The Empire District Electric Company
a Liberty Utilities Company
Case No. AO-2018-0179
OPC Data Request – 1117

Data Request Received: 05/22/19 | Date of Response: June 10, 2019
Request No. 1117 | Respondent: Mark Timpe

REQUEST:

Did the $90 million Empire used to redeem its first mortgage bonds on or around June 1, 2018, that Empire obtained from LUCo originate through a $90 million borrowing by LUCo from the LUCo credit facility? If so, did LUCo charge Empire the interest cost LUCo incurred from borrowing from the LUCo credit facility? If not, why not? If so, what was the specific interest rate LUCo charged to Empire during the period LUCo had the $90 million borrowing against its credit facility? What was specific interest rate(s) charged to LUCo for the $90 million borrowing from its credit facility? Were these interest rates greater than the rates Empire would have been charged if its commercial paper was used instead of LUCo's credit facility? If so, what was the interest rate differential? Please provide copies of all accounts and records sufficient to show that this transaction was compliant with the MoPSC affiliate transaction rules.

RESPONSE:

This response is provided subject to and without waiving the objections served on May 25, 2019.

LUCo funded the financing provided to Empire from a draw under its credit facility. Rather than subjecting Empire to interest rate risk from floating short-term interest rates, or speculating about the direction of interest rates by forcing Empire to carry a substantial amount of floating rate debt until LUCo's next private debt placement, Empire was provided with 15-year fixed rate financing, the pricing for which was determined based on the then current 15-year US Treasury rate plus a competitively bid BBB rated credit spread for like tenor. The rate on this financing exceeded that of Empire's commercial paper because it is long-term financing and the term structure of interest rates. It is prudent to finance Empire's long-term assets with long-term financing, a common practice in the utility industry. This financing did not require approval of the Missouri Public Service Commission because it did not encumber utility assets.