

# Exhibit No. 20

FILED  
June 29, 2022  
Data Center  
Missouri Public  
Service Commission

Exhibit No.: \_\_\_\_\_  
Issue: Bond Coupon Rate, Marketing, and  
Pricing  
Witness: Katrina T. Niehaus  
Type of Exhibit: Surrebuttal Testimony  
Sponsoring Party: The Empire District  
Electric Company  
Case Nos.: EO-2022-0040; EO-2022-0193  
Date Testimony Prepared: May 2022

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

**Surrebuttal Testimony**

**of**

**Katrina T. Niehaus**

**on behalf of**

**The Empire District Electric Company d/b/a Liberty**

**May 2022**



TABLE OF CONTENTS  
FOR THE SURREBUTTAL TESTIMONY OF KATRINA T. NIEHAUS  
THE EMPIRE DISTRICT ELECTRIC COMPANY  
BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION  
CASE NOS. EO-2022-0040 and EO-2022-0193

<b>SUBJECT</b>	<b>PAGE</b>
I. INTRODUCTION .....	1
II. BOND COUPON RATE .....	2
III. POST FINANCING ORDER REVIEW PROCESS .....	3
a. Marketing Process .....	4
b. Pricing Process .....	7
c. Conclusion - Marketing and Pricing.....	8

SURREBUTTAL TESTIMONY OF KATRINA T. NIEHAUS  
THE EMPIRE DISTRICT ELECTRIC COMPANY  
BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION  
CASE NOS. EO-2022-0040 and EO-2022-0193

1 **I. INTRODUCTION**

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

3 A. My name is Katrina T. Niehaus, and I am employed by Goldman, Sachs & Co., 200  
4 West Street, New York, New York.

5 **Q. On whose behalf are you testifying in these proceedings?**

6 A. I provided Direct Testimony on behalf of The Empire District Electric Company d/b/a  
7 Liberty (“Liberty” or the “Company”) in the securitization matters filed by Liberty in  
8 Case No. EO-2022-0040 (Storm Uri) and in Case No. EO-2022-0193 (Asbury), and I  
9 am providing Surrebuttal Testimony here on behalf of Liberty in the now consolidated  
10 dockets.

11 **Q. What is the purpose of your Surrebuttal Testimony in this proceeding before the  
12 Missouri Public Service Commission (“Commission”)?**

13 A. I address issues raised by Mark Davis of Ducera Partners, LLC, who filed Rebuttal  
14 Testimony in this matter on behalf of Commission Staff (“Staff”). In particular, I  
15 respond regarding the post financing order review process Liberty intends to use to  
16 provide the Commission with sufficient information so that the issuance advice letter  
17 will not be rejected. I also address statements made by Mr. Davis and Office of the  
18 Public Counsel (“OPC”) witness David Murray regarding the bond coupon rate within  
19 the Net Present Value calculation of customer benefits.

1 **II. BOND COUPON RATE**

2 **Q. Staff's consultant Mark Davis recommends use of a bond coupon rate of 4%**  
3 **(Davis Rebuttal, p. 4), OPC witness David Murray recommends use of a bond**  
4 **coupon rate of 4.75% (Murray Rebuttal, p. 14), and Liberty used a bond coupon**  
5 **rate of 2.47% in its calculation of the Net Present Value ("NPV") of expected**  
6 **customer benefits of securitization in these dockets. How should the Commission**  
7 **think about the rates used in the NPV analysis in the context of a volatile bond**  
8 **market?**

9 A. Per Staff's Rebuttal Testimony, RSMo. Sections 393.1700.2(1)(f) and  
10 393.1700.2(3)(c)b state that the NPV comparison must be made to "the traditional  
11 method of financing" and the Commission must find that the securitization must be  
12 "expected to provide quantifiable net present value to customers as compared to  
13 recovery of the components of securitized utility tariff costs that would have been  
14 incurred absent" securitization.

15 It is important here to consider the goals of utility securitization statutes more  
16 broadly. The Missouri state legislature, with the goal of creating the lowest cost for  
17 customers, has created a top-of-market securitization framework with the intent of  
18 creating securitization bonds that achieve the highest possible bond credit ratings. As  
19 discussed in Liberty's Direct Testimony supporting the requested financing order, we  
20 believe the legislature has accomplished these goals and the statute and financing order  
21 will allow Liberty to issue AAA bonds. Bond ratings are key to achieving lowest cost  
22 because the higher the bond rating, the lower the cost. If a company issues two  
23 substantially similar bonds at the same time--one AAA and one non-AAA--the AAA  
24 bond will always be lower cost. Bond ratings are a statement to the investor market

1 from an objective, third party bond rating agency that one bond is less likely to default  
2 than another. A bond rating is one of the most important features of a bond that  
3 investors evaluate, if not the most important feature. AAA is the highest rating a bond  
4 may achieve.

5 **Q. Has there been recent volatility in the bond market?**

6 A. Yes. The bond market has been volatile in 2022, mainly driven by the invasion of  
7 Ukraine and the Federal Open Market Committee's (FOMC) increases to rates. Market  
8 volatility and increasing benchmark rates will raise the cost of all financing available  
9 to Liberty in the market, regardless of credit quality or form of debt. In an NPV  
10 analysis, it is important to compare apples to apples—while the pricing of AAA bonds  
11 will increase with general market volatility, pricing of traditional methods of financing  
12 will increase as well.

13 **Q. Will the NPV calculation remain constant?**

14 A. No. It is important to keep in mind that the quantity of this NPV benefit will vary each  
15 day as benchmarks and spreads across debt markets adjust, but the Missouri legislature  
16 has protected customers against this risk with a securitization statute that contains the  
17 necessary provisions to achieve the highest possible bond ratings, and therefore which  
18 can achieve the lowest debt cost, regardless of market volatility.

19 **III. POST FINANCING ORDER REVIEW PROCESS**

20 **Q. What is required by the Missouri Securitization Statute with regard to the post**  
21 **financing order review process?**

22 A. The Missouri Securitization Statute, RSMo. §393.1700, requires a finding that recovery  
23 of Winter Storm Uri costs and Asbury costs through the issuance of securitized utility  
24 tariff bonds provide quantifiable net present value benefits to Liberty's customers, as

1 compared with the traditional method for recovering these types of costs, in order for a  
2 financing order to be issued in this matter. Further, the Securitization Statute requires  
3 that a financing order contain a “finding that the proposed structuring and pricing of  
4 the securitized utility tariff bonds are reasonably expected to result in the lowest  
5 securitized utility tariff charges consistent with market conditions at the time the  
6 securitized utility tariff bonds are priced and the terms of the financing order.” RSMo.  
7 §393.1700.2(3)(c)c. As such, and as also noted in the Surrebuttal Testimony of Liberty  
8 witness Michael Mosindy, it is important that the post financing order process be  
9 designed in such a way as to not lead to delays in completing the transaction or  
10 otherwise result in increased costs for Liberty or its customers.

11 **Q. To what part of Mr. Davis’ Rebuttal Testimony will you respond on this issue?**

12 A. I will respond to that part of Mr. Davis’ Rebuttal Testimony (pages 10-14) where he  
13 discusses his view of post-financing order Commission review and involvement and  
14 the flexibility afforded to Liberty in regard to bond terms and conditions.

15 **Q. In his Surrebuttal Testimony, Mr. Mosindy explains the necessary steps to issue**  
16 **the bonds after a financing order is issued, and he states that only after completing**  
17 **the SEC and rating agency processes can Liberty and the underwriters begin the**  
18 **marketing and pricing process. Are you familiar with this section of Mr.**  
19 **Mosindy’s Surrebuttal Testimony?**

20 A. Yes, and I support his testimony and provide background as to the marketing and  
21 pricing processes, to which the bond issuance will ultimately be subject.

22 **a. Marketing Process**

23 **Q. Please describe the referenced marketing process for the bonds.**

1 A. The marketing process will be shepherded by the lead underwriter (the “lead  
2 underwriter”), and the specific steps of the process will be based on the underwriters’  
3 expertise and knowledge of the bond market at the time of issuance. As the ratings and  
4 documentation processes come to a close, the lead underwriter will work with Liberty  
5 and the other bookrunning underwriters to create a marketing plan for the bonds.

6 **Q. Is the bond marketing process the same in all situations?**

7 A. No. Each bond marketing process is slightly different, based on many factors that can  
8 change day to day, or even hour to hour. For example, bond market volatility,  
9 geopolitical events, views on changes in benchmark rates, and supply or lack thereof  
10 of alternative high-quality debt investments can all significantly affect the number and  
11 types of investors who might purchase a utility securitization. Therefore, underwriters  
12 with large sales distribution forces are necessary to ascertain the greatest amount of  
13 information from the largest group of investors. Market knowledge includes not only  
14 pricing information of comparable bonds, which is publicly available from sources like  
15 Bloomberg, but also feedback from investors across a large swath of debt  
16 transactions. For example, understanding that there will be a dearth of corporate  
17 investment grade-rated bonds in one week versus another might lead an underwriter to  
18 spend time educating corporate investors who have not previously participated in the  
19 utility securitization sector. Alternatively, if there is a heavy supply of high-quality  
20 investment grade-rated corporate bonds the anticipated week of marketing, an  
21 underwriter might decide that time is better spent focusing on increasing order size  
22 amongst large asset-backed securities buyers.

23 **Q. Is it important that Liberty and the underwriters be able to act quickly?**



1 A. Yes. Liberty and the underwriters must have flexibility to amend the marketing plan  
2 day to day, as they receive feedback from investors, to ensure the bonds receive the  
3 greatest amount of interest, thus driving down pricing. In accordance with the  
4 Securitization Statute, the Designated Representative and its advisor(s) will be invited  
5 to attend calls where such marketing plan is discussed to understand the market  
6 backdrop and the rationale for the approach. RSMo. §393.1700.2(3)(h). Decisions  
7 regarding communication to investors of pricing thoughts for the bonds must be made  
8 quickly to ensure investor interest is sustained. While the Designated Representative,  
9 with its advisor(s), will be involved in and able to provide input to Liberty and  
10 collaborate with Liberty on the marketing process, such involvement should avoid  
11 impeding the marketing timeline. Delays in communications to investors can cause  
12 investors to lose interest in a bond offering, particularly in a busy market where there  
13 are other bonds that investors can buy.

14 **Q. What does it mean for investors to lose interest?**

15 A. Depending on other investment opportunities (referred to as “supply”), investors may  
16 have many options when it comes to making their investment decisions. If they become  
17 dissatisfied with a particular offering, they may turn their attention, and more  
18 importantly their dollars, to other options. As described in more detail below, if the  
19 offering starts to lose investor interest, the underwriters will lose their leverage with  
20 the remaining investors, which could hamper the ability to tighten bond spreads  
21 resulting in a higher interest rate for the bond and ultimately increased costs to Liberty’s  
22 customers. As mentioned in my previous answer, there are many things outside of our  
23 direct control during the marketing and pricing process, so for the things we can

1 control, like the process for an efficient marketing and pricing effort, I recommend that  
2 we do everything we can to ensure the best possible outcome.

3 **b. Pricing Process**

4 **Q. Please describe the process to price the bonds, which is referenced in Mr.**  
5 **Mosindy's Surrebuttal Testimony.**

6 A. Following the broad dissemination of the prospectus to investors, the underwriters and  
7 Liberty will decide on initial price thoughts ("IPTs"), which give investors an idea of  
8 where the bonds will price. The IPTs may be a range and must be set at a level such  
9 that investors decide it is worthwhile to spend time reviewing the transaction. For  
10 example, setting IPTs at an off-market, aggressive level might cause investors to lose  
11 interest and pass on the transaction. After IPTs are released, the objective is to entice a  
12 broad base of investors to begin providing indications of interest.

13 Based on the level of indicated interest (the "oversubscription level"), Liberty  
14 and the underwriters may decide that credit spreads can be adjusted lower, lowering  
15 the coupon on the bonds. This decision is based on a fulsome review of the market and  
16 informal investor feedback. Sometimes investors will stipulate that their indication of  
17 interest will not be valid if spreads are decreased below a certain level, but often they  
18 do not give such specific feedback. Therefore, the decision to lower spreads after IPTs  
19 (sometimes called a "test") is not a mathematical exercise based on the order book but  
20 is an art of deciding how much of a decrease the investors are willing to accept. There  
21 is always a danger that spreads will be lowered too much, and investors will drop from  
22 the deal in a number large enough that the transaction is no longer viable. Additionally,  
23 multiple "tests" can cause investors to decide the bond purchase process is too uncertain  
24 or complicated and may drop for this reason.

1 **c. Conclusion - Marketing and Pricing**

2 **Q. Is there any significance to the length of the marketing and pricing process?**

3 A. Yes. The length of the marketing and pricing process is an issue for Liberty and the  
4 underwriters to discuss, as the longer the process goes on, the more competing supply  
5 comes to market and the greater risk for market volatility. Issuers do not want to be in  
6 a position of trying to win back investors after squeezing too hard on spreads or creating  
7 too long of a marketing process, as the Issuer might have then lost its leverage with  
8 investors who know they are needed for the deal to succeed.

9 After discussing pricing feedback and the order book with Liberty, the  
10 underwriters will allocate bonds to investors at the final price. If a Designated  
11 Representative has been authorized by the financing order, and he/she desires to listen  
12 to this feedback, he/she along with the Designated Representative's advisor(s) will be  
13 invited to join the discussion. For the reasons stated above, delays of even hours during  
14 the pricing process can be extremely detrimental to the bond process, as holding  
15 investor interest during this time is critical for a successful issuance. A flexible and  
16 nimble marketing and pricing process provides the best assurance to the Commission  
17 that the Bonds will in fact be sold at the lowest rates reasonably consistent with market  
18 conditions on the day and time of pricing and the terms of the financing order, which  
19 will result in the lowest charges to Liberty's customers.

20 **Q. Does this conclude your Surrebuttal Testimony at this time?**

21 A. Yes.

**VERIFICATION**

I, Katrina T. Niehaus, under penalty of perjury, on this 27th day of May, 2022, declare that the foregoing is true and correct to the best of my knowledge and belief.

/s/ Katrina T. Niehaus