BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Petition of The Empire District Electric Company d/b/a Liberty to Obtain a Financing Order that Authorizes the Issuance of Securitized Utility Tariff Bonds for Qualified Extraordinary Costs	)))))	Case No. EO-2022-0040

VERIFIED PETITION FOR FINANCING ORDER

COMES NOW The Empire District Electric Company d/b/a Liberty ("Liberty" or the "Company"), and, pursuant to RSMo. §393.1700 (the "Securitization Statute"), submits this Verified Petition for Financing Order for authorization of the issuance of securitized utility tariff bonds regarding the extraordinary costs incurred during the anomalous weather event of February 2021. In this regard, Liberty respectfully states as follows to the Missouri Public Service Commission (the "Commission"):

I. Introduction

1. With this Petition, Liberty is pleased to present this first of its kind financing proposal in Missouri under the Securitization Statute. Specifically, Liberty is submitting its Storm Uri costs for a determination that they are "qualified extraordinary costs" as contemplated by the Securitization Statute, along with Liberty's request that the Commission issue a financing order authorizing Liberty to finance the Company's qualified extraordinary costs and issue securitized utility tariff bonds for these costs in order to provide quantifiable net present value benefits to Liberty's retail customers ("Quantifiable Benefits").

2. As detailed by the Commission in its February 24, 2021 *Order* in Case No. AO-2021-0264, during February 2021, Missouri experienced an extreme weather event involving unseasonably cold temperatures ("Storm Uri"), which led to rolling electrical blackouts and extreme natural gas price spikes. This weather emergency presented an event that was unpredictable and unexpected.

Utility service and underlying natural gas markets throughout the region experienced a profound crisis arising from the unusually cold and unusually persistent winter weather. As a result of this weather crisis, demand for electric power on Liberty's local distribution system and demand for natural gas in the region escalated dramatically and prices rose on the spot and daily index markets accordingly. The converging factors of reduced supply and increased demand placed temporary but severe constraints on Liberty's ability to obtain adequate natural gas fuel supply to satisfy customer needs.

3. In order to provide the quantities of natural gas to generate electricity needed by its customers, the Company was obliged to purchase supplemental quantities of gas supply through the spot and daily index markets. The Company incurred approximately $204,500,939 in extraordinary costs, carrying charges, and legal costs for these emergency measures, including SPP market charges. This is explained in detail in the Direct Testimony of Company witness Aaron J. Doll.

4. Based on the Company's analysis, use of securitized utility tariff bonds will result in Quantifiable Benefits of $42,871,448, in comparison to the costs that would result from the application of the customary method of financing. This is discussed further below and is explained in detail in the Direct Testimony of Company witness Karen Hall.

5. Attached to this Petition as Appendix A is a proposed financing order form. Concurrently with the filing of this Petition, and in support thereof, the pre-filed Direct Testimonies of the following witnesses are being submitted by the Company:

> Aaron Doll, Liberty, Senior Director – Energy Strategy;
> Matthew DeCourcey, Liberty, VP – Rates and Regulatory Strategy;
> Karen Schaus Hall, Liberty, Senior Manager – Rates and Regulatory;
> Katrina Niehaus, Managing Director – Head of the Corporate Asset Backed Securities Finance Group, Goldman Sachs & Co. LLC; and
> John Olsen, Consultant, UtiliCast.

II. The Applicant

6. Liberty is a Kansas corporation with its principal office and place of business at 602 Joplin Street, Joplin, Missouri. Liberty is qualified to conduct business and is conducting business in Missouri, as well as in the states of Arkansas, Kansas, and Oklahoma. Liberty is engaged, generally, in the business of generating, purchasing, transmitting, distributing, and selling electricity. Liberty is a "public utility" and an "electric corporation" pursuant to RSMo. §393.1700.1(6), with its Missouri operations subject to the jurisdiction of the Commission as provided by law.

7. A certified copy of Liberty's Restated Articles of Incorporation, as amended, was filed in Case No. EF-94-39, and a certificate from the Missouri Secretary of State that Liberty, a foreign corporation, is authorized to do business in Missouri was filed with the Commission in Case No. EM-2000-369. This information is current and correct, and the referenced documents are incorporated herein by reference.

8. Liberty has no pending actions or final unsatisfied judgments or decisions against it from any state or federal agency or court that involve customer service or rates. Liberty's annual report and assessment fees are not overdue.

9. On August 13, 2021, pursuant to Commission Rule 20 CSR 4240-4.017(1) and RSMo. §393.1700, Liberty submitted a Notice of Intended Case Filing, initiating this docket. To the extent an additional notice filing was required by RSMo. §393.1700, Liberty submitted its Notice of Intent herein on August 28, 2021. This Petition is being filed more than 60 days following the submission of both notices.

III. Storm Uri and the Securitization Statute

10. In recognition of the significant rate impact that costs associated with Storm Uri would

have on retail electric customers in Missouri, the state legislature included an additional provision in the Securitization Statute that was enacted during the 2021 legislative session. The Securitization Statute was signed into law by the Governor on August 28, 2021.

11. With Commission approval, this new mechanism allows for the financing of certain qualified extraordinary costs through the issuance of securitized utility tariff bonds provided that the utility demonstrates that the issuance of the bonds and the imposition of securitized utility tariff charges "are expected to provide quantifiable net present value benefits to retail customers." RSMo §393.1700.2(2)(e).

12. In this proceeding, Liberty will demonstrate that the costs it incurred associated with Storm Uri are "qualified extraordinary costs" as contemplated by the Securitization Statute, and that the issuance of a financing order authorizing Liberty to finance the Company's qualified extraordinary costs and issue securitized utility tariff bonds for these costs will provide quantifiable net present value benefits to Liberty's retail customers. In other words, Liberty will demonstrate that the relief requested in this Petition will result in a more economical way to finance these costs so as to minimize the burden on Liberty's retail customers.

13. As provided for in the securitization statute, qualified extraordinary costs may be financed using the securitization statute. RSMo. §393.1700.1(13) defines "qualified extraordinary costs" as:

> costs incurred prudently before, on, or after August 28, 2021, of an extraordinary nature which would cause extreme customer rate impacts if reflected in retail customer rates recovered through customary ratemaking, such as but not limited to those related to purchases of fuel or power, inclusive of carrying charges, during anomalous weather events.

14. RSMo. §393.1700.2(2) provides that any petition for a financing order to finance the recovery of qualified extraordinary costs specifically address a number of topics. The chart below

identifies these required topics along with the witnesses providing supporting testimony on behalf of the Company:

Statutory Requirement	Company Witness(es)
A description of the qualified extraordinary costs (prudently incurred), including their magnitude, the reasons those costs were incurred by the electrical corporation and the retail customer rate impact that would result from customary ratemaking treatment of such costs.	Aaron Doll Matthew DeCourcey John Olsen
An indicator of whether the electrical corporation proposes to finance all or a portion of the qualified extraordinary costs using securitized utility tariff bonds. If the electrical corporation proposes to finance a portion of the costs, the electrical corporation shall identify the specific portion in the petition.	Matthew DeCourcey
An estimate of the financing costs related to the securitized utility tariff bonds.	Katrina Niehaus Matthew DeCourcey Karen Hall
An estimate of the securitized utility tariff charges necessary to recover the qualified extraordinary costs and financing costs and the period for recovery of such costs.	Karen Hall
A comparison between the net present value of the costs to customers that are estimated to result from the issuance of securitized utility tariff bonds and the costs that would result from the application of the customary method of financing and reflecting the qualified extraordinary costs in retail customer rates. The comparison should demonstrate that the issuance of securitized utility tariff bonds and the imposition of securitized utility tariff charges are expected to provide quantifiable net present value benefits to retail customers.	Karen Hall
A proposed future ratemaking process to reconcile any differences between securitized utility tariff costs financed by securitized utility tariff bonds and the final securitized costs incurred by the electrical corporation or assignee provided that any such reconciliation shall not affect the amount of securitized utility tariff bonds or the associated securitized utility tariff charges paid by customers.	Karen Hall

IV. The Securitization Process

15. Securitization is a process by which the qualified extraordinary costs, which the Company is entitled to recover, are not financed directly by the Company at its overall cost of capital; instead, securitization makes use of relatively low-cost bonds that are secured by an irrevocable right to impose, bill, charge, collect, and receive securitized utility tariff charges to recover such costs.

16. These securitized utility tariff charges, which would be periodically updated as described in detail below, are separate and distinct from the Company's base rates.

17. This irrevocable right, also referred to as "securitized utility tariff property," is sold to a bankruptcy-remote special purpose entity ("SPE") that is the issuer of the bonds.[1]

18. Because of the nature of the securitized utility tariff property pledged to support the securitized utility tariff bonds, the securitization process results in the issuance of highly-rated bonds (usually AAA or equivalent rated) to raise the capital necessary to reimburse an electric corporation for its previously incurred qualified extraordinary costs and to pay the associated financing costs relating to issuing the bonds and maintaining the structure to ensure timely payment of debt service on the bonds.

19. This approach makes it possible to reduce the Company's overall revenue requirement associated with qualified extraordinary costs, thereby reducing costs recovered from customers. The revenue requirement is lower because securitization results in a lower-cost method of financing qualified extraordinary costs in comparison to customary cost recovery and ratemaking methods, as explained in Company witnesses Mr. DeCourcey's and Ms. Hall's Direct Testimony.

20. The Company requests that its up-front financing costs associated with the securitization process be included in the principal amount of securitized utility tariff bonds. Principal, interest, and on-going financing costs, including, but not limited to costs of servicing and maintaining the securitized utility tariff bonds, will be recovered through the securitized utility tariff charges authorized by the Commission's Financing Order.

[1] As further discussed in the Direct Testimony of Katrina Niehaus, to facilitate the proposed securitization, Liberty will create a wholly-owned, bankruptcy-remote SPE which will purchase the applicable securitized utility tariff property including the rights to impose, bill, charge, collect, and receive securitized utility tariff charges and issue the applicable securitized utility tariff bonds. Liberty will perform the necessary servicing and administrative functions for its SPE.

21. The Company estimates that its up-front financing costs will be approximately $3.6 million, and that its estimated on-going financing costs of the securitized utility tariff bonds will total approximately $298,000 annually.

22. As Ms. Niehaus explains in her Direct Testimony, several of the components of the up-front financing costs will vary depending upon the size of the final issuance of the securitized utility bonds. The U.S. Securities and Exchange Commission ("SEC") registration fee and the underwriters' fees, which are typically necessary components of the process, are proportional to the amount of a bond issuance. In addition, other up-front costs, such as legal, consulting, and accounting fees and expenses, rating agency fees, printing expenses, and trustee costs will not be known until the issuance of the securitized utility tariff bonds.

23. Finally, any costs incurred by the Commission for any outside consultants or counsel retained in connection with the securitization are up-front financing costs under the Securitization Statute. As a result, final up-front financing costs will not be known until after the final terms of the issuance have been established.

24. The securitized utility tariff bonds can be issued in a registered public offering or unregistered exempt offering and will be structured to achieve the highest possible credit rating from applicable rating agencies. In either case, there will be extensive marketing of the securitized utility tariff bonds to ensure a broad solicitation of potential, unaffiliated investors, as further described in the Direct Testimony of Ms. Niehaus.

25. Upon issuance of the securitized utility tariff bonds, the SPE will transfer the net proceeds from the sale of the bonds to Liberty as consideration for the transfer of the securitized utility tariff property. Thus, the SPE will be a transferee, purchaser, acquirer, assignee, or pledgee of the securitized utility tariff property as provided in the Securitization Statute.

26. To maximize the benefits from securitization for customers, it is necessary to obtain AAA-equivalent credit ratings for the securitized utility tariff bonds. Necessary elements for credit ratings include, but are not limited to: (1) the non-bypassability of the securitized utility tariff charges; (2) a true sale of the securitized utility tariff property to a bankruptcy-remote issuer, which will be Liberty's SPE; (3) a mandatory periodic formula-based true-up mechanism to adjust securitized utility tariff charges to ensure that securitized utility tariff bond debt service and ongoing financing costs are paid on time as scheduled; (4) the requirement that the Commission will not amend, modify, or terminate the Financing Order or otherwise adjust the securitized utility tariff charges, except for the periodic true-ups, as required by the Securitization Statute; (5) the pledge to the holders of securitized utility tariff bonds of the SPE collection accounts established for timely remittances of securitized utility tariff charges; (6) a statutory pledge that neither the state nor the Commission may impair the rights of securitized utility tariff bond holders; (7) provisions for successor servicers and related fees; and (8) demonstration that the proposed transaction structure is designed to satisfy specified rating agency stress case cash flow scenarios. These elements are discussed further in the Direct Testimony of Ms. Niehaus.

27. Critical to achieving the securitization is the issuance of a Financing Order that meets the requirements of the Securitization Statute. As discussed Ms. Niehaus' Direct Testimony, the proposed Financing Order attached hereto as Appendix A would: (1) authorize Liberty to use securitization to finance the qualified extraordinary costs found to be prudent, updated through the projected date of issuance of the securitized utility tariff bonds, and allow securitized utility tariff bonds to be issued in an aggregate amount equal to the sum of (a) qualified extraordinary costs (including carrying charges on such amounts through the issuance date of the securitized utility tariff bonds, calculated at the relevant weighted average cost of capital ("WACC") approved by

this Commission) as defined above and (b) up-front financing costs incurred in connection with issuance of the securitized utility tariff bonds; (2) approve the structure of the proposed securitization financing; (3) approve securitized utility tariff charges in amounts calculated and adjusted from time to time as provided in the Financing Order, to be sufficient to pay the debt service on the securitized utility tariff bonds together with related financing costs on a timely basis; and (4) approve Liberty's proposed tariff (form attached to the Direct Testimony of Karen Hall).

28. Pursuant to a servicing agreement between Liberty and its SPE, Liberty will act as the initial servicer of the securitized utility tariff charges for its SPE. As servicer, Liberty will bill, charge, receive, and collect such charges from its retail customers, and will remit these collections to an indenture trustee for each series of securitized utility tariff bonds on behalf, and for the account, of the SPE.

29. As servicer, the Company will be responsible for making any required or allowed true-ups of the securitized utility tariff charges as provided for in the Financing Order. The securitized utility tariff charges collected by Liberty pursuant to the servicing agreement will be calculated to ensure the collection of an amount sufficient to timely pay the principal and interest on the securitized utility tariff bonds and the on-going financing costs. The securitized utility tariff charges will be allocated to the various customer classes in the manner determined by the Commission and set forth in the Financing Order.

30. The securitized utility tariff charges will be billed, imposed, received, and collected pursuant to Liberty's securitized utility tariff included as Schedule KSH-5 to Ms. Hall's Direct Testimony. Although the exact calculation of the securitized utility tariff charges cannot be made until all the final terms of the securitized utility tariff bonds are known, Ms. Hall estimates that the initial utility securitized tariff charges imposed on the monthly electric bill of one of its residential

customers using 1,000 kWh will be $5.05 per month.

31. In order to synchronize the collection of securitized utility tariff charges with the first payment on the securitized utility tariff bonds, the tariff charges will become effective as of the date of issuance of the securitized utility tariff bonds. Liberty will make at least annual adjustments to the securitized utility tariff charges to account for (a) any under-collections or over-collections or (b) otherwise ensure the timely payment of the securitized utility tariff bonds and on-going financing costs and other required amount and charges payable in connection with the bonds.

V. Prudent Expenditures and Quantifiable Benefits

32. In total, the Company incurred $193,402,198 of fuel and purchased power costs to serve customers during February, 2021. As Mr. Doll explains, all of these costs, as well as the Company's generation operations and other actions surrounding Storm Uri, were reviewed by a third-party expert, Utilicast, which determined that "Liberty operated proactively, prudently, and in compliance with its emergency winter preparedness procedures. [The Company] demonstrated operations proficiency that meets and at times exceeds prudent utility practices,"[2] thus meeting the prudence standard.

33. In addition to the fuel and purchased power costs, Liberty also incurred legal expense associated with the purchase of fuel. As Mr. Doll explains, given the amount of expense involved, the Company considered whether there were any legal actions that it could take to mitigate that expense. In particular, the Company was concerned that it did not receive delivery of gas from the Southern Star gas pipeline due to insufficient pressures on the pipeline because others did not deliver gas to the pipeline. The Company believed it was entitled to receive the benefit of Operational Flow Order ("OFO") penalties assessed against shippers on the pipeline that did not

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[2] "Operations Review of the February 2021 Winter Storm Event," Utilicast (2021), p. 8.

deliver their required gas to the pipeline when Liberty did. As a result, the Company took an active role in Southern Star's request to the Federal Energy Regulatory Commission seeking a waiver of its obligation to impose the OFOs on such shippers, and incurred legal expense to do so.

34. Finally, the proposed qualified extraordinary costs also includes carrying charges associated with the fuel and power purchases and legal expense, which total $10,957,635. As Ms. Hall explains in her Direct Testimony, this is calculated using the approved WACC from the Company's prior rate case and multiplying it by March through December, 2021. In total, the Company seeks $204,500,939 in qualified extraordinary costs.

35. Ms. Hall conducted a comparison between the net present value of the costs to customers that are estimated to result from the issuance of securitized utility tariff bonds, as requested herein, and the costs that would result from the application of the customary method of financing and reflecting the qualified extraordinary costs in retail customer rates. This analysis demonstrates that the issuance of securitized utility tariff bonds and the imposition of securitized utility tariff charges are expected to provide Quantifiable Benefits.

36. Ms. Hall explains the applicable kilowatt-hour rider increment as follows:

Class	**Allocation**	**Revenue Target**	**Class Usage**	**SUTC**
	%	*$*	*kWh*	*$/kWh*
Residential	44.38%	$8,446,124	1,672,672,383	$0.00505
Commercial	8.93%	$1,700,368	314,902,557	$0.00540
Small Heating	2.01%	$382,997	79,755,494	$0.00480
General Power	18.30%	$3,482,371	837,326,668	$0.00416
Transmission	1.13%	$214,289	69,477,754	$0.00308
Total Electric Building	7.69%	$1,463,808	340,335,347	$0.00430
Feed Mill	0.02%	$2,935	452,711	$0.00648
Large Power	16.21%	$3,084,578	874,735,928	$0.00353
Misc. Service	0%	$592	136,106	$0.00435
Street Lighting	0.62%	$118,709	17,854,334	$0.00665
Private Lighting	0.70%	$133,675	12,566,733	$0.01064
Special Lighting	0.02%	$2,939	405,972	$0.00724
Total/Average	100%	$19,033,386	4,220,621,987	$0.00451

This results in a monthly charge of $5.05 for residential customers using 1,000 kwh/month, which is necessary to ensure the timely payment of the securitized utility tariff bonds and ongoing financing costs and other required amounts and charges payable in connection with the bonds, over a period of 13 years.

37. In addition, Ms. Hall provides a blueprint for a proposed future ratemaking process to reconcile any differences between securitized utility tariff costs financed by securitized utility tariff bonds and the final securitized costs incurred by the electrical corporation or assignee provided that any such reconciliation shall not affect the amount of securitized utility tariff bonds or the associated securitized utility tariff charges paid by customers.

VI. Conclusion

38. Liberty's Storm Uri costs were prudently incurred by the Company on behalf of its Missouri customers and otherwise constitute "qualified extraordinary costs" as contemplated by the Securitization Statute. As detailed above, the issuance of the requested Financing Order authorizing Liberty to finance the Company's qualified extraordinary costs and issue securitized utility tariff bonds for these costs and the imposition of securitized utility tariff charges will provide quantifiable net present value benefits to Liberty's retail customers.

WHEREFORE, The Empire District Electric Company d/b/a Liberty respectfully requests that the Commission, no later than 215 days from the date of the filing of this Petition:

(1) grant authorization for the financing of the Company's qualified extraordinary costs incurred as a result of Storm Uri;

(2) find that the Company's qualified extraordinary costs and up-front financing costs are appropriately financed by debt secured by securitized utility tariff charges;

(3) issue a Financing Order consistent with the form of financing order attached hereto and which addresses the requirements of the Securitization Statute and expectations of the credit rating agencies so that Liberty may accomplish the proposed securitization transaction;

(4) approve Liberty's proposed securitized utility tariff charges;

(5) approve Liberty's proposed tariff; and

(6) provide any further relief the Commission deems just and reasonable and in the public interest.

Respectfully submitted,

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VERIFICATION

On behalf of the applicant, The Empire District Electric Company, and pursuant to Commission Rule 20 CSR 4240-2.060(1)(M), the undersigned, upon his oath and under penalty of perjury, hereby states that the above Petition is true and correct to the best of his information, knowledge, and belief.

__/s/ Tim Wilson______________
Tim Wilson
Vice President – Electric Operations

CERTIFICATE OF SERVICE

I hereby certify that the above document was filed in EFIS on this 19th day of January, 2022, and sent by electronic transmission to the Staff of the Commission and the Office of the Public Counsel.

/s/ Diana C. Carter