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INDIANA UTILITY
REGULATORY COMMISSION

**SOUTHERN INDIANA GAS AND ELECTRIC COMPANY
d/b/a CENTERPOINT ENERGY INDIANA SOUTH
(CEI SOUTH)**

**DIRECT TESTIMONY
OF
BRETT A. JERASA
ASSISTANT TREASURER**

ON

**OVERVIEW OF SECURITIZATION ACT, COMPANY'S PROPOSED
STRUCTURE AND NET PRESENT VALUE ANALYSIS**

**SPONSORING PETITIONER'S EXHIBIT NO. 2,
ATTACHMENTS BAJ-1 THROUGH BAJ-11**

DIRECT TESTIMONY OF BRETT A. JERASA

1 **I. INTRODUCTION**

2

3 **Q. Please state your name and business address.**

4 A. My name is Brett A. Jerasa. My business address is 1111 Louisiana Street, Houston,
5 Texas 77002.

6

7 **Q. By whom are you employed?**

8 A. I am employed by CenterPoint Energy Service Company, LLC ("Service Company"),
9 a wholly owned subsidiary of CenterPoint Energy, Inc. The Service Company provides
10 centralized support services to CenterPoint Energy, Inc.'s operating units, one of
11 which is Southern Indiana Gas and Electric Company d/b/a CenterPoint Energy
12 Indiana South (the "Petitioner", "CEI South," or the "Company").

13

14 **Q. On whose behalf are you submitting this direct testimony?**

15 A. I am submitting testimony on behalf of CEI South.

16

17 **Q. What is your role with respect to Petitioner CEI South?**

18 A. I am Assistant Treasurer for CenterPoint Energy, Inc., the ultimate parent company of
19 CEI South.

20

21 **Q. Please describe your educational background.**

22 A. I have a Bachelor of Arts in Economics from the University of Virginia, a Master of Arts
23 in History from Old Dominion University, and a Master of Business Administration from
24 Indiana University's Kelley School of Business.

25

26 **Q. Please describe your professional experience.**

27 A. I have held various positions of increasing responsibility since joining CenterPoint
28 Energy, Inc. in 2012. From 2012-2015, I was a lead analyst in the Corporate Strategic
29 Planning group, responsible for assisting various business units and functions with the
30 creation of their strategic plans and capital project evaluations. In 2015, I joined the
31 Treasury group, first as a Treasury Manager responsible for the administration and
32 operations of CenterPoint Energy Inc.'s various pension, savings, and benefit plans

1 and capital markets activities. In 2020, I was promoted to Assistant Treasurer and
2 have responsibilities for the CenterPoint Energy, Inc.'s capital markets activities, debt
3 compliance, treasury operations and investments.
4

5 **Q. What are your present duties and responsibilities as Assistant Treasurer?**

6 A. I am responsible for the short-term and long-term financing activities of CenterPoint
7 Energy, Inc. and its subsidiaries, including CEI South. This includes responsibilities
8 for cash management, bank relations, short-term borrowings, long-term capital
9 financing, rating agency relations, and a variety of other finance-related activities. I
10 am also responsible for arranging the corporate financings and bank credit facilities
11 for CenterPoint Energy, Inc. and its subsidiaries.
12

13 **Q. Have you ever testified before the Indiana Utility Regulatory Commission**
14 **(“Commission”) or any other state regulatory commission?**

15 A. Yes. I have testified before the Commission on behalf of CEI South and Indiana Gas
16 Company, Inc. d/b/a CenterPoint Energy Indiana North (“CEI North”) in their general
17 gas base rate cases, Cause Nos. 45447 and 45468, respectively. I have also testified
18 on behalf of CEI South (Cause Nos. 45458 and 45590) and CEI North (Cause Nos.
19 45457 and 45589) in their requests for approval of various finance programs. And,
20 most recently, I have testified on behalf of CEI South in its request to enter into power
21 purchase agreements related to Solar Projects in Cause Nos. 45501 and 45600. I
22 have also filed testimony before the Arkansas Public Service Commission in Docket
23 07-044-U, the Corporation Commission of the State of Oklahoma in Cause No. PUD
24 202100087, and the Texas Railroad Commission in Docket OS-21-00007061.
25
26

27 **II. PURPOSE & SCOPE OF TESTIMONY**

28
29 **Q. What is the purpose of your testimony in this proceeding?**

30 A. The purpose of my direct testimony is to address certain requirements set forth in
31 Senate Enrolled Act 386 (codified at Ind. Code ch. 8-1-40.5 and hereinafter referred
32 to as the “Securitization Act”) related to the Company’s proposed securitization bond
33 issuance. Specifically, I will briefly describe utility securitizations; the Company’s

1 proposed securitization transaction structure; rating agency considerations; the
2 proposed true-up mechanism; use of bond proceeds; bond issuance costs; and the
3 ongoing administration of the securitization bonds. Further, I support the Net Present
4 Value ("NPV") analysis comparing the total of the proposed Securitization Charges
5 with the recovery of the Qualified Costs through traditional ratemaking, along with the
6 assumptions used in this comparison; and sponsor the proposed Issuance Advice
7 Letter, proposed Financing Order, and other sample transaction documents.
8

9 **Q. Are you sponsoring any attachments in this proceeding?**

10 A. Yes. I am sponsoring the following attachments in this proceeding:

- 11 • Petitioner's Exhibit No. 2, Attachment BAJ-1: Estimated Qualified Costs
- 12 • Petitioner's Exhibit No. 2, Attachment BAJ-2: Revenue Requirement
- 13 • Petitioner's Exhibit No. 2, Attachment BAJ-3: NPV Comparison Analysis,
14 comparing the total of the proposed Securitization Charges with recovery of
15 the Qualified Costs through traditional ratemaking.
- 16 • Petitioner's Exhibit No. 2, Attachment BAJ-4: Supporting Assumptions for
17 NPV Comparison Analysis
- 18 • Petitioner's Exhibit No. 2, Attachment BAJ-5: Draft Issuance Advice Letter
- 19 • Petitioner's Exhibit No. 2, Attachment BAJ-6: Proposed Financing Order
- 20 • Petitioner's Exhibit No. 2, Attachment BAJ-7: Draft Servicing Agreement
- 21 • Petitioner's Exhibit No. 2, Attachment BAJ-8: Draft Administration
22 Agreement
- 23 • Petitioner's Exhibit No. 2, Attachment BAJ-9: Draft Securitization Property
24 Purchase and Sale Agreement
- 25 • Petitioner's Exhibit No. 2, Attachment BAJ-10: Draft Amended & Restated
26 LLC Agreement
- 27 • Petitioner's Exhibit No. 2, Attachment BAJ-11: Draft Indenture (between the
28 SPE and the Indenture Trustee)

29
30 **Q. Were these attachments prepared by you or under your supervision?**

31 A. Yes, they were.
32

1 **III. BACKGROUND**
2

3 **Q. Please briefly describe the Securitization Act.**

4 A. The Securitization Act authorizes a public utility that meets certain criteria to finance
5 costs related to an electric generation facility that the public utility owns or operates to
6 provide electric service to Indiana customers. The public utility must be under the
7 jurisdiction of the Commission and have no more than 200,000 retail customers at the
8 time of filing a petition under Ind. Code § 8-1-40.5-10. The Securitization Act
9 specifically enables a public utility to use securitization to recover "Qualified Costs",
10 defined under Section 6 of the Securitization Act as the net original cost of the electric
11 generation facility to be retired along with any associated investments as adjusted for
12 depreciation to be incurred until the facility is retired, together with (1) costs of removal
13 and restoration, as applicable, of the facility, any associated improvements, and facility
14 grounds; (2) the applicable portion of investment tax credits associated with the facility
15 and any associated investments; (3) costs of issuing, supporting, and servicing the
16 securitization bonds; (4) taxes related to the recovery of securitization charges; and
17 (5) any costs of retiring and refunding the electric utility's existing debt and equity
18 securities in connection with the issuance of securitization bonds.

19
20 The Securitization Act allows for these Qualified Costs to be recovered via
21 Securitization Charges, which are charges approved by the Commission. In addition
22 to allowing the use of securitization to recover Qualified Costs, the Securitization Act
23 also includes several key features of utility securitization including:

- 24
- 25 • Irrevocable – The Securitization Charges and the true-up mechanism under the
26 Financing Order are irrevocable, meaning that the Securitization Charges are not
27 subject to reduction, impairment, or adjustment by further action of the
28 Commission or another statute or rule, except as otherwise provided for in the
29 Securitization Act.
 - 30 • Nonbypassable – The Securitization Charges are to be paid by all existing and
31 future customers and customer classes of the electric utility and may not be
32 avoided by CEI South's customers, except by completely isolating from the grid or
33 moving out of CEI South's service territory. These charges must be paid by such
customers until the securitization bonds and ongoing costs are paid in full.

- 1 • Non-Impairment Pledge – The State of Indiana has pledged that it will not take or
2 permit any action that impairs the value of the Securitization Property, or, except
3 as allowed under the Securitization Act (relating to true-up adjustments), reduce,
4 alter, or impair the Securitization Charges that are imposed, collected, and remitted
5 for the benefit of bondholders. As with the State Pledge, another significant term
6 in the Financing Order is a non-impairment pledge from the Commission that the
7 Financing Order and Securitization Charges are authorized, irrevocable, and not
8 subject to reduction, impairment, or adjustment by further action of this
9 Commission except with respect to a request made by Petitioner under Section
10 10(h) or 12(c) of the Securitization Act. As discussed later in my testimony, we
11 have provided a form of Financing Order that contains language critical to
12 obtaining the highest possible credit rating on the securitization bonds.
- 13 • True-Up Mechanism – The Securitization Charges must be reviewed at least
14 annually to correct any over or under collections of Securitization Charges and
15 allow CEI South to make interim true-up adjustments at any time and for any
16 reason in order to ensure the recovery of revenues sufficient to provide for the
17 timely payment of all debt service, ongoing expenses, and replenishment of any
18 draws on the capital subaccount; and generally, to correct for any under-collection
19 or over-collection.

20

21 **Q. What is securitization?**

22 A. Securitization is a financing technique in which certain assets are legally isolated within
23 a special purpose entity (“SPE”). This entity will then issue securitization bonds
24 supported primarily by a statutory and regulatory right to receive a charge paid by
25 customers. Securitization bonds are generally non-recourse to and bankruptcy-remote
26 from the utility sponsor. The securitization bonds are backed by a specific revenue
27 stream and typically self-amortize through payment of principal over time. Collections
28 from customers provide the cash from which interest and principal payments on the
29 securitization bonds and ongoing costs are made.

30

31 **Q. Is securitization common in the utility industry?**

32 A. Yes. As discussed in more detail by Petitioner’s Witness Eric Chang, securitization is
33 widely used in the utility industry and is utilized to spread out the customer impact of

1 certain events (e.g., potential stranded costs due to asset retirement or market
2 restructuring, natural disasters such as hurricanes and wildfires, etc.) typically at a
3 lower interest rate than otherwise available via traditional rate making.
4

5 Utility-issued securitization bonds generally contain credit-enhancing features that
6 allow for a AAA rating from the rating agencies. Some examples of these features
7 include, but are not limited to, the use of bankruptcy-remote special-purpose entities
8 as the issuer of the bonds, the irrevocability of the Financing Order, the certainty of
9 cash flow via property right to collect future surcharges, and the ability to adjust the
10 customer surcharges for under/over collections ("true-up mechanism").
11

12 CenterPoint Energy, Inc. has experience issuing and acting as a servicer of
13 securitization bonds through its subsidiary CenterPoint Energy Houston Electric, LLC
14 ("CEHE") (five different series) via bankruptcy-remote, special purpose subsidiaries.
15 These special purpose entities issued transition bonds to recover certain stranded
16 costs and regulatory assets; and issued system restoration bonds to recover costs
17 related to restoring the utility's distribution system following Hurricane Ike. CEHE has
18 acted as the servicer of these previously issued securitization bonds, and continues to
19 act as servicer of two series of securitization bonds that are still outstanding.
20

21 **Q. What is the rationale for recovering Qualified Costs by issuing securitization**
22 **bonds?**

23 A. Securitization bonds provide a lower cost means for CEI South to recover the Qualified
24 Costs than traditional utility financing methods. Securitization refers to the financial
25 tool creating a property right to revenues collected by a regulated utility from customers
26 pursuant to an irrevocable and nonbypassable mechanism, which property right is
27 then sold and used as security for the payment of debt service and ongoing costs for
28 a series of securitization bonds. Traditional utility financing refers to CEI South
29 recovering the Qualified Costs over its useful life, financed via its capital structure
30 including debt and equity. Since the interest rates associated with securitization bonds
31 are historically lower than traditional utility financing, lower financing costs reduce the
32 cost to CEI South's customers. Simply put, on a matched maturity basis (recovery
33 over the same time period), the securitization bonds will have a lower interest rate than

1 a utility's cost of capital. In addition, securitization under the Securitization Act will
2 allow for more favorable rating agency treatment with the applicable capital being
3 reinvested in Indiana over 7 years and supporting its current ratings.
4

5 **Q. What are the total Qualified Costs and how will the sizing of the transaction be**
6 **proposed?**

7 A. The Qualified Costs include estimated up-front costs, costs associated with the
8 undepreciated A.B. Brown Units 1 & 2 ("Brown Units 1 & 2") as well as the cost of
9 removal, decommissioning, demolition and site restoration, and ongoing costs. Please
10 note that the up-front costs and ongoing costs presented below are estimates and
11 subject to change. The estimated total Qualified Costs is \$359,397,933, with
12 \$350,125,000 of estimated costs to be financed and \$9,272,933 of estimated ongoing
13 costs.
14

15 For discussion and support for the Qualified Costs, please refer to the Direct
16 Testimony of Company Witnesses noted in Table BAJ-1 below. I discuss and provide
17 evidence for the estimated total up-front issuance, expert support and ongoing costs
18 below.

**Table BAJ-1:
Summary of Qualified Costs as of 2/28/2023**

Type of Cost	Amount as of 2/28/2023	Company Witness
Brown 1 & 2 Original Cost	\$798,297,876	Thayer
Accumulated Depreciation (excluding Cost of Removal)	(\$534,035,130)	Thayer
Cost of Removal Reserve	(\$6,042,788)	Thayer
Regulatory Asset	\$59,557,019	Harper
Estimated Total Cost to Decommission, Demolish and Restore Site	\$26,771,245	Thayer and Kopp ¹
Subtotal	\$344,548,222	
Estimated Expert Support Costs	\$885,000	Jerasa
Estimated Cost to Issue Securitization Bonds	\$4,691,778	Jerasa
Estimated Total Qualified Costs subject to securitization at issuance	\$350,125,000	Jerasa
Estimated Ongoing Costs	\$9,272,933	Jerasa
Estimated Total Qualified Costs ²	\$359,397,933	Jerasa

1 The amount of Qualified Costs to be included in the securitization bond offering is
2 approximately \$350 million. The remaining approximately \$9 million of Qualified Costs
3 are expected to be incurred over the life of the securitization bonds to service the
4 securitization bonds and pay ongoing costs. The Total Qualified Costs are an estimate
5 at the time of filing the case in chief, will be updated as needed before the record
6 closes, and will be finalized in the Issuance Advice Letter as the up-front and ongoing
7 costs will not be known until the securitization bonds are issued.
8

¹ Petitioner's Witness Kopp supports the decommissioning estimate and Petitioner's Witness Thayer supports the escalation of that amount to align with the timing of securitization bond issuance.

² Estimate does not include interest on securitization bonds.

1

2 **Q. How will the maturity of the transaction be determined?**

3 A. The Securitization Act states that the securitization bonds shall not have a term of
4 more than twenty years, so no tranche of securitization bonds will have a legal final
5 maturity date that exceeds this time constraint. To attract the broadest range of
6 investors, the securitization may offer one tranche of securitization bonds or be divided
7 into several tranches. These tranches, issued on the same date, would each have their
8 own scheduled final payment date and their own legal final maturity date occurring
9 after the scheduled final payment date, a feature which allows for delays (due to
10 variations in cash flows) in scheduled principal payments from the Securitization
11 Charges. The scheduled final payment date and legal final maturity dates would be
12 determined at or shortly before issuance based on market conditions at the time. As
13 discussed below, CEI South recommends a 15-year scheduled final payment date of
14 the longest-termed tranche of the securitization bonds in order to balance customer
15 savings with intergenerational equity issues. The legal final maturity date of the
16 longest-termed tranche of securitization bonds would be 17 years from the issuance
17 date, within the 20-year requirement included in the Securitization Act.

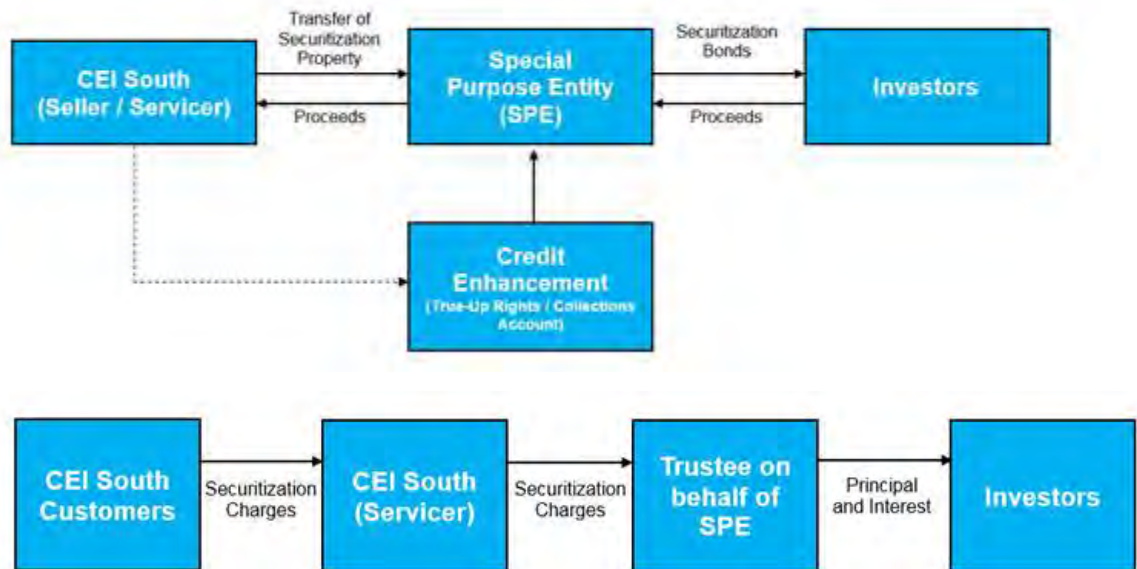
18

19 **Q. How will the transaction be structured?**

20 A. CEI South will form a wholly owned, bankruptcy-remote SPE, which will be used to
21 issue the securitization bonds. The SPE is expected to be a limited liability company
22 formed under the laws of the State of Delaware. The securitization bonds will be
23 issued pursuant to an Indenture and series supplement, which will be administered by
24 an indenture trustee. These securitization bonds will be secured by the Securitization
25 Property, which is a property right that entitles the owner to all revenues and
26 collections resulting from the Securitization Charges that were previously defined and
27 will be created by the Commission via the Financing Order in this proceeding. CEI
28 South will transfer the Securitization Property to the SPE via a "true sale". CEI South,
29 as Servicer, will then remit the collections of the Securitization Charges to the SPE
30 (this is typically done routinely during each month), where the funds will be reinvested
31 by the indenture trustee until interest and principal on the securitization bonds become
32 due. Typically, level payment of interest and principal on the securitization bonds will
33 be payable by the SPE semiannually, according to a mortgage-style amortization

1 schedule. To the extent that Securitization Charges are insufficient to pay debt service
2 on the securitization bonds and ongoing costs, CEI South will be able to apply for
3 periodic adjustments to the Securitization Charges via the true-up mechanism no less
4 frequently than annually but not earlier than 45 days before the anniversary of the
5 issuance of the securitization bonds. In addition, under Section IV, CEI South
6 proposes that it be permitted to apply for an interim true-up, at any time, if CEI South
7 projects that collections will be insufficient to pay interest, scheduled principal and
8 ongoing costs. This "true-up" mechanism is the primary form of credit enhancement
9 unique to utility securitization and adjusts the Securitization Charges based on
10 projected electric consumption, collections and expected delinquencies and charge-
11 offs.

12
13 The following diagram shows how the transaction will be structured:
14



15
16 The bankruptcy-remote SPE will have at least one independent manager and its
17 purpose and the activities in which it may engage will be limited. The SPE must deal
18 with CEI South on an arm's-length basis to ensure that it remains bankruptcy-remote
19 from CEI South. The SPE will incur certain costs that are proposed to be recovered
20 over the life of the securitization bonds as an ongoing expense.
21

1 **Q. What will the proposed preliminary transaction capital structure look like?**

2 A. In conjunction with their structuring advisor, CEI South has developed the below
3 proposed preliminary transaction structure for the securitization bonds. The below
4 capital structure includes the balance for each tranche, along with the average life,
5 indicative yield, scheduled final payment dates, and legal final maturity dates, among
6 other details:

7 **Table BAJ-2: Proposed Preliminary Structure**

Class	Balance (\$)	Coupon	Price	Yield	Treasury Benchmark	Spread (bps)	Average Life (yrs)	First Principal Payment	Last Principal Payment	Principal Payments Window	Legal Final
A-1	180,000,000	4.19%	100.000	4.188%	2.788%	140	4.97	10/15/2023	10/15/2032	0.5-9.5	10/15/2034
A-2	170,125,000	4.58%	100.000	4.579%	2.829%	175	12.33	10/15/2023	4/15/2038	9.5-15	4/15/2040
Total	350,125,000										

8

9 The above Table BAJ-2 shows the applicable assumed benchmark rates and spreads
10 to those rates, which sum to the total yield. Each benchmark rate is driven by the
11 representative cost of borrowing for United States Treasury securities at different
12 tenors. Under normal market conditions, investors will require higher yields for longer
13 borrowing tenors. The spread over each benchmark typically represents the additional
14 margin over the respective Treasury benchmark that investors will require to
15 compensate for their expectation of credit risk of the bonds. Each tranche of
16 securitization bonds will be fixed rate instruments, in order to ensure predictable
17 ongoing costs. The average life (or maturity) of each tranche of securitization bonds is
18 a function of the weighted average timing of cash flows expected to be paid and
19 determines the pricing benchmark used for that tranche.

20

21 The "Last Principal Payment" date represents the date at which the scheduled final
22 payment is expected, but it is not guaranteed, nor is it a legal obligation, for the
23 securitization bonds to be fully paid down on this date. The securitization bonds are
24 legally required to be paid in full by the "Legal Final", which is typically set
25 approximately 24 months after the scheduled final payment date. For rating agency
26 purposes, the transactions are rated assuming the securitization bonds are fully repaid
27 by the legal final maturity dates.

28

1 This structure has been used in the savings comparisons provided in the sensitivity
2 table labeled as Table BAJ-3 in Section VII below as the representative 15-year
3 scheduled final payment date, 17-year legal final maturity date structure. The structure
4 may be adjusted before marketing the securitization bonds to reflect current market
5 conditions or to reduce the Securitization Charges that customers would ultimately
6 pay.

7
8 CEI South proposes that the final structure and terms of the securitization bonds be
9 provided to the Commission after pricing but before issuance via an Issuance Advice
10 Letter discussed below.

11
12 **Q. How will the SPE be structured?**

13 A. As discussed above, we expect that the SPE will be structured as a limited purpose,
14 bankruptcy-remote Delaware LLC, but we request that the Financing Order allows for
15 flexibility in final structure and terms of the securitization bonds to take into account
16 market conditions and rating agency feedback. Please see Witness Chang's
17 testimony for further discussion.

18
19
20 **IV. RATING AGENCY CONSIDERATIONS**

21
22 **Q. How do the rating agencies look at and evaluate securitization bonds?**

23 A. The analysis conducted by the rating agencies on the securitization bonds hinges on
24 supportive regulatory language that helps ensure that the securitization bonds benefit
25 from transaction features such as bankruptcy remoteness, nonbypassable and
26 irrevocable Securitization Charges, a "true-up" mechanism, and other credit
27 enhancement (if utilized though not expected). The rating agencies will also evaluate
28 the revenue forecasting along with other additional counterparty and legislative risks,
29 which should be mitigated with the features of the Financing Order.

30
31 **Q. What is the importance of achieving a 'AAA' rating for the securitization bonds?**

32 A. The 'AAA' rating allows for the securitization bonds to achieve a lower cost of debt,
33 which is a benefit to CEI South's customers. With a 'AAA' rating, investors demand

1 less yield as the implied risk of the transaction is lesser than those bonds with a lower
2 rating on the securitization bonds. This lower yield then translates into lower coupon
3 payments and interest service charges. This lower cost is then passed along to the
4 customers.

5

6 **Q. Will CEI South provide the rating agencies with a bankruptcy opinion letter from**
7 **counsel?**

8 A. Yes, CEI South will provide a bankruptcy opinion letter as well as certain agreed upon
9 procedure letters and opinion letters of counsel typically provided to the rating
10 agencies in utility securitizations.

11

12 **Q. What are the characteristics of the Securitization Charges as provided for in the**
13 **Securitization Act?**

14 A. Under Ind. Code § 8-1-40.5-12, Securitization Charges must be nonbypassable and
15 payable by all customers and customer classes of the electric utility, including
16 customers that supply a portion of their own electricity demand. The SPE's interest in
17 the Securitization Charges is not subject to setoff, counterclaim, surcharge, or
18 defense, and a Financing Order authorizing Securitization Charges remains in effect
19 and unabated notwithstanding the bankruptcy of the electric utility.

20

21 **Q. What is the true-up mechanism and how will it work?**

22 A. The Securitization Act has authorized the use of a true-up mechanism to ensure that
23 the amounts collected from the customers are sufficient to service the securitization
24 bonds. This is a transaction feature that is very common in all utility securitizations and
25 is a key part of the credit enhancement available in utility securitizations. The
26 Securitization Act allows that at least once per year, the electric utility may submit to
27 the Commission an application to correct any over or under collections of
28 Securitization Charges during the preceding twelve months to ensure the required
29 debt service and ongoing costs in connection with the securitization bonds can be
30 covered through the Securitization Charges. In addition to an annual true-up
31 mechanism, CEI South proposes to be authorized to apply for optional interim true-up
32 adjustments at any time and for any reason in order to ensure the recovery of revenues
33 sufficient to provide for the timely payment of all debt service, ongoing costs and

1 replenishment of any draws on the capital subaccount and generally to correct for any
2 under-collection or over-collection of Securitization Charges. Please see the
3 testimony of Company Witnesses Rice and Zarumba for further discussion on the
4 Securitization Charges and true-up mechanism.

5

6 **Q. Will CEI South make a capital contribution to the SPE as a credit enhancement?**

7 A. Yes, CEI South expects to contribute an amount equal to 0.5% of the initial aggregate
8 principal amount of securitization bonds issued as a capital contribution to the SPE.
9 Assuming an issuance size of \$350 million, the capital contribution is estimated to be
10 approximately \$1.8 million. As described by Witness Chang, this cash will be
11 deposited by the SPE with the indenture trustee in the capital subaccount and may be
12 used if available Securitization Charges collections are insufficient to pay debt service
13 and ongoing costs. If cash from the capital subaccount is required to be used,
14 Securitization Charges will be adjusted and increased in order to replenish the
15 subaccount to an amount equal to 0.5% of the initial aggregate principal amount of
16 securitization bonds.

17

18 **Q. Will this transaction feature additional credit enhancement that has not already
19 been detailed above?**

20 A. As further discussed below, based upon the advice of its advisor and the current
21 market conditions, CEI South does not anticipate including additional credit
22 enhancements for this transaction (e.g., overcollateralization, letters of credit, or bond
23 insurance). However, if circumstances warrant the inclusion of additional credit
24 enhancement, CEI South requests the flexibility to include any such credit
25 enhancement in the securitization transaction structure. The inclusion of these
26 features subsequently would be approved through the Issuance Advice Letter process.

27

28 The SPE may obtain additional credit enhancements to ensure repayment of the
29 securitization bonds in the form of an overcollateralization subaccount if the rating
30 agencies require overcollateralization to receive the highest possible credit rating on
31 the securitization bonds, or if the all-in cost of the securitization bonds with the
32 overcollateralization would be less than without the overcollateralization.
33 Overcollateralization is a credit enhancement technique in which amounts collectible

1 in relation to a financial asset exceed the required payments on security, ensuring
2 investors timely payment. The required amount of overcollateralization, if any, may be
3 collected via the Securitization Charges. The overcollateralization requirement, if any,
4 would be sized based upon input from the rating agencies indicating the amount
5 necessary to achieve the highest possible credit rating. Any overcollateralization
6 collected from customers that remains after payment in full of the securitization bonds
7 and ongoing costs will be the property of the SPE until returned to CEI South to be
8 refunded to customers in a final true-up mechanism filing.

9
10 CEI South may also obtain bond insurance, letters of credit, and similar credit-
11 enhancing instruments, but only if required by the rating agencies to achieve the
12 highest possible credit rating on the securitization bonds, or if the all-in cost of the
13 securitization bonds with these other credit enhancements would be less than without
14 the enhancements.

15
16 CEI South does not anticipate requiring any external credit enhancements described
17 in the preceding paragraph for this transaction. Further, based upon current market
18 conditions, CEI South does not anticipate being required by the rating agencies to
19 establish an overcollateralization subaccount for this transaction, but to the extent
20 such an account is required, the exact amount and timing of its collection via the
21 Securitization Charges would be determined before the securitization bonds are
22 issued and approved through the Issuance Advice Letter process. In addition, the bond
23 collateral held by the Trustee would be available as a credit enhancement. This
24 collateral would include, as mentioned above, an equity (or capital) contribution in an
25 amount required to obtain favorable IRS tax treatment for the transaction, as described
26 by Petitioner's Witness Benjamin D. Vallejo (i.e., currently 0.50 percent of the initial
27 aggregate principal amount of the securitization bonds). Having an equity investment
28 in the SPE of at least 0.5 percent is within the safe harbor provided in the IRS Revenue
29 Procedure and helps ensure CEI South will not recognize in the taxable income the
30 cash proceeds received from the issuance of the securitization bonds. If the equity
31 capital is drawn upon, it may be replenished from future Securitization Charges. CEI
32 South has requested that it be entitled to receive a return on its equity contribution
33 equal to its Weighted Average Cost of Capital ("WACC"). This equity return would be

1 paid as an ongoing cost from the Securitization Charges collected and would be
2 distributed to CEI South on an annual basis, after payment of debt service on the
3 securitization bonds and ongoing costs.
4

5 **Q. Please detail CEI South's revenue forecasts which will be used by the rating**
6 **agencies in forming their rating.**

7 A. CEI South utilizes a combination of statistically adjusted end use models coupled with
8 econometric and historical data to build regression models for residential and
9 commercial customer forecasts. These regressions are used to calculate a forecast
10 that is coupled with CEI South's customer counts. The industrial sector is based on
11 historical data coupled with specific customer changes provided by CEI South's
12 industrial sales group.
13

14 **Q. Will the rating agencies consolidate or group the SPE's issuance of**
15 **securitization bonds with CEI South's other debt for credit evaluation purposes?**

16 A. No. We expect the SPE and its issuance of securitization bonds will be considered off-
17 credit by the rating agencies when determining the creditworthiness of CEI South. Off-
18 credit means that the rating agencies will not consider the securitization bonds issued
19 under this Financing Order to be a credit obligation of CEI South for credit rating
20 purposes. In general, securitization is considered a credit positive because it allows
21 the utility to receive proceeds up-front while providing long-term savings to customers
22 and reducing bill impact.
23

24 **Q. Will debt issued under the proposed Financing Order affect the financial**
25 **flexibility of CEI South?**

26 A. No. The off-credit nature of the financing means it will not impact any credit analysis
27 performed by the rating agencies. We expect that any Generally Accepted Accounting
28 Principles ("GAAP") consolidation of the SPE financials will be removed by the rating
29 agencies when performing their credit analysis of CEI South. Therefore, CEI South's
30 financial flexibility will not be impacted by the issuance of securitization bonds under
31 the Financing Order.
32

33 **Q. Do you believe that the credit enhancements discussed and terms of the**

1 **Securitization Act are sufficient for the securitization bonds to receive a AAA**
2 **rating from the rating agencies?**

3 A. Yes, based on discussions with Barclay's, CEI South's advisor, CenterPoint Energy,
4 Inc. experience, research, and preliminary discussions, I believe the Securitization Act,
5 the proposed Financing Order, and securitization transaction structure outlined above
6 should qualify for a AAA rating.

7

8

9 **V. ISSUANCE & ONGOING ADMINISTRATION OF THE SECURITIZATION BONDS**

10

11 **Q. What are the anticipated costs incurred to issue and maintain the securitization**
12 **bonds?**

13 A. Securitization bonds incur up-front costs to issue the securitization bonds, similar to
14 any public debt capital market issuance. These include Securities and Exchange
15 Commission ("SEC") registration fees, underwriting fees, rating agency fees, legal,
16 accounting and auditing expenses, and others described below. In addition, due to
17 the credit-enhancing structure of utility securitizations, there will be ongoing costs to
18 service and administer the securitization bonds. Please note that with only a few
19 exceptions, the level of up-front and ongoing costs will be directly affected by factors
20 that are outside of CEI South's control. In many cases, these costs depend on, and
21 will necessarily reflect, the size of the securitization bond offering, the complexity of
22 the offering and the market conditions at the time of bond issuance. In Petitioner's
23 Exhibit No. 2, Attachment BAJ-1, CEI South has made good faith estimates of these
24 costs based on certain assumptions described below.

25

26 **Q. Please describe the expert support costs expected to be incurred in the course**
27 **of the securitization process.**

28 A. CEI South expects to incur costs to engage experts and to provide support in the field
29 of securities and securitization bond issuances, tax, decommissioning studies, rates,
30 and legal. We estimate these costs will be \$885,000 and are included in Petitioner's
31 Exhibit No. 2, Attachment BAJ-1.

32

33 **Q. Please describe the up-front costs.**

- 1 A. CEI South estimates that up-front costs incurred will be approximately \$4.7 million, as
2 documented in Petitioner's Exhibit No. 2, Attachment BAJ-1. This estimate is
3 grounded in CenterPoint Energy, Inc.'s experience, precedent transactions,
4 consultation with Barclays (the CEI South's advisor), and publicly available
5 information.
- 6 • The SEC registration fee is assumed to be \$92.70 per million dollars of
7 principal amount of securitization bonds issued. The SEC sets the registration
8 fee annually; the registration fee is required to be paid by the issuer to register
9 a public offering of securities with the SEC.
 - 10 • The underwriting discount is a fee paid to investment banks and other financial
11 broker dealers to underwrite and sell the securitization bonds. The discount
12 assumption is based on precedent transactions. The structuring fee is paid to
13 Barclay's, CEI South's advisor, for providing financial advisory services.
 - 14 • Rating agency fees are paid to the agencies (S&P Global Ratings, Moody's
15 Investors Services) to review and assess a credit rating for the securitization
16 bonds. The fees are a fixed percentage, subject to a minimum amount, of the
17 principal amount of securitization bonds issued. There are up-front and
18 ongoing surveillance fees.
 - 19 • Legal fees include expenses paid to outside counsel for advising the utility,
20 underwriters, trustees, etc. on and drafting of legal contracts and agreements,
21 including SEC registration statements, underwriting agreements,
22 Securitization Property sale agreements, indenture, servicing agreements, and
23 other organizational documents.
 - 24 • Accounting and auditing fees are costs associated with services provided by
25 CEI South's external, independent auditor. There are up-front and ongoing
26 audit fees.
 - 27 • Indenture trustee fees will be paid to the indenture trustee, who will perform
28 investment, paying, record keeping, remittance and other services. There are
29 up-front and ongoing trustee fees.
 - 30 • Printing and filings expenses are incurred to print and file the preliminary and
31 final prospectuses and other marketing materials for the securitization bonds
32 offering

- 1 • Other costs include the expenses to form the SPE and Servicer set-up costs.
2 These costs are incurred to create the foundation to manage and operate the
3 SPE and service the securitization bonds.
4

5 **Q. Please describe the ongoing costs to maintain the securitization bonds.**

6 A. In order to make interest and principal payments on the securitization bonds, comply
7 with indenture requirements and fulfill other obligations, CEI South or the SPE will
8 incur ongoing costs. These expenses will be paid by collections of Securitization
9 Charges from customers.

- 10 • The annual servicing fee compensates CEI South for its obligations as
11 Servicer. These include managing collections and remittances, applying for
12 true-up filings, submitting filings to the SEC, and preparing all required
13 compliance reports. CEI South proposes an annual fee equal to 0.05% of the
14 initial aggregate principal amount of the securitization bonds, plus
15 reimbursement of any third-party expenses so long as CEI South or an affiliate
16 is acting as Servicer. This rate is consistent with precedent transactions.
- 17 • The annual administrative fee compensates CEI South for reasonable costs
18 associated with operating the SPE, including corporate maintenance, reporting
19 and internal accounting functions. CEI South proposes an annual fee equal to
20 \$75,000, plus reimbursement of any third-party expense.
- 21 • Rating agencies surveillance fees will continue through the life of the
22 securitization bonds to monitor the rating of the bonds.
- 23 • CEI South will make a capital contribution in connection with formation of the
24 SPE and closing of the securitization bond offering, and proposes a return on
25 its capital contribution equal to WACC. This return will compensate CEI South
26 for investing the capital and provide a return in line with its opportunity costs –
27 this capital will remain deposited with the indenture trustee for the life of the
28 securitization bonds and unable to be invested in CEI South's capital program.
29 We expect the aggregate amount of the capital contribution to be equal to 0.5%
30 of the initial aggregate principal amount of securitization bonds issued.
- 31 • The ongoing indenture trustee fee will compensate the indenture trustee for
32 certain responsibilities under the indenture including investing collections,

1 maintaining the record of bond holders, and remitting interest and principal
2 payments to bondholders.

- 3 • Ongoing audit fees cover activities provided by CEI South's independent
4 auditor to periodically review and provide reports on the SPE.
- 5 • Other costs include independent manager fees and other miscellaneous fees
6 incurred in the ongoing operations and management of the SPE.

7

8 **Q. Please describe the role of Servicer in more detail.**

9 A. Securitization bonds require ongoing activities to comply with the terms of the
10 indenture, and a Servicer is appointed as agent for the SPE to manage, service,
11 administer and make collections in respect to the Securitized Property. These duties
12 include calculating and billing Securitization Charges, collecting payments of
13 Securitization Charges from customers, accounting for collections, providing certified
14 calculations and other information, making regulatory filings and ensuring compliance
15 with the Financing Order. As stated above, precedent transactions support an annual
16 fee of 0.05% of the initial aggregate principal amount of securitization bonds issued,
17 as well as an administrative fee, if CEI South, or an affiliate, provides this ongoing
18 service, payable on a semiannual basis. In the event of a Servicer default, or if the
19 Servicer is otherwise unable to carry out the Servicer's duties, the bond trustee is
20 typically allowed to appoint a replacement, or Successor Servicer, for which a higher
21 fee might have to be paid relative to the Servicer fee previously discussed. Successor
22 Servicer fees in past utility securitizations have generally been pre-approved up to
23 approximately 0.60% of the initial aggregate principal amount of securitization bonds
24 issued. The difference in compensation reflects the potential cost and difficulty of
25 securing a Successor Servicer that is not already involved in the customer billing and
26 collection process. CEI South proposes a higher annual servicing fee consistent with
27 market conditions at the time if a third party replaces CEI South as Servicer (with the
28 flexibility to pay a higher fee if necessary), updated in the true-up filing; however, CEI
29 South proposes that it may not resign from its duties as Servicer unless i) it may no
30 longer do so under applicable law or ii) the Commission provides consent and the
31 rating agencies confirm that the resignation will not result in a suspension, reduction
32 or withdrawal of the then-current ratings on the securitization bonds. To date I am not
33 aware of any utility securitization where the Servicer has been replaced.

1

2 **Q. Please describe the administrative services to be provided by CEI South to the**
3 **SPE.**

4 A. The SPE will not have any employees, and therefore CEI South proposes to fulfill the
5 role of administrator under the Administration Agreement. Under the Administration
6 Agreement, CEI South will provide certain administrative services, including corporate
7 reporting and internal accounting, plus hiring third parties to provide independent
8 management, legal, printing, trustee, auditing, and certain other services. The
9 retention of an independent manager is necessary to satisfy bankruptcy-remoteness
10 requirements. CEI South proposes an annual administrative fee of \$75,000, plus
11 reimbursement for any third-party expenses, which is consistent with administration
12 fees in other recent utility securitization transactions. This administrative fee will be
13 collected as Securitization Charges collections and remitted to the indenture trustee
14 by the Servicer and included in the ongoing costs. CEI South will be paid the
15 administrative fee in two installments on a semiannual basis on each payment date of
16 the securitization bonds.

17

18 **Q. Please describe the basic documents that would be used in the securitization.**

19 A. There are several basic contracts that will be signed in connection with issuance of
20 the securitization bonds. Those basic agreements are: (1) Servicing Agreement; (2)
21 Administration Agreement; (3) Securitization Property Purchase and Sale Agreement;
22 (4) Amended & Restated LLC Agreement; and (5) Indenture (between the SPE and
23 the Indenture Trustee). Copies of drafts of these agreements are submitted as
24 Attachments BAJ-7 through BAJ-11. As with all major transactions, there can be
25 modifications to the basic draft agreements up through the ratings process and until
26 the closing on the issuance of the securitization bonds; however, I expect that the core
27 terms of the executed agreements will not change substantially from those set forth in
28 these draft agreements and any changes would not be expected to result in increased
29 costs. The first three of these agreements are agreements between CEI South and
30 the SPE which will be a wholly owned subsidiary of CEI South. The Amended &
31 Restated LLC Agreement will be signed by CEI South as the sole member of the SPE
32 and will govern the conduct and governance of the SPE. We will submit the final
33 versions of these agreements when we submit the final Issuance Advice Letter.

1 Because all aspects of the securitization transaction must be insulated from collateral
2 attack in order to achieve the AAA rating on the securitization bonds, we are seeking
3 an Order in this Cause that these affiliate agreements are in the public interest and
4 that our submission of these draft agreements now and the final agreements with the
5 Issuance Advice Letter satisfies CEI South's obligations under Ind. Code § 8-1-2-
6 49(2).

7

8 **Q. How will CEI South calculate the revenue requirement for bond payments?**

9 A. CEI South will estimate the periodic revenue requirement for an upcoming collection
10 period (period covering the next two upcoming bond payments), consisting of any
11 scheduled principal and interest payments, amounts to cover the ongoing costs
12 detailed above, taxes, and any amount needed to replenish the capital subaccount to
13 its required level. Any excess funds collected in prior periods will offset this periodic
14 revenue requirement. In addition, the revenue requirement will be adjusted for any
15 projected over- or under-recovery of costs in the collection period that will be
16 completed at the time of the true-up adjustment.

17

18 Petitioner's Exhibit No. 2, Attachment BAJ-2 provides a forecast for the annual
19 revenue requirement over the proposed 15-year expected life of the securitization
20 bonds. Annually, CEI South proposes to recover revenues to retire principal, pay
21 interest on the outstanding principal amount, and pay ongoing costs. On an annual
22 basis, CEI South estimates the revenue requirement to be approximately \$32.9 million.

23

24

25 **VI. USE OF PROCEEDS**

26

27 **Q. Once CEI South receives proceeds from the securitization bonds, how will CEI
28 South use the proceeds?**

29 A. The immediate use of the proceeds of the authorized securitization bonds will be to
30 reimburse CEI South for Qualified Costs, as reflected in the journal entry sponsored
31 by CEI South Witness Harper. With the removal of the assets to be retired that are
32 currently included in CEI South's rate base, CEI South will reduce its proportional
33 capitalization. Upon receipt of the proceeds from the securitization bond offering upon

1 the sale of the Securitization Property to the SPE, CEI South will i) in the short term,
2 reduce capitalization in line with retired generation property, and ii) in the long term,
3 reinvest the proceeds in capital investments as further described by Witness Leger.
4

4

5 **Q. Please describe any debt or equity securities to be refinanced or retired,**
6 **including any estimated redemption premiums, if any.**

7 A. CEI South's debt capitalization consists of a combination of tax-exempt securities, first
8 mortgage bonds, and intercompany promissory notes. After the net proceeds of the
9 securitization bond offering are received, CEI South will retire debt at the lowest friction
10 cost available so as to minimize costs. CEI South will retire intercompany promissory
11 notes which can be redeemed at par with no premium. In addition, CEI South may
12 redeem certain tax-exempt securities as these loans funded projects associated with
13 the Brown Units 1 & 2 property being retired. These securities include:

- 14 • \$22,500,000 2013D Environmental Improvement Refunding Revenue Bonds
15 due 2024
- 16 • \$22,300,000 2014A Indiana Finance Authority Environmental Improvement
17 Refunding Bonds due 2044

18 The indentures of these tax-exempt securities contain an optional redemption
19 provision allowing for a redemption at par upon the occurrence of extraordinary events,
20 which includes when the continued operation of the Brown Units 1 & 2 plant is
21 impracticable, uneconomic or undesirable for any reason. CEI South will evaluate the
22 redemption of these securities based on the impact to CEI South's cost of capital
23 versus alternatives.
24

24

25 CEI South's equity capitalization consists solely of capital stock wholly owned by its
26 parent company, Vectren Utility Holdings, Inc. No equity securities are expected to be
27 refinanced or retired in connection with the securitization bond offering. CEI South
28 may issue a one-time dividend to its parent company in order to reduce its equity
29 capitalization in line with the rate base reduction.
30

30

31 There are no previously issued securitization bonds for CEI South to retire.
32

32

33 **Q. What long-term capital investments will the Company make?**

1 A. CEI South will invest the remainder of the net proceeds of the securitization bond
2 offering in capital projects in Indiana as described in more detail by Petitioner's
3 Witness Richard Leger.

4

5

6 **VII. CUSTOMER SAVINGS**

7

8 **Q. Have you conducted the Net Present Value analysis required by the**
9 **Securitization Act?**

10 A. Yes, I have addressed the following requirements:

- 11 • Ind. Code § 8-1-40.5-10(c)(2): Schedule comparing the NPV of the total of the
12 proposed Securitization Charges with the NPV of the recovery of the Qualified
13 Costs through traditional ratemaking, over a period not to exceed 20 years. Please
14 see Petitioner's Exhibit 2, BAJ-3 for the NPV analysis.
- 15 • Ind. Code § 8-1-40.5-10(c)(11): Provide schedules and supporting documentation
16 for estimate numbers relied upon to support the case-in-chief, including all
17 assumptions used in any NPV calculation. Please see Petitioner's Exhibit 2, BAJ-
18 4 for schedules and supporting documentation of the NPV analysis.

19

20 **Q. How did you quantify the recovery of Qualified Costs through traditional**
21 **ratemaking?**

22 A. CEI South calculated the revenue requirement associated with traditional ratemaking,
23 using conservative assumptions, by calculating the estimated Brown Units 1 & 2 year-
24 end rate base for the years 2023-2033 and applied CEI South's current pre-tax rate of
25 return to establish the annual return on rate base. This was added to depreciation and
26 the amortization of the regulatory asset described by Company Witness Ryan Harper
27 to calculate the annual revenue requirement if CEI South did not pursue securitization.
28 The traditional ratemaking scenario also assumes that no new capital is spent on
29 Brown Units 1 & 2 to remain in operation.

30

31 **Q. How did you quantify the revenue requirement associated with securitization?**

32 A. As described above, the revenue requirement is equal to the annual principal
33 payments, interest payments, and ongoing costs to service the securitization bonds

1 over the proposed 15-year scheduled final payment date. If the securitization bond
2 payment occurs after the 15-year scheduled final payment and before the 17-year
3 legal final maturity date, additional revenue would be required but not expected.
4

5 **Q. Why do you assume and propose a 15-year scheduled final payment date for the**
6 **securitization bonds?**

7 A. When issuing securitization bonds, we must weigh the cost to customers, total interest
8 paid by customers and the generational impact the bonds can have.

- 9 • Annual cost to customers: by issuing longer-term securitization bonds, the
10 recovery amount can be spread over more years and decrease the annual amount.
11 This can help manage the financial impact for CEI South's customers.
- 12 • Total interest paid: the longer the securitization bonds are outstanding, the more
13 aggregate interest customers will pay.
- 14 • Generational impact: the securitization bonds can be issued for a legal maturity of
15 up to 20 years. However, the securitization bonds are being issued to finance the
16 retirement of generation assets that will not operate in the future. Though it is
17 important to provide savings to customers, the longer the term the greater the
18 likelihood for intergenerational inequity.

19
20 Per the comparison in the table shown in Attachment BAJ-4, we analyzed the expected
21 transaction capital structure by running the same tranching structure across three
22 different cashflow tenors, 1) 10-years, 2) 15-years and 3) 18-years (with 12-years, 17-
23 years, and 20-years to legal maturity, respectively). The structures with shorter
24 cashflow tenors benefit from the lowest weighted average bond coupons and lower
25 total interest paid as a whole. On the other hand, the 18-year structure allows for
26 cashflows to be discounted over a longer period of time, and for a given discount rate,
27 will typically result in the lowest net present value of costs.

28
29 Based on these factors, I recommend a 15-year maturity period. As demonstrated in
30 Mr. Rice's testimony, this reduces the bill impact on CEI South's customers versus
31 traditional ratemaking, manages the total interest paid over the life of the securitization
32 bonds, and manages generational issues for future customers by limiting the expected
33 recovery period to 15 versus 18 years.

Table BAJ-3: Sensitivity Analysis

	Structure #1	Structure #2	Structure #3
Expected Cashflow Length	10 years	15 years	18 years
Legal Maturity	12 years	17 years	20 years
Class Sizes (\$mm)			
Class A-1:	180.00	180.00	180.00
Class A-2:	170.13	170.13	170.13
Weighted Average Life			
Class A-1:	3.17 years	4.97 years	6.15 years
Class A-2:	8.13 years	12.33 years	14.93 years
Total:	5.58 years	8.55 years	10.42 years
Indicative Weighted Average Coupon			
Class A-1:	3.83%	4.19%	4.24%
Class A-2:	4.39%	4.58%	4.73%
Total:	4.23%	4.46%	4.58%
Transaction Costs			
NPV of Cost	~\$266.3	~\$249.4	~\$241.4
NPV of ADIT Benefit to Customers	~\$15.1	~\$20.9	~\$23.8
NPV of Cost Savings vs. Traditional ratemaking	~\$34.8	~\$57.5	~\$68.4

1

2 **Q. Will customers benefit from the securitization over traditional ratemaking**
3 **recovery?**

4 A. Yes. The cost to customers on a present value basis of recovering the total
5 Securitization Charges (estimated to be approximately \$249 million, reduced further
6 by approximately \$21 million for the ADIT credit) will be less than the amount that
7 would be recovered through traditional ratemaking methods if the Qualified Costs were
8 included in CEI South's net original cost rate base and recovered over a period of not
9 more than twenty (20) years (estimated to be approximately \$286 million). Petitioner's
10 Exhibit No. 2, Attachment BAJ-3 demonstrates the net financial benefit for customers.

11

12 **Q. What assumptions have you included in your traditional ratemaking analysis?**

13 A. The analysis assumes recovery of depreciation and return for Brown Units 1 & 2
14 through 2033, which is an extremely conservative assumption. Witness Thayer
15 describes the original cost, accumulated depreciation, and cost of removal reserve.
16 Witness Harper describes the regulatory asset. The pre-tax rate of return used to
17 calculate the return on rate base is 9.29%, and is further discussed below.

18

19 **Q. What assumptions have you included in your securitization financing analysis?**

1 A. The securitization analysis assumes a 15-year scheduled final payment date for the
2 securitization bonds and a weighted average coupon rate of 4.46%. This coupon is an
3 indicative, point in time estimate and assumes a credit spread of 140 basis points for
4 the first tranche and 175 basis points for the second as shown in Table BAJ-2. I view
5 these credit spreads as conservative at this time. Between now and pricing the deal,
6 CEI South will continue to monitor market conditions and the impact on both Treasury
7 rates and credit spreads.

8

9 **Q. Can you quantify the expected customer savings associated with the issuance
10 of securitization bonds?**

11 A. By issuing the securitization bonds for the Qualified Costs, customers will avoid the
12 cost of traditional ratemaking, including the capital return on the decommissioned
13 plant. In addition, the Qualified Costs are spread over 15 years versus the 10 year
14 assumption with traditional ratemaking, which decreases the annual impact on
15 customer's bills.

16

17 **Q. What evidence do you provide supporting the assumptions?**

18 A. Please see Petitioner's Exhibit No. 2, Attachment BAJ-4 for support of all assumptions
19 utilized in the analysis. In addition, there is a schedule that compares this analysis's
20 assumptions with precedent transactions.

21

22 **Q. What cost of capital did you use in the analysis comparing securitization versus
23 traditional utility financing?**

24 A. The cost of capital used in the analysis reflects the CEI South's pre-tax WACC
25 calculated with pre-tax debt and equity components only as of December 31, 2021.
26 These balances were filed with the Commission in the Clean Energy Cost Adjustment
27 ("CECA") Cause No. 44909 CECA 4. The pre-tax WACC of 9.29% is used to calculate
28 the rate of return in the traditional ratemaking analysis as well as used as the discount
29 rate for the NPV analysis.

30

31 **Q. How did you treat deferred taxes for discount rate purposes?**

32 A. Instead of including the deferred taxes as cost-free capital in the WACC calculation,
33 deferred taxes are subtracted from rate base in the NPV analysis. Since the deferred

1 tax balance changes on an annual basis, including deferred taxes in the WACC would
2 have required a different discount rate for each year of the NPV analysis. Subtracting
3 deferred taxes from rate base simplifies the analysis and still includes the impact of
4 this cost-free capital.

5

6 **Q. Why is this traditional utility financing cost of capital appropriate for the**
7 **analysis?**

8 A. In order to properly compare the benefit of securitization to customers, the NPV
9 analysis should include the full return on and of rate base otherwise required if the
10 assets were to remain after 2023. This includes the allowed cost of capital previously
11 authorized by the Commission. Since the pre-tax WACC is used to calculate the
12 traditional ratemaking revenue requirement, it is logical to use the same rate as the
13 discount rate to arrive at the net present value of customer savings.

14

15 **Q. In summary, do you believe customers will experience savings by issuing**
16 **securitization bonds compared with traditional utility financing?**

17 A. We estimate that securitization would result in overall savings to consumers in the
18 amount of \$57.5 million on a net present value basis. Petitioner's Witnesses Rice and
19 Zarumba discuss the approach to crediting these savings to consumers by rate class.
20 This assumes that issuance of the securitization bonds would be February 28, 2023.
21 As explained by Witness Harper, to the extent the actual issuance is later than that
22 date, it would cause relative Qualified Costs (all else being equal) to be approximately
23 \$ 2.0 million per month less. Our final Issuance Advice Letter will have the actual
24 closing date of the Securitization Bonds. The updated net present value analysis will
25 reflect the actual Qualified Costs; however, any delay from February 28, 2023 for bond
26 issuance will not cause the net present value of the Securitization Charges to exceed
27 the net present value under traditional ratemaking.

28

29

30 **VIII. ISSUANCE ADVICE LETTER**

31

32 **Q. What is an Issuance Advice Letter?**

33 A. Because the actual structure and pricing of the securitization bonds are unknown until

1 pricing and issuance, CEI South proposes to file with the Commission an Issuance
2 Advice Letter. The Issuance Advice Letter will contain the final pricing terms and
3 updated estimates of up-front and ongoing financing costs. Importantly, the Issuance
4 Advice Letter will confirm that the securitization bonds to be issued are consistent with
5 the Financing Order and the Securitization Act.

6

7 **Q. Have you provided a form of the Issuance Advice Letter?**

8 A. Yes, Petitioner's Exhibit No. 2, Attachment BAJ-5 provides the form of the proposed
9 Issuance Advice Letter.

10

11 **Q. When would CEI South provide the Issuance Advice Letter to the Commission?**

12 A. Following a Financing Order in this Cause, CEI South proposes to provide a copy of
13 the draft Issuance Advice Letter to the Commission no later than two weeks before
14 pricing the securitization bonds. We expect that this draft Issuance Advice Letter will
15 reflect then-market conditions and include any credit-enhancements that are required
16 by rating agencies to achieve the desired securitization bond ratings. CEI South would
17 then provide a copy of the final Issuance Advice Letter within 3 business days after
18 pricing the securitization bonds to provide the final terms and pricing Commission an
19 opportunity to review and reject, no later than noon on the 4th business day after
20 pricing, the Issuance Advice Letter if the securitization bonds about to be issued are
21 inconsistent with the Financing Order in this Cause or the Securitization Act. Absent
22 a rejection of the Issuance Advice Letter by the Commission, the securitization bonds
23 would close on the 5th business day after pricing.

24

25 In addition, we will keep the Commission apprised of the pricing process and invite the
26 Commission to appoint a representative (either a Commissioner or a senior staff
27 member) to observe the pricing discussions. Because pricing will occur after the
28 appeal period has run on the Order in this Cause, the Commission's *ex parte* rules
29 (170 IAC 1-1.5-1 *et seq.*) will not be implicated, however, that process would need to
30 remain confidential.

31

32 **Q. The Securitization Act provides a period of ninety (90) days after the date the**
33 **Financing Order becomes final and non-appealable in which CEI South must**

1 **issue the securitization bonds or file with the Commission a statement of**
2 **abandonment; except that CEI South may seek an extension of the 90-day**
3 **period. Does CEI South expect to issue the securitization bonds within ninety**
4 **(90) days after the date of the final, non-appealable Financing Order?**

5 A. It is CEI South's intention to pursue marketing and issuance of the securitization bonds
6 within the 90-day period. If the marketing will exceed 90 days following the expiration
7 of the appeal period after the Financing Order is issued, we will seek an extension
8 from the Commission within the appropriate time frame under the Securitization Act.

9

10

11 **IX. FINANCING ORDER**

12

13 **Q. Has CEI South included a proposed order with its application?**

14 A. Yes, attached as Petitioner's Exhibit No. 2, Attachment BAJ-6 is a proposed Financing
15 Order that CEI South requests the Commission approve and adopt as its final decision
16 and Financing Order.

17

18 **Q. What are the key requirements included in the Financing Order?**

19 A. The Financing Order must include the amount of Qualified Costs to be recovered by
20 the electric utility and the period over which Securitization Charges are to be collected,
21 which may not exceed twenty (20) years. In addition, the Financing Order, along with
22 elements from the Securitization Act, provide the foundation for the very high credit
23 rating expected on the securitization bonds by ensuring that Securitization Charges
24 will produce adequate revenue to meet all interest, principal and ongoing cost
25 payments on the securitization bonds, even under stressed conditions. Some
26 significant terms in the Financing Order include the irrevocability of the order, non-
27 impairment pledge of both the State and Commission, nonbypassability for the
28 Securitization Charges, and the true-up mechanism to correct any under/over
29 collections. The precise language of the Financing Order is critical to obtaining the
30 high credit rating and that is why, in compliance with the Commission's Rules, we have
31 provided a form of Financing Order that contains that critical language. In addition, the
32 Financing Order is formatted in such a way as to make it marketable, so CEI South
33 recommends retaining the organizational features of the Financing Order as proposed

1 (e.g., including an Executive Summary up front), even where they may differ from more
2 traditional Orders of the Commission.

3

4

5 **X. CONCLUSION**

6

7 **Q. Does this conclude your prepared direct testimony?**


8 **A. Yes, it does.**

9

VERIFICATION

I affirm under penalties for perjury that the foregoing representations are true to the best of my knowledge, information, and belief.

SOUTHERN INDIANA GAS AND ELECTRIC
COMPANY D/B/A CENTERPOINT ENERGY
INDIANA SOUTH



Brett Jerasa, Director and Assistant Treasurer

5/10/2022

Date

Petitioner's Exhibit No. 2, Attachments BAJ-1 through
BAJ-4 provided in Excel format

[APPENDIX __]
[FORM OF ISSUANCE ADVICE LETTER]
[SUBMITTED FOR INFORMATION ONLY PURPOSES]

[, 202_]

VIA ELECTRONIC FILING

[IURC Address]

SUBJECT: ISSUANCE ADVICE LETTER FOR SECURITIZATION BONDS

Pursuant to the Financing Order adopted by the Indiana Utility Regulatory Commission (the "Commission") on the ___ day of ___, 202___, in Docket No. _____, *Petition of Southern Indiana Gas and Electric Company d/b/a CenterPoint Energy Indiana South for the Recovery of Qualified Costs for Retired Electric Utility Generation Assets* (the "Financing Order"), SOUTHERN INDIANA GAS AND ELECTRIC COMPANY d/b/a CENTERPOINT ENERGY INDIANA SOUTH ("CEI South" or the "Company") submits, no later than ___ [hours/days] after the pricing date for the offering of the Securitization Bonds authorized in the Financing Order, this Issuance Advice Letter to report certain terms and information related to the Securitization Bonds Series ___, Tranches ___. Any capitalized terms not defined herein shall have the meanings ascribed to them in the Financing Order, [170 IAC 4-10], and [IC ch. 8-1-40.5].

PURPOSE

This filing establishes the following:

- (1) The total principal amount and calculation of the Securitization Bonds to be issued ("Authorized Amount");
 - (2) The final terms and structure of the Securitization Bonds, including a description of any credit enhancement, the final estimated Securitization Bond issuance costs (including the costs of issuing, supporting and servicing Securitization Bonds, and costs of retiring and refunding the Company's existing debt and equity securities in connection with the issuance of the Securitization Bonds, if any), and the final estimates of ongoing costs for the first year following issuance of the Securitization Bonds;
 - (3) A calculation of projected customer savings relative to traditional ratemaking resulting from the issuance of the Securitization Bonds;
 - (4) The amount of initial Securitization Bond Charges to customers; and
 - (5) Identification of the Special Purpose Entity ("SPE").
-

COMPLIANCE WITH ISSUANCE STANDARDS

The Financing Order requires the Company to confirm, using the methodology approved therein, that the actual terms of the Securitization Bonds result in compliance with the Financing Order. The Company certifies that the following are true:

- (1) The issuance of Securitization Bonds and imposition and collection of Securitization Charges as authorized in the Financing Order provide quantifiable benefits to customers as compared to the costs that would have been incurred absent the issuance of Securitization Bonds;
- (2) The issuance of Securitization Bonds resulted in reasonable terms that will comply with the requirements of the Financing Order.
- (3) The aggregate principal amount of Securitization Bonds issued does not exceed the total amount of Qualified Costs authorized to be securitized in the Financing Order;
- (4) The Securitization Bonds will be issued in one or more tranches having scheduled final payment dates of up to ___ years and legal final maturities not exceeding 20 years from the date of issuance of the Securitization Bonds;
- (5) The Securitization Bonds have received a rating of Aaa(sf) or AAA(sf) from at least two rating agencies; and
- (6) The Securitization Bonds are structured to achieve substantially level debt service on an annual basis.
- (7) _____

1. PRINCIPAL AMOUNT OF SECURITIZATION BONDS ISSUED (“AUTHORIZED AMOUNT”)

The total amount of Qualified Costs, other costs approved by the Commission, issuance costs being financed (the “Authorized Amount”) is presented in Attachment 1.

2. DESCRIPTION OF FINAL TERMS OF SECURITIZATION BONDS

Set forth below is a summary of the final terms of the Securitization Bond Issuance.

Securitization Bond Title and Series: _____

Trustee:

Closing Date: _____, 202__

Bond Ratings: [S&P ____; Moody's ____]

Amount Issued (Authorized Amount): \$ _____

Securitization Bond Issuance Costs: See Attachment 1, Schedule B.

Securitization Bond Ongoing Financing Costs: See Attachment 2, Schedule B.

Tranche	Coupon Rate	Scheduled Final Maturity Date	Legal Final Maturity Date
	%	/ /	/ /
	%	/ /	/ /
	%	/ /	/ /

Effective Annual Weighted Average Interest Rate of the Securitization Bonds:	_____ %
Weighted Average Life of Series:	_____ years
Call provisions (including premium, if any):	
Expected Sinking Fund Schedule:	Attachment 2, Schedule A
Payments to Bondholders:	Semiannually Beginning _____, _____

3. CALCULATION OF PROJECTED SAVINGS

The weighted average interest rate of the Securitization Bonds [(excluding costs of issuance and ongoing costs)] is less than [_____]%, accordingly, the proposed structuring, expected pricing, and financing costs of the Securitization Bonds are reasonably expected to result in substantial revenue requirement savings as compared to traditional methods of financing. The net present value of the savings, which will avoid or mitigate rate impacts as compared to conventional methods of financing the qualified costs, is estimated to be \$ _____ (see Attachment 3, Schedule A), based on an effective annual weighted average interest rate of ____% for the Securitization Bonds.

Attachment 3, Schedule B provides a comparison between the net present value of costs to customers that are estimated to result from the issuance of Securitization Bonds and the costs that would result from the application of the traditional ratemaking.

4. INITIAL SECURITIZATION BOND

The initial Securitization Charge (the "Initial Charge") has been calculated in accordance with the methodology described in the Financing Order and based upon the structuring and pricing terms of the Securitization Bonds set forth in this Issuance Advice Letter. The Company will recover Qualified Costs through a new tariff, the Securitization of Coal Plants ("SCP"). The SCP tariff will include a volumetric charge based on energy usage and apply to all customers. The table below provides the revenue requirement, projected customer sales, and the volumetric rate by customer class. The securitization charge is calculated assuming securitization of the Qualified Costs over the life of the Securitization Bonds. Attachment 4 provides the revenue requirements for calculating the Initial Charge.

Tariff Class	SCP Charge Allocated to Each Tariff Class	Apr 2023-Mar 2024 Effective kWh Sales Forecast ¹	Proposed SCP Charge (\$/kWh)
RS (RS-S and RS-T)	\$		\$
B	\$		\$
SGS	\$		\$
DGS	\$		\$
OSS	\$		\$
LP/Other Large/BAMP/HLF	\$		\$
Street Lighting	\$		\$
Total	\$		

1 Accounts for Rate Divisor Gross-up Factor

5. IDENTIFICATION OF SPE

The owner of the Securitization Property (the "SPE") will be: [XYZ], a Delaware limited liability company with CEI South as its sole member.

EFFECTIVE DATE

In accordance with the Financing Order, the offering of the Securitization Bonds and related transactions may close and the Initial Securitization Charge will take effect unless **a notification not to proceed is received from the Commission prior to noon on [,202_] (4 of the offering of the Securitization Bonds)**; and the Company, as servicer, or any successor servicer and on behalf of the trustee as assignee of the SPE, is required to apply at least annually for mandatory periodic adjustment to the Securitization Charges. The Initial Securitization Charge shall remain in effect until changed in accordance with the provisions of Ordering Paragraph __ of the Financing Order.

1

AUTHORIZED OFFICER

The undersigned are officers of the Company and authorized to deliver this Issuance Advice Letter on behalf of the Company.

Respectfully submitted,

SOUTHERN INDIANA GAS AND ELECTRIC COMPANY
d/b/a CENTERPOINT ENERGY INDIANA SOUTH

By: _____
Name: _____
Title: _____

ATTACHMENT 1
SCHEDULE A
CALCULATION OF AUTHORIZED AMOUNT

Brown 1 & 2 Original Cost	\$
Accumulated Depreciation (excluding Cost of Removal)	\$
Cost of Removal	\$
Regulatory Asset	\$
Estimated Total Cost to Decommission, Demolish and Restore Site	\$
Witness Support Costs	\$
Estimated Costs to Issue, Support and Service the Securitization Bonds	\$
Investment Tax Credits	\$
Taxes Related to Recovery of Securitization Charges	\$
Costs of Retiring and Refunding Existing Debt and Equity Securities	\$
Total Securitization Bond Issuance (rounded up)	\$

ATTACHMENT 1
SCHEDULE B
ESTIMATED ISSUANCE COSTS

Underwriters' Fees and Expenses	\$
Witness Support Fees	\$
Legal Fees and Expenses	\$
SEC Registration Fees	\$
Rating Agency Fees	\$
Printing / Edgarizing Costs	\$
Bond Trustee Fees and Expenses	\$
Accounting Fees and Expenses	\$
SPE Organizational Costs	\$
Servicer Set-up Costs	\$
Original Issue Discount	\$
Commission's Costs and Expenses	\$
TOTAL ESTIMATED UP-FRONT FINANCING COSTS	\$

ATTACHMENT 2
SCHEDULE B
ESTIMATED ONGOING FINANCING COSTS

	Annual Amount
Servicing Fee ¹	\$
Administration Fee	\$
Accounting Fees	\$
Legal Fees	\$
Bond Trustee's / Bond Trustee's Counsel Fees and Expenses	\$
Independent Manager Fees	\$
Rating Agency Fees	\$
Printing/Edgarizing Fees	\$
Return on Equity	\$
Miscellaneous Fees and Expenses	\$
TOTAL ESTIMATED ANNUAL ONGOING FINANCING COSTS	\$

Note: The amounts shown for each category of ongoing Financing Costs in this attachment are the expected costs for the first year of the Securitization Bonds. Securitization Charges will be adjusted at least annually to reflect the actual ongoing Financing Costs through the true-up process described in the Financing Order, [except that the Administration Fee is fixed and the Servicing Fee is fixed as long as the Company (or any affiliate) is the Servicer].

ATTACHMENT 3
SCHEDULE A
BENEFITS VERSUS TRADITIONAL FINANCING

	Traditional Financing	Securitization Bond Financing	Savings/(Cost) of Securitization Bond Financing
Present Value	\$	\$	\$

ATTACHMENT 3
SCHEDULE B
QUANTIFIABLE BENEFITS TO CUSTOMERS

[To be updated]

Tariff Class	SRR	SCP Charge	SAC	Net Securitization Charge/ (Credit)	Monthly AUPC	Monthly Net Impact
RS						
B						
SGS						
DGS						
OSS						
LP/Other Large/BAMP/HLF						
Lighting						

ATTACHMENT 4
REVENUE REQUIREMENT AND INPUT VALUES

Initial Payment Period from [, 202_]to [, 202_]	Bond Repayment	Total
Forecasted retail kWh sales		
Percent of billed amounts expected to be charged- off		%
Forecasted % of billings paid in the applicable period		%
Forecasted retail kWh sales billed and collected		
Securitization Bond principal payment	\$	\$
Securitization Bond interest payment	\$	\$
Forecasted Ongoing Costs (excluding principal and interest)	\$	\$
Total collection requirement for applicable period	\$	\$

Petitioner's Exhibit No. 2, Attachments BAJ-6 through
BAJ-11 will be filed separately