowest cost from a rating agency perspective.

16 JUDGE WOODRUFF: In your experience with  
17 similar securitizations, how have issues or inputs  
18 from the commission's representatives been involved  
19 with the issuer and the underwriter?

20 THE WITNESS: Often times through direct --  
21 direct dialog, so meetings established between the  
22 utility underwriters, commission staff, and advisors  
23 where information is reviewed, feedback is provided  
24 either, you know, directly to the group or directly to  
25 the issuer, and then, you know -- you know, taken into

1 account or evaluated to, you know, ultimately  
2 determine, you know, on that particular issue, you  
3 know, what if anything is necessary to make sure that  
4 the process is moving along forward, and there's no  
5 issue with what's being proposed ultimately, you know,  
6 as a step along the way for what would ultimately be  
7 necessary to -- to approve the issuance advice letter.

8 JUDGE WOODRUFF: And have those  
9 conversations caused any undue delays?

10 THE WITNESS: No. The -- having a process  
11 that outlines what's necessary to be reviewed by when  
12 and taking advantage of windows when the SCC is  
13 reviewing documents and when rating agencies are  
14 reviewing documents provide for, you know, substantial  
15 time for staff to, you know, review information,  
16 provide input as to, you know, make sure that the  
17 issuer is able to, you know, go to market, you know,  
18 when it's ready. I found, you know, commission staff  
19 to recognize the urgency associated with the process  
20 to the extent it exists, and I've been very impressed  
21 with the ability of, you know, commission staff, you  
22 know, work within those timeframes in order to, you  
23 know, make sure that the ratepayer interest is  
24 ultimately protected.

25 JUDGE WOODRUFF: Okay. Do traditional

1 financing methods incur financing costs?

2 THE WITNESS: Yes.

3 JUDGE WOODRUFF: And what would those costs  
4 be?

5 THE WITNESS: So from a -- from a -- it --  
6 you know, high level would be such things as the  
7 underwriting fees, legal fees, SCC registration fees  
8 associated with those costs, that -- a quantum of  
9 those costs isn't something that -- that I know  
10 offhand.

11 JUDGE WOODRUFF: Did that include those  
12 financing costs in your traditional financing NPV  
13 scenario?

14 THE WITNESS: So the -- the -- I used the  
15 carrying costs provided by staff for the traditional  
16 ratemaking analysis as well as the discount rate. In  
17 some instances, those costs -- or those rates include,  
18 you know, effectively the all in cost of financing  
19 including -- including those amounts, but you know, I  
20 haven't verified in this instance if -- if that's the  
21 way that it -- it works in Missouri.

22 JUDGE WOODRUFF: Based on your bond  
23 experience, are there activities -- are these  
24 activities part of the process taking by the utility  
25 or issuer to place the bonds to market, first of all,

1 selection of the underwriters; is that part of the  
2 process?

3 THE WITNESS: Yes.

4 JUDGE WOODRUFF: Preparing for and  
5 registering the bonds with the SCC?

6 THE WITNESS: Yes.

7 JUDGE WOODRUFF: Preparing for and meeting  
8 with rating agencies?

9 THE WITNESS: Yes.

10 JUDGE WOODRUFF: Preparing for and  
11 marketing the bonds?

12 THE WITNESS: Yes.

13 JUDGE WOODRUFF: And are there any other  
14 activities that are part of the process?

15 THE WITNESS: So to, you know, broadly  
16 the -- you know, structuring, marketing and -- and,  
17 you know, pricing of the bonds, would -- would all fit  
18 into that category, and there's a lot of subcategories  
19 that, you know, put within there, but I think broadly  
20 that would encompass the -- the process.

21 JUDGE WOODRUFF: Okay. Now, turning to  
22 Exhibit 117, could you please explain the 4 percent  
23 used as the assumed carrying costs for the -- the  
24 13-year securitization for Uri standalone?

25 THE WITNESS: Yes. So 4 percent was an

1 (inaudible) rate to, you know, when evaluating the NPV  
2 savings, I noted that the interest rate environment  
3 had changed fairly substantially from the time that  
4 Liberty had submitted testimony to the point that I  
5 was preparing testimony. And, so 4 percent was  
6 reflective of an illustrative assumption of interest  
7 rates at that point in time informed by movements in  
8 the treasury and securitizations that had priced in  
9 that -- you know, I believe since the beginning of  
10 2022.

11 JUDGE WOODRUFF: Okay. You analyzed two  
12 scenarios, one where using the same discount rate for  
13 securitization and the AAO -- AAO, and another way you  
14 were using different discount rates for two options.  
15 Can you explain why you tested those scenarios?

16 THE WITNESS: Yes. So the purpose of --  
17 part of the purpose of this analysis was to  
18 demonstrate a need to look at, you know, several  
19 scenarios to evaluate NPV savings. The -- the  
20 different discount rates that were utilized in the  
21 analysis range from the weighted average cost of  
22 capital which is often times used as a -- you know, a  
23 proxy for the customer's cost of capital to the  
24 long-term debt rate to the extent using a, you know,  
25 long-term debt rate would be, you know, approved or

1 otherwise, you know, the method used in traditional  
2 utility finance as looking for a range of effectively  
3 the -- you know, the customer cost of capital.

4 JUDGE WOODRUFF: Under what conditions,  
5 what the discount rates would be the same and which --  
6 under what conditions would they be different?

7 THE WITNESS: So in evaluating the NPV and  
8 traditional ratemaking, in -- in both instances, the  
9 analysis on -- on page 2 uses the same interest rate.  
10 That matches the -- effectively, the carrying cost  
11 approved by the commission with the -- with the  
12 discount rate effectively indicating that, you know,  
13 in that instance, the commission would be approving,  
14 you know, fair value for the, you know, cost of that  
15 capital. If there were a difference in that carrying  
16 cost and the discount rate, that would imply, you  
17 know, someone else, equity holders are bearing the  
18 cost of under and over collection based on what the  
19 commission had approved. In the case of  
20 securitization. There's precedent for use of the  
21 weighted average cost of capital as a discount rate to  
22 evaluate the NPV of customer savings using that  
23 weighted average cost of capital as a proxy for, you  
24 know, the -- ultimately, what the customer pays, the  
25 customer cost of capital. So that's an alternative



1 way of looking at securitization or we look at it  
2 based off of multiple discount rates. You know,  
3 ranging from the long-term debt rate to the weighted  
4 average cost of capital.

5 JUDGE WOODRUFF: Can you comment and  
6 provide an opinion on the bond advisory team concept  
7 as used in the recent Duke Energy securitization in  
8 North Carolina or in the recent California case?

9 THE WITNESS: Sure. In -- could you expand  
10 a little bit on what would be -- on what would be  
11 helpful related to -- to those roles?

12 JUDGE WOODRUFF: First of all, it's  
13 something that you would recommend in -- it involves  
14 the participation of the commission -- the commission  
15 staff and their advisors of the bond marketing and  
16 pricing process?

17 THE WITNESS: Got it. Yes. I -- I would  
18 recommend involvement of commission staff in the  
19 process from, you know, effectively the early days of  
20 approval of the financing order through ultimately  
21 the -- the pricing of the bonds. I -- in my opinion,  
22 it resulted in, you know, savings for customers to  
23 help provide comfort that ultimately the  
24 securitization would achieve the lowest cost as was  
25 required by -- by statute.

1 JUDGE WOODRUFF: And what experience do you  
2 have with that bond advisory team structure?

3 THE WITNESS: I -- as it relates to the  
4 issuances, in California, it's been, you know,  
5 disclosed that -- that my firm advised on the last,  
6 you know, several of those transactions.

7 JUDGE WOODRUFF: Do you have any concerns  
8 on finding or slowing down a bond issuance from using  
9 this advisory team concept?

10 THE WITNESS: No, I -- I don't.

11 JUDGE WOODRUFF: Can you explain how  
12 interest rates have changed in recent months?

13 THE WITNESS: Yes. There's been a  
14 substantial increase in -- in interest rates, both in  
15 terms of -- you know, primarily in terms of the  
16 treasury rate, but also in terms of spreads -- or you  
17 know, risk premiums that investors have put on, put on  
18 bonds.

19 JUDGE WOODRUFF: Is it the treasury rate  
20 that was just raised last night?

21 THE WITNESS: The -- the federal funds rate  
22 was raised last night. So they -- the treasury is --  
23 you know, are -- aren't directly tied to that,  
24 although they reacted to the expectation that federal  
25 fund rate was going to increase.

1 JUDGE WOODRUFF: Do you know if interest  
2 rates have increased in the last day or two?

3 THE WITNESS: I believe they have.

4 JUDGE WOODRUFF: Do you have any concerns  
5 with the concept of Goldman Sachs acting in both as  
6 the financial advisor and the underwriter roles, if  
7 that were to happen?

8 THE WITNESS: No. It -- I agree it is  
9 often times typical for the structure and advisor to  
10 be involved in an underwriting capacity as well.

11 JUDGE WOODRUFF: Can you please explain  
12 what the discount rate is?

13 THE WITNESS: Sorry, could you clarify the  
14 question?

15 JUDGE WOODRUFF: I'm just trying to get a  
16 definition of the term discount rate.

17 THE WITNESS: I guess a rate used to  
18 determine the present value of a future cash flow  
19 stream.

20 JUDGE WOODRUFF: And how is that determined  
21 or calculated?

22 THE WITNESS: It varies. I don't know that  
23 there's one -- one standard for it.

24 JUDGE WOODRUFF: Okay. Would a discount  
25 rate be the same as securing costs?

1 THE WITNESS: Not necessarily. It could be  
2 but not necessarily.

3 JUDGE WOODRUFF: Is it appropriate to use a  
4 discount rate from 2018 to determine the NPV for this  
5 case?

6 THE WITNESS: I don't know. It's possible.  
7 It depends how -- how, you know, rates have -- have  
8 moved since then.

9 JUDGE WOODRUFF: Okay. And rates have  
10 moved since then, I guess?

11 THE WITNESS: That's right.

12 JUDGE WOODRUFF: Given the potential  
13 increase in interest rates that could occur in the  
14 coming months, how would you expect this to impact the  
15 NPV comparison calculation?

16 THE WITNESS: So the cost of securitization  
17 would go up, you know, relative to, you know, what  
18 it's like prior to -- prior to the increase in  
19 interest rates. Looking at interest rates to use  
20 the -- you know, the current weighted average cost of  
21 capital that's approved by the commission, you know,  
22 prior to any adjustments that have taken place  
23 associated with that, with the rise in interest rates  
24 would show a decline in the -- in the NPV of savings.  
25 You know, there's uncertainty of ultimately of what

1 happens to that weighted average cost to capital, you  
2 know, when it's reset by the commission, so I don't  
3 know that, you know, anyone can say with certainty  
4 where -- ultimately, where that -- that rate is going  
5 and -- and you know, how it will, you know, change  
6 when it's, you know, reset by the commission.

7 JUDGE WOODRUFF: Do you agree that if the  
8 cost of securitization were to rise because of  
9 interest rate changes, that the cost of additional  
10 financing would also tend to rise?

11 THE WITNESS: From that -- from a capital  
12 market perspective, yes. The -- how rates are  
13 ultimately set in the regulatory proceeding, you know,  
14 would -- it may take time for rates to ultimately  
15 adjust.

16 JUDGE WOODRUFF: It is my understanding  
17 that staff's position is that customary ratemaking  
18 absent securitization would use an AAO amortized over  
19 a ten-year period with carrying cost of Liberty  
20 short-term debt rate or carrying cost of Liberty's  
21 long-term debt rate. Please explain how the  
22 short-term debt rate or the long-term debt rate is  
23 reflected in the NPV calculations included in your  
24 rebuttal testimony.

25 THE WITNESS: Sure. So -- and I believe

1 staff's position is currently the long-term debt rate  
2 rather than the short-term and long-term debt rate.  
3 Page 2 of the exhibit that we walked through it at the  
4 beginning of -- of this testimony provide, you know,  
5 that comparison of a ten-year AAO to a 13-year  
6 securitization, discount rates both at the, you know,  
7 blended cost of debt for -- for Winter Storm Uri and  
8 the weighted average cost of capital for as bury.

9 JUDGE WOODRUFF: What was the reason for  
10 staff changing its position?

11 THE WITNESS: I don't know.

12 JUDGE WOODRUFF: It wasn't from your  
13 recommendation?

14 THE WITNESS: No.

15 JUDGE WOODRUFF: And -- and I'm also  
16 assuming you don't disagree with it?

17 THE WITNESS: No.

18 JUDGE WOODRUFF: Okay. Okay. I believe  
19 that's all the questions I have then. So we'll move  
20 to recross based on questions from the bench.  
21 Beginning with Renew Missouri.

22 ALICIA GREENWALD: No questions, Your  
23 Honor, thank you.

24 JUDGE WOODRUFF: MECG? Public counsel?

25 NATHAN WILLIAMS: No, thank you.

1 JUDGE WOODRUFF: Liberty.

2 DEAN COOPER: Dean Cooper for Liberty.

3 EXAMINATION

4 BY DEAN COOPER:

5 Q. Mr. Davis, just for a bit of context, I --  
6 I assume you're familiar with the Missouri  
7 Securitization Statute; correct?

8 A. Correct.

9 Q. And particularly, the portions that discuss  
10 the participation of the staff advisor?

11 A. Yes.

12 Q. Would you agree with me that -- that at  
13 least in the statute when it talks about the  
14 participation of the advisor that the -- that the --  
15 this all leads to and the ultimate deliverable is so  
16 commission's representative or representatives can  
17 provide the commission with an opinion on the  
18 reasonableness of the pricing terms and conditions of  
19 the securitized utility tariff bonds on an expedited  
20 basis?

21 A. That -- that -- just to clarify, you're  
22 asking me, is that what the -- the requirement of the  
23 statute is?

24 Q. Correct. Is that the ultimate deliverable  
25 for the advisor according to the statute?

1 A. I -- I need to check.

2 CURT STOKES: I would object. Calls for a  
3 legal conclusion.

4 JUDGE WOODRUFF: I'll overrule the  
5 objection. You can answer.

6 THE WITNESS: I would need to check.

7 DEAN COOPER: That's all the questions I  
8 have, Your Honor.

9 JUDGE WOODRUFF: Redirect.

10 CURT STOKES: Thank you, judge.

11 EXAMINATION

12 BY CURT STOKES:

13 Q. Mr. Davis, I believe you had already  
14 discussed a little bit about your experiences on bond  
15 teams. Can you generally describe the -- the benefits  
16 from a commission having a bond team?

17 A. Yes. So the -- the commission having a  
18 bond team provides the ability to have someone with a  
19 seat at the table looking out for the ratepayer  
20 interest along the way and avoiding instances where  
21 the only mechanism for the commission to ultimately  
22 act to protect the ratepayer interest is, you know,  
23 relatively catastrophic event which would be rejection  
24 of the issuance advice letter. So having a seat at  
25 the -- along the way allows interim steps to, you



1 know, ensure that the statutory requirements and  
2 meeting that lowest cost standard are achieved.

3 Q. And in your experience, is that bond team  
4 also helpful in keeping the commission timely informed  
5 about all of the developments in the post-financing  
6 order process?

7 A. It is.

8 Q. I think you were also asked a little bit  
9 about, you know, changing interest rates, you know,  
10 changing cost of capital associated with changing  
11 interest rates; do you recall those questions?

12 A. Yes.

13 Q. It -- is it fair to say that one of the  
14 aspects of securitization is that the ratepayers and  
15 the utility are locking in a known interest rate once  
16 that interest rate is set?

17 A. Yes.

18 Q. And then over the course of that recovery,  
19 that interest rate just stays the same?

20 A. That's correct.

21 Q. But associated with that is a non  
22 bypassable aspect to that charge; correct?

23 A. That's correct.

24 Q. Flipping that over, though, to traditional  
25 ratemaking, is it your understanding that rates have

1 returned and interest rates and traditional making can  
2 vary over time?

3 A. Yes.

4 Q. And is it also your understanding, though,  
5 that associated with those variable rates, though, is  
6 an associated commission review of the justness and  
7 reasonableness of those rates?

8 A. Yes. That's my understanding.

9 Q. And then on the -- you were also asked  
10 about staff's change position on the short-term debt  
11 rate?

12 A. Yes.

13 Q. Is it your understanding that staff's  
14 position changed based on a misunderstanding of what  
15 the annual short-term debt rate was, like -- you know,  
16 did -- did staff think it might have been .3 per month  
17 instead of .3 per year?

18 NATHAN WILLIAMS: Judge, I'm going to  
19 object to that as he's already testified that he  
20 doesn't know why staff changed its position. I don't  
21 see that this question is inconsistent with him  
22 saying -- or responding to his question would be  
23 inconsistent with what he's already testified to.

24 JUDGE WOODRUFF: I -- I see it as a  
25 clarification rather than necessarily a change. I'm

1 going to overrule your objection, and he can answer.

2 THE WITNESS: So that -- that does refresh  
3 my -- my recollection, and I believe that was part, if  
4 not the rationale from staff.

5 CURT STOKES: Thank you. And apologies to  
6 the parties and judge, just trying to shorten that  
7 refresh recollection process.

8 JUDGE WOODRUFF: That's fine. So I believe  
9 that was testified to by somebody earlier in the  
10 process today.

11 Q. (By Curt Stokes:) You had mentioned  
12 earlier that, you know, a federal -- federal funds  
13 rate already being anticipated in the market. Can you  
14 tell us a little bit about how the market anticipates  
15 future interest rates?

16 A. Yes. In particular, as it relates to  
17 the -- the treasury bonds. Treasury bond rates as  
18 expectations around increased, you know, use inflation  
19 and federal increase in the federal fund rate, bond  
20 pricing, reacted in advance of that, so as market data  
21 points came out, leading up to the fed decision which  
22 informed investor views around, you know, could have  
23 been informed investor reviews -- or views around  
24 inflation, the treasury bond pricing required yields  
25 increased so that there wasn't a full reaction

1 ultimately when the fed decision came out.

2 **Q. Thank you. Can you turn to Exhibit 117**  
3 **again? And page 2?**

4 A. Yep.

5 **Q. Can you go to the bottom right of that**  
6 **chart, and kind of explain what that \$25 million**  
7 **figure represents and just summarize how you get**  
8 **there?**

9 A. Sure. So the -- the \$25 million figure  
10 represents the implied NPV benefits of securitization  
11 in a consolidated transaction relative to the ten-year  
12 AAO. That assumes the carrying costs associated with  
13 the AAO or 5.16 percent which is the blended discount  
14 rate between Uri and Asbury and assumes the cost of  
15 the securitization is 4 percent. For a discount rate,  
16 that assumes the discount rate associated with  
17 traditional recovery of the AAO recovery is  
18 5.16 percent, and it assumes the discount rate  
19 associated with securitization is the -- is the  
20 utilities weighted average cost of capital or  
21 6.77 percent.

22 **Q. Thank you. And the -- when you mention the**  
23 **5.16 percent blended rate, can you just briefly**  
24 **summarize what that means?**

25 A. Sure. So that uses a discount rate for

1 Winter Storm Uri of 4.65 percent and a discount rate  
2 for Asbury of the weighted average cost of capital.  
3 And, so the two of those amounts combined together,  
4 based on their relative size implies a 5.16 percent  
5 weighted average rate.

6 **Q. And then are the changes elsewhere on page**  
7 **2 made in a similar manner reflecting the numbers in**  
8 **their respective rows and columns?**

9 A. They are, yeah.

10 **Q. Can -- then can you turn to page 3?**

11 A. Yes.

12 **Q. So here, can you briefly describe the**  
13 **yellow row? It's the one that begins consolidated**  
14 **securitization versus AAO net present value, and**  
15 **the -- and NPV savings reflected in that, for**  
16 **scenarios 1 through 3.**

17 A. Yes. So this -- this provides a similar  
18 analysis to what was reflected on -- on page 2,  
19 adjusted to use a 13-year AAO, which I believe is --  
20 is staff's position of an AAO. And calculate the net  
21 present value of such amounts based on the carrying  
22 rates and discount rates listed directly above it  
23 on -- on that page.

24 **Q. Okay. And even though staff's filed**  
25 **position is a ten-year AAO, you think it's still**

1     **appropriate to use, like, a 13-year AAO just for**  
2     **comparison purposes, so we're getting a -- a big**  
3     **picture?**

4             A.     Yeah. This is a apples to apples  
5     comparison, and then the pages behind it show  
6     individual terms as well to be able to evaluate NPV  
7     savings under, you know, if you want to use a  
8     different AAO relative to securitization term like a  
9     ten-year versus 13-year. You can see the implied NPVs  
10    on the following pages and -- and (inaudible) NPV  
11    savings.

12            JUDGE WOODRUFF: Your last -- or your  
13    sentence there kind of faded out. Can you repeat what  
14    you just said?

15            THE WITNESS: Yeah. On the -- the  
16    following pages, you can see the implied NPVs  
17    associated with a range of terms for the AAO as well  
18    as terms for the securitization and mix and match to  
19    the extent folks, you know, want to look at a  
20    different term AAO or a different term securitization,  
21    you can see the implied NPVs based on these  
22    assumptions, and you know, do calculations of the --  
23    of the amount of savings under, you know, all the  
24    different scenarios listed on the page.

25            CURT STOKES: I don't believe I have any

1 further questions.

2 JUDGE WOODRUFF: Okay. Mr. Davis, you can  
3 step down and go about your business.

4 THE WITNESS: Thank you.

5 JUDGE WOODRUFF: Redirect?

6 NATHAN WILLIAMS: Yes, please. With regard  
7 to Exhibit 117-C.

8 JUDGE WOODRUFF: Yes.

9 NATHAN WILLIAMS: Staff attorneys already  
10 represented there's information within that exhibit  
11 that is not confidential. My request is that there be  
12 made a public version of that exhibit.

13 JUDGE WOODRUFF: Commission agrees, if you  
14 can, while that is ready. Presumably, it won't be  
15 before the end of the hearing, but. Use your  
16 microphone. You're not coming across.

17 CURT STOKES: Sorry about that. I forgot.  
18 While we're on cleanup, I think staff still owes  
19 Exhibit 116 to the commission. We had circulated a  
20 courtesy copy earlier with the judge and the parties,  
21 but before we actually file it, we wanted to make sure  
22 that all the parties agreed that our calculation  
23 accurately represented their positions.

24 JUDGE WOODRUFF: Okay.

25 CURT STOKES: And, so I think we're there,

1 so that should be happening today or shortly.

2 JUDGE WOODRUFF: Okay. And it'll give the  
3 other parties a chance to respond in writing. The  
4 next witness, then, is Mr. Owen. Do you solemnly  
5 swear or affirm that the testimony you're about to  
6 give in this matter is the truth, the whole truth, and  
7 nothing but the truth?

8 THE WITNESS: I do.

9 JUDGE WOODRUFF: Thank you. You may  
10 inquire.

11 ALICIA GREENWALD: Thank you, Judge.  
12 Alicia Greenwald for Renew Missouri.

13 EXAMINATION

14 BY ALICIA GREENWALD:

15 Q. Mr. Owen, will you please state your full  
16 name for the record?

17 A. My name is James Matthew Owen.

18 Q. By whom are you employed, and in what  
19 capacity?

20 A. I am the executive director of Renew  
21 Missouri Advocates, doing business as Renew Missouri.

22 Q. And did you prepare and cause to be  
23 pre-filed surrebuttal testimony and the schedule to  
24 that testimony that have been marked as Exhibits 400  
25 and 401?



1 A. Yes.

2 Q. Do you have any changes to make to your  
3 testimony at this time?

4 A. No.

5 Q. If I were to ask you those same questions  
6 today, would your answers be substantially the same?

7 A. Yes.

8 Q. And are all of those answers true and  
9 correct to the best of your information, knowledge,  
10 and belief?

11 A. They are.

12 ALICIA GREENWALD: Your Honor, at this time  
13 I offer Exhibits 400 and 401 into evidence and tender  
14 Mr. Owen as a witness.

15 JUDGE WOODRUFF: Exhibits 400 and 401 have  
16 been offered. Any objections to their receipt?  
17 Hearing none, they will be received. And for cross  
18 examination, we begin with MECG. Liberty?

19 DIANE CARTER: Yes. Just a little. Thank  
20 you, Judge.

21 EXAMINATION

22 BY DIANE CARTER:

23 Q. Mr. Owen, on page -- do you have your  
24 testimony with you?

25 A. I do.

1 Q. Excellent. On page 6 of your testimony,  
2 lines 12 to 13, you state that it is your position  
3 that coal plants are destructive to air quality and  
4 overall public health; is that your position?

5 A. That is my position at the time I wrote it  
6 and remains my position.

7 Q. And then separately in your testimony,  
8 let's see, page 11, lines 6 to 7, you state that the  
9 price of coal-powered electricity in the United States  
10 would rise by at least 50 percent, if public health  
11 costs were taken into account; is that your testimony?

12 A. That -- that is my testimony and that is  
13 based on research I have conducted, yes.

14 Q. Are you familiar with public counsel's  
15 testimony in this case, particularly during the -- the  
16 hearing this week that there is an American Lung  
17 Association report claiming that the air quality when  
18 Asbury was operating in that county was -- was  
19 excellent? Are you familiar with that testimony?  
20 From public counsel?

21 A. I do believe Office of Public Counsel  
22 witness Lena Mantle did testify to that, yes.

23 Q. How do you reconcile that testimony from  
24 public counsel with your positions?

25 A. Well, it's interesting to me just because

1 when I heard that, I went and looked up some  
2 information on that. First of all, the American  
3 Cancer Society has a report from June 25th of 2021,  
4 that indicates as far as their energy policy goes,  
5 that they would recommend that all coal-burning plants  
6 be shut down immediately, and they transition to clean  
7 energy generation. That's a report from that  
8 organization I would also note that -- that the  
9 American Lung Association has also looked at air  
10 quality for Jasper County and Neosho County, they  
11 get -- that is also from 2021, and they give that  
12 county a B which still remains lower than, let's say,  
13 Greene County which was at --

14 NATHAN WILLIAMS: Judge, I'm objecting to  
15 this testimony as hearsay. He's giving results about  
16 some study. He's not provided the study. There's no  
17 foundation for the study. He's just dumping in  
18 information. That's out-of-court statements.

19 JUDGE WOODRUFF: Your response?

20 DIANE CARTER: He's not my witness, but  
21 from my perspective, that it is the basis for his  
22 opinion, and as an expert offering opinion, he can  
23 rely on what went would, otherwise, be hearsay.

24 NATHAN WILLIAMS: While I don't disagree  
25 with that, I don't believe that it is the basis of his

1 opinion. He expressed his opinion in his testimony,  
2 and then he said he just looked up this information.

3 JUDGE WOODRUFF: I'll overrule the  
4 objection. You can answer.

5 THE WITNESS: And, so, to that regard, I  
6 believe that, you know, the air quality they're saying  
7 Jasper County, even though it was recorded in 2021, as  
8 opposed to when the plant closed in March of 2020, I  
9 think still shows that there is improvement that needs  
10 to be had. Also talk about evidence in our testimony  
11 in the surrebuttal testimony that I provided shows  
12 health consequences to the population living within a  
13 12-mile radius of the Asbury plant. So I would say I  
14 would disagree with OPC's position that this is --  
15 this is a healthy outcome for them to have a  
16 coal-burning plant near where they live.

17 **Q. (By Diane Carter:) On page 17 of your**  
18 **testimony, you address the public interest standard.**  
19 **Do you believe that the rate charged by Liberty for**  
20 **electricity is the only factor for the commission to**  
21 **consider when it determines whether or not the public**  
22 **interest is being served?**

23 A. I do not.

24 **Q. What else do you believe should be**  
25 **considered?**

1           A.    I believe that there -- I think there's  
2 nothing that, you know, is precluding this in the  
3 securitization statute language that there -- there  
4 can be noneconomic benefits, social costs that can be  
5 factored into weighing the value of how we -- how we  
6 discard these energy transmission costs and seeing  
7 what kind of value that it had to the public as well.

8           **Q.    On page 20 of your testimony, there is a**  
9 **reference to the Rocky Mountain Institute.**

10          A.    Yes.

11          **Q.    What is that?**

12          A.    It is also a nonprofit that's based --  
13 that's based in Denver, Colorado, that works on clean  
14 energy and renewable energy issues around the world.

15          **Q.    What was the Rocky Mountain Institute's**  
16 **involvement with assessing the prudence of retiring**  
17 **Asbury or in putting together your testimony?**

18          A.    At our request, the Rocky Mountain  
19 Institute did put together a -- you know, an analysis  
20 that they put online. That was able to look at OPC's  
21 numbers that was specifically from John Robinett's  
22 testimony that he filed and found that there would be  
23 a savings of roughly \$25 million for ratepayers as a  
24 result of this proposal from the company.

25                   DIANE CARTER: Thank you. That's all my

1 questions.

2 JUDGE WOODRUFF: Any cross for staff?

3 CURT STOKES: I put you on the spot here, I  
4 apologize.

5 THE WITNESS: It's what I'm here for.

6 CURT STOKES: But you're the last witness  
7 and maybe the last person who can answer this  
8 question.

9 EXAMINATION

10 BY CURT STOKES:

11 Q. Were you here earlier today when there was  
12 some bench questions asking about, are there costs  
13 associated with traditional financing for a utility?

14 A. I think I was in the room for that.

15 Q. Okay. You've previously served as -- as  
16 the public counsel for the state of Missouri; correct?

17 A. Yeah, from February of '16 to February of  
18 '17, yes, that's right.

19 Q. So you have experience with ratemaking and  
20 utility regulation?

21 A. That was my -- that was my first bout of  
22 it, and I have been involved with it somewhat, with  
23 Renew Missouri as well, yes.

24 Q. So in -- in that experience, is it your  
25 understanding that the financing costs associated with

1 traditional ratemaking are already embedded in all  
2 utility's rates in a -- in a full blown rate case?

3 A. I would say traditional, yes.

4 Q. Okay. So to the extent that Liberty has  
5 financing costs associated with its traditional bond  
6 offerings, those might already be reflected in rates?

7 A. They might be. It would depend on the  
8 case.

9 Q. Right. Okay. No further --

10 JUDGE WOODRUFF: Public counsel.

11 NATHAN WILLIAMS: Thank you.

12 EXAMINATION

13 BY NATHAN WILLIAMS:

14 Q. Mr. Owen, when you were public counsel, was  
15 the -- was there a case in front of the commission  
16 regarding Asbury?

17 A. I can't recall. There might have been. I  
18 know the only thing I remember before -- before the  
19 public counsel at the time was a merger case involving  
20 empire and Algonquin. That's the only thing I  
21 remember from that time period.

22 Q. So you don't recall a rate case involving  
23 Empire where Asbury would have been first -- or gone  
24 into rates for the improvements made in 2015?

25 A. My time here was in 2016. That would have

1     been before my time.

2             **Q.     Well, the investment went --**

3             A.     Oh.

4             **Q.     -- was part of a rate case?**

5             A.     Yeah. That's right. I don't remember if  
6     that was during my time or not. I would have had a  
7     lawyer working on that case.

8             **Q.     Well, did your office have a policy**  
9     **regarding as public counsel a policy that's similar to**  
10    **your public interest policy now about taking in social**  
11    **and other costs of things like power plant, coal power**  
12    **plants?**

13            A.     I don't think we have a formal position.

14            **Q.     You formulated that after you left public**  
15    **counsel?**

16            A.     I'm saying we didn't -- I don't think we  
17    had a formal policy when I was at public counsel.

18            **Q.     Who accepted the policy as public counsel?**

19            A.     Well, I was public counsel. I don't think  
20    there were any formal policies that we had in place  
21    there. We didn't have, like, a book of -- of  
22    positions that we took in every case. Maybe that's  
23    the case now, but we didn't at the time that I was  
24    there.

25            **Q.     Do you at Renew Missouri now?**



1 A. I am.

2 **Q. No. Do you have such a policy?**

3 A. Oh, no. We don't have formal -- we don't  
4 have a formalized, like, list of policies, no.

5 **Q. So you're just expressing your opinion?**

6 A. I'm expressing an opinion based on the  
7 facts and the law that's applicable to each case. I  
8 think you've got to do those things by a case-by-case  
9 basis. I wouldn't want to have any generalizations of  
10 any one particular area or one particular issue. I  
11 think things are more complicated and more nuance than  
12 that. Or they should be anyway.

13 NATHAN WILLIAMS: No further questions.

14 JUDGE WOODRUFF: Questions from the bench?  
15 And any commissioners on the line have questions for  
16 Mr. Owen?

17 GREG KOLKMEYER: This is Commissioner  
18 Kolkmeier, and I don't have any questions at this  
19 time, Judge. Thank you.

20 JUDGE WOODRUFF: Thank you. I do have one  
21 question. Where is the Asbury plant in relation to  
22 the city of Joplin?

23 THE WITNESS: I believe it's the -- I  
24 believe it's in Jasper County, so -- is that right? I  
25 think that would have to be north of Joplin.

1 JUDGE WOODRUFF: I know it's in Kansas.

2 THE WITNESS: It is in Kansas? Then I am  
3 completely off, then it would be west of there.

4 JUDGE WOODRUFF: Okay. Pardon? Different  
5 plant? I express my --

6 THE WITNESS: Asbury Missouri?

7 DIANE CARTER: Yes.

8 THE WITNESS: If I had a map.

9 NATHAN WILLIAMS: Judge, I think you can  
10 take notice of the geography or the commission can  
11 take notice of the geography of the state.

12 JUDGE WOODRUFF: I can look at a map of  
13 Missouri and find Asbury. Okay.

14 NATHAN WILLIAMS: There is a municipality  
15 called Asbury, and the plant is relatively close to  
16 it, I believe.

17 JUDGE WOODRUFF: Okay. I'm not sure the  
18 value of that as evidence, but I'm not sure how  
19 important it is either. It's just something that  
20 occurred to me this morning as I was in the shower.  
21 Okay. That's all the questions I had then. Any  
22 recross based on that question? Redirect?

23 ALICIA GREENWALD: No, Judge, thank you.

24 JUDGE WOODRUFF: You can step down.

25 THE WITNESS: Thank you, Your Honor.

1 JUDGE WOODRUFF: And that completes the  
2 list of witnesses. I'm just going through the list of  
3 testimony to see if there's anything we missed. It  
4 looks like everything came in for the company. For  
5 staff's exhibits, I show 110 -- well, one -- let's,  
6 first of all, deal with 112 which was Ms. McMillan's  
7 Uri calculations. I show that I deferred ruling on  
8 that, I think, to allow public counsel to look at it.  
9 Did we -- was there a problem? Okay. I'll go ahead  
10 and admit 112 at this point. And then 116 we  
11 discussed. I also show exhibits 110 which is a NERC  
12 standard, 114 which is public counsel's response to  
13 staff's recommendation and 115 which is a joint motion  
14 regarding substitute tariff sheet. Those were all  
15 pre-filed or identified by staff, but there's been no  
16 mention of them. Are they --

17 CURT STOKES: I won't need them.

18 JUDGE WOODRUFF: Okay. It looks like I see  
19 everything come in from public counsel. I see MECG  
20 and Renew Missouri have been offered and received. I  
21 believe Liberty indicated they will be filing a  
22 revised draft order. Do you know when you'll be doing  
23 that?

24 DIANE CARTER: Judge, would the commission  
25 find that helpful to have a proposed consolidated

1 financing order?

2 JUDGE WOODRUFF: Yes. At some point. Is  
3 that something you filed as your initial briefs or --

4 DIANE CARTER: That was my intention.

5 JUDGE WOODRUFF: Okay. And I believe  
6 initial briefs are due on July 13th? And with reply  
7 briefs on the 20th one week later. And as far as the  
8 transcripts, we've been sending them onto the court  
9 reporter to be transcribed as -- we've been sending  
10 the recordings as they've been produced. We've  
11 requested, I think, they be done with -- within five  
12 business days which means that the transcripts should  
13 be arriving day to day next week, and we should have  
14 them for you as soon as possible. Anything else  
15 anyone needs to bring up while we're still on the  
16 record? Thank you all very much. And with that, we  
17 are adjourned.

18 RYAN SILVEY: Thank you, Judge.

19 JASON HOLSMAN: Thank you, Judge.

20 GREG KOLKMEYER: Thank you, Judge.

21 (Silence in audio.)

22 (Audio ended.)

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I, Melissa J. Lane, Certified Court Reporter of Missouri, Certified Shorthand Reporter of Illinois and Registered Professional Reporter, do hereby certify that I was asked to prepare a transcript of proceedings had in the above-mentioned case, which proceedings were held with no court reporter present utilizing an open microphone system of preserving the record.

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Melissa J. Lane, CCR, CSR, RPR

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