

BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

APPLICATION OF OKLAHOMA
NATURAL GAS COMPANY, A DIVISION
OF ONE GAS, INC., FOR A FINANCING
ORDER APPROVING SECURITIZATION
OF COSTS ARISING FROM THE
FEBRUARY 2021 WINTER WEATHER
EVENT PURSUANT TO THE
“FEBRUARY 2021 REGULATED UTILITY
CONSUMER PROTECTION ACT”

Cause No. PUD 202100079

FILED
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CORPORATION COMMISSION
OF OKLAHOMA

RESPONSIVE TESTIMONY

OF

MICHAEL BARTOLOTTA

ON BEHALF OF

PUBLIC UTILITY DIVISION

OCTOBER 4, 2021

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1 **I. INTRODUCTION**

2 Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND CURRENT
3 EMPLOYMENT POSITION.

4 A. My name is Michael Bartolotta. I am an Executive Managing Director in Public Finance
5 and Debt Capital Markets for Hilltop Securities Inc. (“Hilltop”). My business address is
6 700 Milam Street, Suite 500, Houston, Texas 77002.

7 Q. PLEASE DISCUSS YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL
8 EXPERIENCE.

9 A. I earned a Bachelor of Science in Actuarial Science from University of Illinois at Urbana-
10 Champaign. I commenced my professional career in public finance at the First National
11 Bank of Chicago in Chicago, Illinois in 1986. I subsequently moved to Masterson and
12 Company in 1987 as an Assistant Vice President rising to Executive Vice President in
13 1996. Masterson and Company changed names to Masterson Moreland Sauer and
14 Whisman, Inc. and sold its public finance business to First Southwest Company in 1996. I
15 joined First Southwest Company in 1996 as a Director; rising to Vice Chairman upon my
16 departure in 2015. In 2015 I joined Citigroup Global Markets Inc. as a Managing Director
17 responsible for the public finance regional offices on a national basis. I subsequently
18 became responsible for developing Citigroup’s Municipal Banking Solutions Group until
19 my departure in 2020. I joined Hilltop Securities in April 2020 as a Senior Managing
20 Director responsible for Debt Capital Markets. My current position is Executive Managing
21 Director, Co-Head of both Public Finance and Debt Capital Markets.

1 In respect of electric utility securitizations, I served as a member of the First Southwest
2 Company advisory team, a predecessor to Hilltop, on five stranded cost recovery
3 transactions: \$446 million FirstEnergy Ohio PIRB Special Purpose Trust 2013 in June
4 2013; \$800 million AEP Texas Central Transaction Funding, LLC in March 2012; \$1.695
5 billion Center Point Energy Restoration Funding, LLC in January 2012; \$664 million
6 Center Point Energy Restoration Bond Co., LLC in November 2009; and \$546 million
7 Entergy Texas Restoration Funding, LLC in October 2009. My experience on utility
8 stranded cost recovery financings is complimented by my work on other bonds secured by
9 and payable from a special assessment, including but not limited to Unemployment
10 Compensation Bonds issued by the Texas Public Finance Authority in principal amounts
11 of \$849 million and \$1.110 billion in 2010; Colorado Unemployment Compensation
12 Special Revenue Bonds Taxable Series 2012A in the principal amount of \$84.79 million
13 and Series 2012B in the principal amount of \$540.12 million; and \$2.9 Billion Series 2012
14 Michigan Finance Authority Unemployment Obligation Assessment Revenue Bonds.

15 In addition, I served as a member of the Municipal Securities Rulemaking Board in 2008
16 and from 2009 to 2012, serving as Chairman from 2010 to 2011. I have also been chairman
17 of the Securities Industry and Financial Markets Association (“SIFMA”), Municipal
18 Division. I have also served on corporate boards and was one of the founding board
19 members of TexStar, a Texas local government investment pool. My complete *curriculum*
20 *vitae* is attached hereto as Exhibit A.

1 Q. DO YOU POSSESS ANY PROFESSIONAL LICENSES RELATED TO THE
2 SECURITIES INDUSTRY?

3 A. As a Registered Representative of the Financial Industry Regulatory Authority (“FINRA”),
4 I am a licensed General Securities Representative; General Securities Principal; Municipal
5 Securities Representative, Municipal Securities Municipal Advisor Representative and
6 Principal; Uniform Securities Agent; and Investment Banking Representative based on my
7 holding a Series 7, 24, 50, 52, 53, 63, and 79.

8 Q. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY BEFORE THE OKLAHOMA
9 CORPORATION COMMISSION (“COMMISSION”)?

10 A. Yes. I provided testimony and supplemental testimony in respect of Oklahoma Gas &
11 Electric’s Application for a Financing Order Pursuant to the February 2021 Regulated
12 Utility Consumer Protection Act Approving Securitization of Costs Arising from the
13 Winter Weather Event of February 2021, Cause No. 202100072.

14 Q. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY BEFORE ANY PUBLIC
15 UTILITIES COMMISSION OTHER THAN THE COMMISSION?

16 A. I have provided analysis and reports to the Public Utility Commission of Texas in
17 connection with stranded cost recovery securitizations executed for the benefit of AEP
18 Texas Central in March 2012, CenterPoint Energy in November 2009 and January 2012,
19 and Entergy Texas in October 2009; and the Public Utilities Commission of Ohio in
20 connection with a stranded cost recovery securitization in June 2013 for the benefit of
21 certain FirstEnergy utility subsidiaries.

1 **II. PURPOSE OF TESTIMONY**

2 Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

3 A. I am testifying on behalf of the Public Utility Division (“PUD”) of the Oklahoma
4 Corporation Commission (“Commission”).

5 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

6 A. The purpose of my testimony is to:

- 7 • provide background information on the use of securitization generally, and more
8 specifically, ratepayer-backed utility securitizations by utilities and by public entities
9 for the benefit of utilities in other jurisdictions;
- 10 • describe the proposed bond structure and associated transaction documents to be used
11 to issue ratepayer-backed bonds (the “Bonds”) pursuant to the February 2021
12 Regulated Utility Consumer Protection Act¹ (the “Act”);
- 13 • describe the provisions of a form of the Financing Order that is proposed for use by the
14 Commission and the justification for its adoption;
- 15 • describe Bond issuance costs and ongoing administration and servicing costs associated
16 with the issuance and servicing of the Bonds and how such costs should be recovered
17 by the relevant parties;
- 18 • describe the servicing arrangements associated with the issuance and servicing of the
19 Bonds;

¹ February 2021 Regulated Utility Consumer Protection Act, 74 Okla. Stat. §§ 9070 – 9081 (the “Act”).

- 1 • describe the rating agency process and rating agency considerations in connection with
2 the issuance of the Bonds; and
- 3 • describe the marketing process of the Bonds.

4 Q. WHAT EXHIBITS ARE YOU SPONSORING?

5 A. I am a sponsor of the following exhibits:

- 6 • Exhibit A: CV
- 7 • Exhibit B: Form of the Financing Order (referred to in this testimony as the “Financing
8 Order”) for Oklahoma Natural Gas Company, a division of One Gas, Inc. (“ONG” or
9 the “Utility”).

10 Q. WHAT IS THE ROLE OF HILLTOP SECURITIES WITH RESPECT TO ONG’S
11 FINANCING ORDER APPLICATION AND THE ISSUANCE OF THE BONDS BY
12 THE AUTHORITY?

13 A. Hilltop has been appointed as financial advisor to the Oklahoma Development Finance
14 Authority (“ODFA” or the “Authority”) in connection with the issuance of the Bonds. In
15 that capacity, Hilltop will advise ODFA on the structuring, marketing and pricing of the
16 Bonds including assisting ODFA in obtaining a rating and an efficient pricing of the Bonds
17 by the underwriters in the pricing and marketing of the Bonds.

18 Hilltop has also been engaged as financial advisor to assist and represent the PUD with
19 respect to reviewing and evaluating ONG’s Application for a Financing Order Approving
20 Securitization of Costs Arising from the February 2021 Winter Weather Event pursuant to
21 the “February 2021 Regulated Utility Consumer Protection Act” Cause No. 202100079. I
22 am a member of the Hilltop team assigned to this engagement.

1 Neither Hilltop nor I are providing testimony relating to whether the extreme purchase
2 costs and extraordinary costs included in ONG’s Application for a Financing Order are
3 “fair, just and reasonable expenses or prudently incurred.”²

4 III. BACKGROUND ON UTILITY SECURITIZATIONS

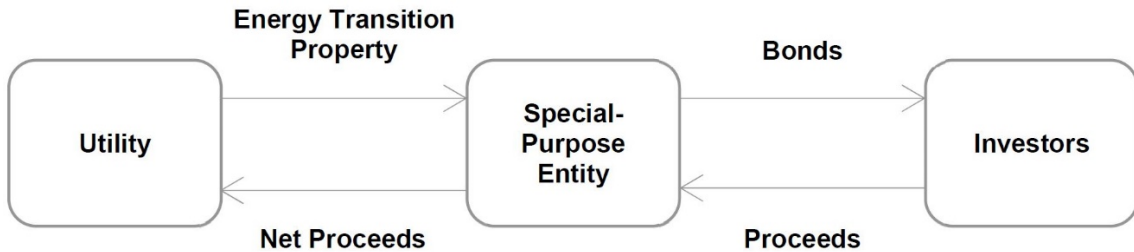
5 Q. PLEASE PROVIDE A BASIC DESCRIPTION OF SECURITIZATION AND A
6 UTILITY SECURITIZATION MORE SPECIFICALLY.

7 A. Securitization is the process in which an owner of a cash flow-generating asset sells the
8 asset for an upfront payment, in a manner that legally isolates (or de-links) the cash flow-
9 generating asset from the credit quality of the owner/seller. The sale process is intended
10 to protect both the investor and the seller from different perspectives. The seller of the
11 asset is protected from any changes in credit circumstances related to the asset and the
12 investor in the asset is protected from the bankruptcy of the seller of the asset. Therefore,
13 the “credit” of a securitization is the ability of the structurally isolated asset to produce a
14 set of payments (or cash flows) for investors, who purchase a securitized interest in the
15 asset. Fixed income debt securities collateralized by the structurally isolated asset are sold
16 to investors, and those investors rely solely on the structurally isolated asset and associated
17 cash flows to pay interest on and principal of the issued debt securities. The debt securities
18 are issued by a special purpose entity as described below and are non-recourse to the seller
19 of the asset.

² See § 4(E) of the Act (to be codified at 74 OKLA. STAT. ANN. § 9073(E)).

1 In the context of traditional utility securitization, the underlying cash flow-generating asset
2 is an intangible property right authorized by state legislation and created pursuant to a
3 financing order. This property right includes the right to impose upon the utility's
4 customers nonbypassable charges at a level, which is subject to adjustment as described
5 below, required to pay the interest, principal and other ongoing financing costs associated
6 with the debt securities issued in the securitization on a timely basis, as scheduled. This
7 property right, together with certain other contractual rights, is also referred to as the
8 collateral for the transaction. The utility sells the property right to a newly established,
9 special-purpose entity, or to a non-profit or state-sponsored conduit issuer that serves in a
10 similar capacity to a utility-sponsored special-purpose entity ("SPE"), which, as its name
11 implies, functionally has a limited purpose to purchase the collateral and issue bonds to
12 investors to fund that purchase. The conveyance of the property right from the utility to the
13 SPE is also referred to as a "true sale," as it legally isolates the collateral from the credit of
14 the seller of the collateral. A true sale of the collateral supports the "bankruptcy-
15 remoteness" of the SPE and the credit quality of the securitization debt. To have the funds
16 needed to purchase the collateral, the SPE issues debt securities to investors, secured by
17 the property right. In exchange for the debt securities, investors pay an upfront purchase
18 price, which is used by the SPE to purchase the property right from the utility. In the
19 proposed transaction, once the property is purchased from the utility, their right to recover
20 the weather related qualified costs from ratepayers due to the extreme weather event in
21 February 2021 is extinguished. Figure 1 below is a simplified indicative schematic of the
22 transaction issuance mechanics described above.

Figure 1



1 In addition to the essential structure described above, the securitization process also
2 includes another key component: ongoing collections of the cash generated by the
3 collateral. In utility securitizations, a trustee (a “Trustee” is typically a commercial bank or
4 trust company experienced with securitization trust services) and the utility that sells the
5 securitization property play important roles. The utility will continue to perform its routine
6 billing and collecting functions and will remit collected charges to the SPE, which are
7 received by the bond trustee on behalf of the SPE. In the context of securitization, this
8 function is referred to as servicing and the utility takes on the role as the servicer. The
9 utility will not be permitted to resign as servicer unless it is unlawful for the utility to
10 continue in such capacity. In addition to its billing, collecting, and remitting functions, as
11 servicer, the utility will also perform certain reporting duties with respect to the amount of
12 money collected and submitting requests to adjust the charges to ensure that they are
13 sufficient to pay the interest, principal and other ongoing financing costs associated with
14 the bonds on a timely basis. The servicer will perform these functions for the SPE pursuant
15 to a contractual arrangement known as the servicing agreement. The Trustee also plays an
16 important role in the safekeeping of the ongoing collections of the charges and using such
17 monies to make debt service payments to investors. After receiving its collections, the

1 Q. PLEASE GIVE US SOME BACKGROUND ON THE EXPERIENCE OF STATES,
 2 AUTHORITIES, AND INVESTORS WITH RESPECT TO UTILITY
 3 SECURITIZATIONS?

4 A. Beginning in the mid-1980s, a variety of asset types have been securitized in the
 5 securitization or asset-backed markets, including credit card receivables, trade receivables,
 6 automobile loans and leases, student loans, home equity loans and advances under lines of
 7 credit, equipment leases, unsecured consumer loans and a number of other less traditional
 8 assets. The following Table 1 shows a breakdown of 2020 United States securitization
 9 issuance by asset type.

10 **Table 1**

2020 UNITED STATES SECURITIZATION ISSUANCE BY ASSET TYPE

Line		Volume	
No.	Asset Type	(\$ Billions)	Percentage (%)
1	Auto	96.5	50.8%
2	Credit Card	3.8	2.0%
3	Equipment	13.0	6.8%
4	Student Loan	19.6	10.3%
5	Consumer Loan	10.0	5.2%
6	Utility	0.0	0.0%
7	Other/Esoteric	47.3	24.9%
8	Total	190.2	100.0%

Source: Finsight.

1 The securitization market has settled into a mature market since the financial crisis, with
2 issuances totaling \$190 billion in 2020, which was down 20% from \$239 billion in 2019.³

3 While the first two months of 2020 saw strong issuance volumes in the securitization
4 market that outpaced the first two months of 2019, the spread of COVID-19 caused the
5 securitization market to see nearly no new issuances from March 16, 2020, to April 13,
6 2020. During that same period, the charge for credit, in the asset-backed security (ABS)
7 secondary markets increased significantly relative to both historical levels and levels in
8 effect immediately prior to the onset of COVID-19.

9 Following the four-week shutdown, the securitization market recovered significantly, with
10 new issuance volumes in June and July of 2020 slightly outpacing the same period in 2019.

11 Additionally, investor demand for new issuances has continued near historic highs in 2021
12 as evidenced by the contraction of credit risk spreads. The same dynamic has played out
13 in the ABS secondary market, where renewed ABS demand has resulted in significant
14 credit risk spread tightening from the March 2020 peak. The securitization market has
15 remained strong through the end of 2020, and has continued these trends through the first
16 half of 2021. Illustrating the current breadth and depth of the market, Golden State
17 Tobacco Securitization Corporation successfully priced a tobacco securitization in the

³ Source: Finsight.

1 amount of approximately \$1.8 billion on September 29, 2021 to refund bonds issued to
2 securitize tobacco settlement receipts by the State of California.

3 With regard to utility securitizations, we estimate that over \$57 billion of utility
4 securitization bonds have been issued successfully by or on behalf of electric utilities in
5 various states since the inception of the sector in 1995. We anticipate a significant amount
6 of future utility securitization bonds as a result of Winter Storm Uri, as the storm impacted
7 multiple jurisdictions, and wildfires in California, where the state has authorized the
8 recovery of certain wildfire mitigation expenses through securitization. We are aware other
9 jurisdictions are considering, or have passed legislation, allowing for the issuance of
10 securitization bonds to recover costs associated with natural disasters. The amount and
11 timing of such issuance is not exactly known, but we expect a large issuance of utility
12 securitization bonds.

13 Utility securitizations by definition are episodic in nature, raising funds in a very specific
14 amount and for a specific purpose. The aggregate size of the preceding referenced
15 historical transactions is therefore not necessarily a reflection of market capacity at that
16 time.

17 A broad range of investors have participated in utility securitization bond issues to date,
18 including, but not limited to, domestic and international banks, institutional and retail trust
19 funds, money managers, investment advisors, pension funds, insurance companies,
20 securities lenders, state trust funds, and corporate cash managers. Traditional utility
21 unsecured and first mortgage bond investors, as well as municipal investors, have also
22 participated broadly, as some perceive utility securitization bonds as a highly-rated
23 substitute for the investment products they traditionally purchase.

1 Utility securitization bonds, predominantly centered on the delivery of electricity with
2 limited securitizations by natural gas utilities (one in the last 20 years to our knowledge),
3 are a well-established asset class and broadly understood by a diverse set of investors.
4 Utility securitization bonds backed by securitization property and financing orders have
5 maintained their high ratings and investors have received timely payment of principal and
6 interest, even when the credit of the utility has been downgraded or the utility has entered
7 bankruptcy, thus justifying investors' confidence in the bonds.

8 The interest income received on the vast majority of traditional utility securitization bonds,
9 including the Bonds, is taxable for federal income tax purposes for investors (some have
10 been tax-exempt for state purposes). However, there have also been some transactions
11 issued into the municipal market where interest is tax-exempt for federal tax purposes.
12 Pursuant to the Act, the interest on the Bonds is exempt from Oklahoma state income tax.⁴

13 **IV. FINANCING BACKGROUND**

14 Q. PLEASE PROVIDE SOME BACKGROUND FOR THE PROPOSED
15 SECURITIZATION, ITS STRUCTURE AND THE ACT.

16 A. As discussed in the Act, in February 2021, the State of Oklahoma (the "State") experienced
17 an extreme weather event that brought nearly two weeks of record cold temperatures to the
18 State. The extreme cold weather resulted in a shortage of natural gas supply, the failure of
19 certain infrastructure, and enhanced demand for natural gas and electric power. The
20 extreme weather conditions resulted in extraordinary costs for utilities operating in the

⁴ § 8(B) of the Act (to be codified at 74 OKLA. STAT. ANN. § 9077(B)).

1 State. To mitigate such extraordinary costs the Oklahoma Legislature enacted and the
2 Governor of Oklahoma signed into law the Act to provide financing options to lower the
3 immediate impact on customers.

4 The Act authorizes the Commission, in any case where a regulated utility is requesting
5 recovery of extraordinary costs related to the February 2021 extreme weather event, to
6 issue a financing order authorizing the creation and securitization of an irrevocable and
7 nonbypassable surcharge levied on utility customers of the regulated utilities to repay
8 “ratepayer-backed” bonds, subject to a true-up and reconciliation.⁵ ODFA is authorized to
9 issue the “ratepayer-backed” bonds for the purpose of financing the extraordinary costs of
10 the utility. ODFA may only pledge the securitization property and revenues received from
11 such property arising from a single financing order for a single series of bonds.⁶ The
12 ratepayer-backed bonds are not an indebtedness of the State of Oklahoma, but are special
13 obligations of ODFA payable solely from revenues related to the securitization property.⁷

14 Q. HAS THE COMMISSION PREVIOUSLY ISSUED ANY FINANCING ORDERS
15 UNDER THE ACT THAT RESULTED IN THE ISSUANCE OF RATEPAYER-
16 BACKED BONDS?

17 A. No. While other utilities have applied for financing orders under the Act, the Commission
18 has not yet issued a financing order in connection with such proceedings.

⁵ §5 of the Act (to be codified at 74 OKLA. STAT. ANN. § 9074).

⁶ §§7,8 of the Act (to be codified at 74 OKLA. STAT. ANN. §§ 9076, 9077).

⁷ §8(F) of the Act (to be codified at 74 OKLA. STAT. ANN. §§ 9077(F)).

1 Q. DO YOU EXPECT THE FORM OF FINANCING ORDER PROPOSED FOR USE IN
2 THE ONG FINANCING TO BE USED IN OTHER FINANCINGS UNDER THE ACT?

3 A. The form of the Financing Order attached as Exhibit B is substantially similar to the form
4 of the financing order submitted in connection with Cause No. 202100072 for an electric
5 utility. As the ONG financing order will be the first financing order adopted by the
6 Commission relating to a financing for a natural gas utility, the form of the Financing Order
7 attached as Exhibit B may be more relevant for future financings by a natural gas utility
8 than the form of the financing order submitted in connection with Cause No. 202100072.

9 Q. IS THE FACT THAT THE FINANCING IS FOR THE BENEFIT OF A NATURAL GAS
10 UTILITY SIGNIFICANT?

11 A. Yes. To the best of my knowledge, there has not been a utility securitization executed for
12 the benefit of a natural gas utility in more than twenty years, with many things having
13 changed since that time and that precedent transaction was much smaller than that being
14 considered in the proposed financing order. Consequently, while many of the basic
15 concepts central to utility securitizations remain static, the financing may raise novel issues
16 for the “Nationally recognized statistical rating organizations” as defined by the United
17 States Securities and Exchange Commission (referred to herein as the “Rating Agencies”)
18 that rate the ratepayer-backed bonds and investors. These issues may arise as electricity is
19 viewed as an essential service while there are alternative sources of power to natural gas,
20 including but not limited to electricity, as well as the potential contribution of natural gas
21 to climate change which may lead to questions regarding the long-term usage of natural
22 gas.

1 **V. DESCRIPTION OF THE PROPOSED TRANSACTION STRUCTURE**

2 **Q. PLEASE PROVIDE A BASIC DESCRIPTION OF THE PROPOSED FINANCING**
3 **AUTHORIZED BY THE ACT.**

4 **A. Pursuant to the Act, and upon a determination by the Commission that a regulated utility**
5 **has incurred extreme purchase costs, extraordinary costs or both⁸ that may be mitigated by**
6 **issuing ratepayer-backed bonds, the Commission shall make necessary findings and**
7 **conclusions to result in the issuance of a financing order authorizing the issuance of**
8 **ratepayer-backed bonds by the Authority.⁹**

9 Prior to the issuance of a Financing Order, the Commission is required to consult with the
10 State Deputy Treasurer for Policy and Debt Management regarding the marketability and
11 efficiency of any proposed financing.¹⁰

12 Pursuant to the Financing Order, the Commission will create the utility “securitization
13 property”, being the right to receive revenue collected by the Utility from customers
14 pursuant to an irrevocable and nonbypassable mechanism authorized by the financing
15 order. The revenues will consist of nonbypassable customer charges payable by any utility
16 customer at an address located within the Utility service area. The Financing Order will
17 authorize the imposition of a securitization charge which cannot be modified or avoided
18 by the Utility’s customers by switching utility providers, switching fuel sources or

⁸ Terms used herein shall have the meanings assigned to them in the Act.

⁹ §5(A) of the Act (to be codified at 74 OKLA. STAT. ANN. §§ 9074(A)).

¹⁰ §5(B) of the Act (to be codified at 74 OKLA. STAT. ANN. §§ 9074(B)).

1 materially changing usage, and must be paid by the customer for as long as the ratepayer-
2 backed bonds are outstanding.¹¹

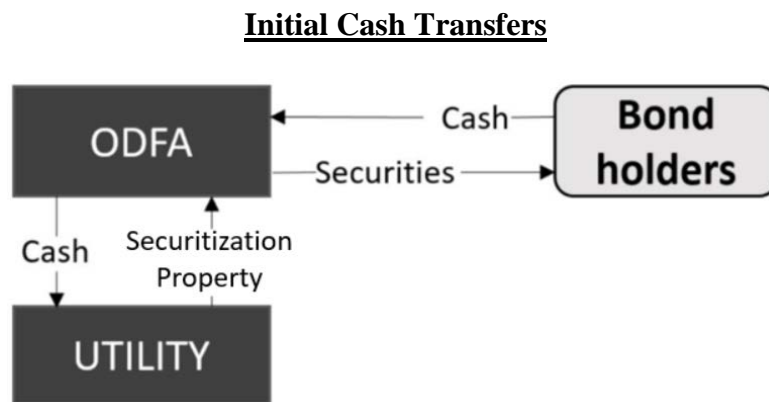
3 The securitization property will be sold by the Utility to the Authority, which in turn, will
4 issue ratepayer-backed bonds, and pledge the securitization property and any other
5 collateral to the payment of the Bonds.

6 The proceeds of the Bonds, net of the underwriter's discount, will be deposited with the
7 State Treasury and disbursed pursuant to the instructions of the Authority to (a) the Utility
8 to pay the cost of purchasing the securitization property, and (b) pay bond issuance costs
9 other than those of the Utility pursuant to the terms of the financing order. The Utility, in
10 turn, will use the net proceeds, to pay or reimburse itself for extraordinary costs or extreme
11 purchase costs or both, and to pay any bond issuance costs payable by the Utility pursuant
12 to the terms of the Financing Order. The State Treasurer will contract with a commercial
13 bank or trust company to provide the services of a Trustee with respect to the Bonds and
14 act as a representative on behalf of bondholders, remit payments to bondholders, and ensure
15 bondholders' rights are protected in accordance with the terms of the transaction. The
16 Utility will perform routine billing, collection, remittance and reporting duties on behalf of
17 the Authority as a servicer pursuant to a Servicing Agreement between the Utility and the
18 Authority, which agreement will provide that the Utility may not resign unless it is
19 unlawful for it to continue to serve in that capacity. The Utility's resignation would not be
20 effective until a successor servicer assumes its obligations in order to continue servicing

¹¹ §§3 (definitions of "Nonbypassable mechanism" and "Securitization Property"), 6(A) (to be codified at 74 OKLA. STAT. ANN. §§ 9072, 9075(A)) of the Act.

1 the securitization property without interruption. The Financing Order must bind successor
2 utilities, in order to ensure the nonbypassability of the charge. Credit enhancements, such
3 as a debt service reserve and a true-up mechanism, are generally necessary to get the
4 highest possible rating. A diagram representative of the initial transactions follows as
5 Figure 3.

Figure 3



6 Q. WHAT MAKES UP THE “SECURITIZATION PROPERTY” THAT IS TO BE OWNED
7 BY THE AUTHORITY AND PLEDGED TO PAY THE BONDS?

8 A. The securitization property is the right to receive revenue collected by the Utility from
9 customers pursuant to an irrevocable and nonbypassable mechanism included in the
10 Financing Order. The revenues consist of nonbypassable customer charges (“securitization
11 charges”) payable by any utility customer at an address located within the Utility’s service
12 area. Pursuant to the Act, the securitization charge cannot be modified or avoided by the
13 customers by switching utility providers, switching fuel sources or materially changing
14 usage, and must be paid by the customer for as long as the ratepayer-backed bonds are
15 outstanding. Pursuant to the Act, the securitization charge must be separately identified on

1 the customer bill.¹² The securitization property includes the right to “true-up and
2 reconciliation”, meaning the right to adjust the customer charge to ensure the timely
3 payment of principal of and interest on the ratepayer-backed bonds and certain other
4 ongoing financing costs.¹³

5 Pursuant to the Act, once the securitization property has been created, it will continue to
6 exist until the Bonds are paid in full and all ongoing financing costs have been recovered.¹⁴

7 The Rating Agencies will require that the Bonds be structured such that adequate
8 securitization charges can be collected prior to the final payment date on the Bonds. The
9 Bonds should be structured to amortize with scheduled principal payments through the
10 expected life of the transaction, providing a “safety net” between the expected payment
11 dates and final legal maturity date to assure full repayment of principal by the final legal
12 maturity date. The Rating Agencies will develop and require a series of stress tests that
13 will impact the structure and amortization of debt. Bonds are usually structured in tranches
14 with an expected weighted average life with a stated final maturity. Within the tranches,
15 the Bonds are structured to amortize to meet the expected cash flows being securitized and
16 Rating Agency criteria. The final amortization within a tranche is affected by the true-up
17 and reconciliation mechanism. The true up and reconciliation mechanism is contained in
18 the Financing Order and implemented through the servicing agreement. This amortizing

¹² §5(A)(3) of the Act (to be codified at 74 OKLA. STAT. ANN. §§ 9074(A)(3)).

¹³ §3(11) and (12) of the Act (definitions of “Securitization Property” and “True-up and Reconciliation”) (to be codified at 74 OKLA. STAT. ANN. § 9072).

¹⁴ “Qualified costs” includes “any costs of managing rate-payer backed bonds.” §3(7) of the Act (to be codified at 74 OKLA. STAT. ANN. § 9072),

1 structure is typical of a utility securitization. This amortizing structure is different from
2 traditional utility corporate bonds as well as traditional municipal securities, which
3 customarily have fixed maturities and amortization requirements. It is important to note
4 that securitization property is derived from the Financing Order, which must be carefully
5 crafted to satisfy the specific provisions of the Act and to meet the Rating Agency criteria.
6 It is the Act, in combination with the Financing Order and the actions contemplated therein,
7 which together create the current property rights that are required for the Bonds to achieve
8 the highest possible ratings. The proposed form of Financing Order has been drafted to
9 meet certain bond-related provisions of the Act, satisfy the anticipated requirements of the
10 Rating Agencies to achieve the desired credit rating on the Bonds and conform to the
11 expectations of the financial markets. With respect to the Rating Agencies, the form of the
12 Financing Order anticipates that the Rating Agencies will use the same general criteria for
13 a utility securitization undertaken for the benefit of a natural gas utility as it uses for a
14 utility securitization for the benefit of an electric utility. However, as noted previously,
15 since there have not been recent utility securitizations for a natural gas utility, the Rating
16 Agencies and financial markets may determine the need for modifications to the true-up
17 mechanism, debt service reserves and anticipated coverage levels that are not yet known.

18 Q. WHAT ARE THE “ONGOING FINANCING COSTS” REFERRED TO IN YOUR
19 PRIOR ANSWER?

20 A. “Ongoing Financing Costs” that will be payable on an ongoing basis over the life of the
21 Bonds from securitization charge collections will include, but are not limited to, the
22 replenishment, if necessary, of the debt service reserve, servicing fees, Trustee fees and

1 expenses, Rating Agency fees, legal fees, accounting fees, third-party administrative fees,
2 other operating expenses, Authority fees and expenses, and any additional credit
3 enhancement expenses, if any. These costs are described in greater detail and estimated
4 later in my testimony. It is currently anticipated that two Rating Agencies will be required
5 to market the bonds, however additional Rating Agencies may be used if justified by
6 investor demand.

7 Q. WHAT IS THE COMPOSITION OF THE “OTHER COLLATERAL” THAT YOU
8 MENTION IN YOUR EARLIER DESCRIPTION OF THE FINANCING?

9 A. The “other collateral” is a trust account established by the Authority to be held by the
10 Trustee to ensure that the scheduled payment of principal, interest and other costs
11 associated with the Bonds are paid in full and on a timely basis (the “Collection Account”).
12 The Collection Account, in turn, includes the general subaccount, the debt service reserve
13 subaccount (the “DSRS”) and the excess funds subaccount, each of which is described
14 below. “Other collateral” also includes a pledge and assignment of the Authority’s rights
15 under related agreements, including the servicing agreement, as well as any other
16 “external” credit enhancement (such as bond insurance) provided by or on behalf of the
17 Authority, if necessary. As I testify below, no “external” credit enhancement is anticipated
18 for the proposed bond structure, but I recommend the Commission authorize the ability to
19 utilize such credit enhancement if it is expected to result in substantial revenue requirement
20 savings.

21 The general subaccount is the subaccount into which the Trustee will deposit securitization
22 charge remittances and investment earnings on the various subaccounts. Money in the

1 general subaccount will be applied by the Trustee to pay on a periodic basis ongoing
2 financing costs, to pay principal of and interest on the Bonds, and to meet the funding
3 requirements of the other subaccounts pursuant to the waterfall set forth in the indenture
4 for the Bonds (“Bond Indenture”).

5 The DSRS is to be funded from bond proceeds, and will serve as additional security for the
6 payment of the Bonds and provide funds in the event securitization charge collections do
7 not provide sufficient funds to pay the debt service requirements of the Bonds on a timely
8 basis. Based upon industry precedent and Rating Agency criteria, I expect that the DSRS
9 will be funded, at least initially, in an amount at least equal to 0.5% of the initial principal
10 balance of the Bonds. This amount has been accepted by the Rating Agencies to support
11 triple-A ratings in other utility securitizations. However, the funding level may be greater,
12 depending upon rating agency requirements for any specific utility securitization or for a
13 natural gas utility relative to an electric utility. If that subaccount is drawn upon and/or the
14 value of the investments accounted for therein decline and the balance falls below the 0.5%
15 threshold (or any other required level) as a result thereof, the DSRS is replenished from
16 securitization charge collections through the true-up mechanism (described later in my
17 testimony) and any available excess securitization charge collections. In addition, if the
18 DSRS is drawn upon and not replenished within a certain period of time, the amount
19 required to be deposited to the DSRS may exceed the initial deposit (0.5% of the initial
20 principal amount of the Bonds or such greater amount as determined in accordance with
21 the factors described earlier in this paragraph). To the extent not used earlier to pay debt
22 service on the Bonds, funds in the DSRS will be applied to the final payment of principal
23 of the Bonds.

1 The excess funds subaccount will have an initial and target balance of zero and is the
2 subaccount into which any securitization charges and investment earnings in excess of
3 collections required to meet scheduled revenue requirements of the Bonds will be
4 deposited. Upon a true-up adjustment and reconciliation, amounts in the excess funds
5 subaccount will be taken into account when calculating any true-up; if there is a balance,
6 it will count toward the amount needed to pay debt service and other ongoing costs in the
7 next payment period, thereby reducing the amount needed to be raised from utility
8 customers via the securitization charge. Funds in this subaccount are available to cover
9 shortfalls in securitization charge collections in order to meet scheduled revenue
10 requirements of the Authority, including payments of principal of and interest on the Bonds
11 and other ongoing financing costs.

12 Additionally, the Authority will pledge to the bondholders its rights under the Financing
13 Order, including the non-impairment pledge of the Commission. Pursuant to 74 Okla. Stat.
14 § 5062.15 of Title 74, the State has also agreed not to impair the rights of Authority
15 bondholders (the “State Pledge”).

16 This State Pledge, which will be included in each bond, has historically been and is
17 expected to be essential to secure the highest possible ratings on the Bonds.

18 Q. HOW FREQUENTLY WILL THE UTILITY BE REQUIRED TO REMIT
19 SECURITIZATION CHARGES TO THE TRUSTEE?

20 A. To limit the credit risk associated with the utility holding securitization charges, the Rating
21 Agency criteria provides that the charges should be transferred to the Trustee on a regular
22 basis, with the tenor based on creditworthiness of the utility. In most precedent

1 transactions, utilities have been required to remit securitization charges to the Trustee on a
2 daily basis, within two business days of receipt of such charges from the customer.
3 Remittances may be made on an estimated basis, based on metrics such as proportion of
4 the charges to the overall bill, average days outstanding, and seasonality of customer bills.
5 If estimated remittances are utilized, the estimated remittances should be reconciled with
6 actual collections no less often than semi-annually and quarterly if Bonds are outstanding
7 after the scheduled maturity date, with any over-remittances being returned to the Utility
8 from cash flow pursuant to the terms of the Bond Indenture on a subordinated basis and
9 any under-remittances being paid over to the Trustee by the Utility within five business
10 days.

11 Q. PLEASE DESCRIBE THE TREATMENT OF ANY FUNDS REMAINING IN THE
12 COLLECTION ACCOUNT AT THE FINAL MATURITY OF THE TRANSACTION.

13 A. Funds remaining in the Collection Account upon payment of the Bonds and all ongoing
14 financing costs in full will be released by the Trustee to the Authority. The Authority shall
15 notify the Commission of such release and shall disburse such funds as provided under the
16 Financing Order. The Financing Order should describe how these revenues will be credited
17 back to customers.

1 Q. DO YOU HAVE ANY OPINION AS TO HOW INSURANCE PROCEEDS,
2 GOVERNMENT GRANT AND OTHER FUNDING SOURCES SHOULD BE APPLIED
3 IF RECEIVED BY THE UTILITY?

4 A. Section 4(G) of the Act permits the Commission to order that any such proceeds, grants or
5 other moneys received after the issuance of the Bonds be provided to the Authority to offset
6 customer charges or returned to customers through some other appropriate regulatory
7 mechanism.¹⁵ To address Rating Agency concerns about third party money being used to
8 pay the Bonds, I recommend that such moneys be returned to customers through another
9 appropriate regulatory mechanism as authorized by the Financing Order.

10 Q. DO YOU HAVE ANY COMMENT ABOUT SECTION 8(J) OF THE STATUTE?

11 A. Yes. It is unclear to me what “alternative funds” refers to in Section 8(J).¹⁶ However, after
12 issuance of the Bonds, they should not be provided to the Authority and used to pay debt
13 service on the Bonds in any manner that would jeopardize the credit rating on the Bonds.

¹⁵ To be codified at 74 OKLA. STAT. ANN. § 9073(G)).

¹⁶ To be codified at 74 OKLA. STAT. ANN. § 9078(J)).

1 Q. DO SECURITIZATION BONDS HAVE FIXED MATURITIES?

2 A. Unlike corporate bonds where principal is payable on a specific maturity date, the payment
3 of principal of securitization bonds is based on a scheduled and legal maturity date. Actual
4 principal payments on any tranche of securitization bonds could vary from the scheduled
5 principal payments based on the actual cash flows received by the Authority, unlike
6 corporate bonds. Interest accrues on principal outstanding until paid with respect to both
7 corporate and securitization bonds. While each tranche of securitization bonds has the
8 same nominal scheduled and final maturity date, the actual principal payments on a tranche
9 of securitization bonds may less than the scheduled principal amount on any given payment
10 date. Tranches are amortized according to the Indenture with principal and interest usually
11 being paid semi-annually. The sum of the principal amount of all of the tranches of the
12 bonds is the par amount of the bonds issued.

13 Q. WHAT IS THE DIFFERENCE BETWEEN THE SECURITIZATION BONDS'
14 SCHEDULED FINAL MATURITY AND THEIR LEGAL FINAL MATURITY?

15 A. The scheduled final maturity of a tranche of bonds represents the date at which final
16 payment is expected, but no legal obligation exists to retire the tranche in full by that date.
17 The legal final maturity is the date by which the principal must be paid or a default will be
18 declared in the payment of principal. The difference between the scheduled final maturity
19 and legal final maturity provides additional credit protection to investors by allowing
20 shortfalls in principal payments to be recovered over this additional time period through
21 the implementation of the true-up mechanism. The ratings on the Bonds are based on the
22 expectation that the outstanding principal of a class will be paid in full by the legal final

1 maturity date and a sufficient period of time between the scheduled final maturity and legal
2 final maturity.

3 Q. DO YOU HAVE A RECOMMENDATION WITH RESPECT TO THE ADDITIONAL
4 TIME PERIOD BETWEEN SCHEDULED AND FINAL MATURITIES?

5 A. The required gap between scheduled and final maturities will be determined by Rating
6 Agency considerations. Generally, the gap is between one and two years. The actual gap
7 will be determined at the time of pricing and provided in the Issuance Advice Letter.

8 Q. WHAT ARE THE FACTORS THAT AFFECT THE MAXIMUM FINAL MATURITY
9 AND AMORTIZATION?

10 A. There are many factors that go into determining the shape and structure of a cash flow
11 supporting repayment of the Bonds, many of which are interrelated and circular, starting
12 with the principal and interest requirements over a period of time. The affordability of the
13 charge will be a key issue affecting the amortization schedule and the scheduled final
14 payment date as well as interest cost. In addition, the quantum of debt service, time period
15 outstanding, costs and security provision all have an impact. Debt amortizing over a
16 shorter time period usually results in higher periodic payment as a result of a shorter
17 amortization versus reduced interest payments. Interest rates are a function of the
18 scheduled final payment date, credit risk spread and referenced rates in the market at the
19 time of sale. Traditionally and in the current environment, the longer the period of time
20 until the scheduled final payment date, the higher the interest rate. Credit risk spread, or

1 credit spread, is primarily driven by credit rating. The higher the rated security, the lower
2 the credit spread.

3 The differences in cash flow and the nonbypassability provisions relating to the charge are
4 policy decisions and beyond the scope of this testimony. We propose to work with the
5 Commission, the State Deputy Treasurer for Policy and Debt Management, the Authority
6 and the Utility and the underwriter of the Bonds to construct scenarios for the Commission
7 to review and consider, from which they can give direction on the length of amortization.
8 Potential issues that should be factored into this analysis include, but are not limited to, the
9 maturity of the Bonds desired, taking into consideration the potential for additional
10 securitizations or borrowings by or for the benefit of the Utility, effect on intergenerational
11 impact, trends relating to the demand for and supply of natural gas that is subject to the
12 nonbypassable charge, as well as the what would be considered affordable by a policy
13 decision maker. We are not opining as to affordability.

14 Q. WHAT IS THE IMPACT OF THE MAXIMUM FINAL MATURITY AND INTEREST
15 RATE, WHICH IS A FUNCTION OF THE SCHEDULED FINAL PAYMENT DATE,
16 CREDIT RISK SPREAD AND REFERENCED INTEREST RATES IN THE MARKET
17 AT THE TIME OF SALE, ON PRINCIPAL AND INTEREST REQUIREMENTS OF
18 THE BONDS?

19 A: As the maximum final maturity date of the Bonds is lengthened, the interest rate increases.
20 The increase in absolute rate on the security and the increasing the length of time the debt
21 is outstanding results in greater aggregate debt service. In Figure 4 below, we have
22 quantified these relationships estimated interest rates as of September 29, 2021, assuming

1 the bonds are assigned a credit rating of triple- A. Similar conclusions with respect to time
 2 debt is outstanding can be reached in today’s market regardless of rating category.

3 *Figure 4*

"AAA" Securities	<u>25 Year Final Maturity</u>	<u>20 Year Final Maturity</u>	<u>15 Year Final Maturity</u>
Dated Date	5/1/2022	5/1/2022	5/1/2022
Delivery Date	5/1/2022	5/1/2022	5/1/2022
Last Maturity	5/1/2047	5/1/2042	5/1/2037
True Interest Cost (TIC)	2.7942%	2.5930%	2.2810%
Net Interest Cost (NIC)	2.8184%	2.6127%	2.2924%
All-In TIC	2.8199%	2.6238%	2.3200%
Weighted Average Maturity	14.2377	11.2141	8.3426
Par Amount	\$1,485,095,000	\$1,485,095,000	\$1,485,095,000
Total Interest	\$589,369,795	\$428,577,897	\$277,472,721
Total Debt Service	\$2,074,464,795	\$1,913,672,897	\$1,762,567,721

4 Q. DO UTILITY SECURITIZATION BONDS PAY FIXED INTEREST RATES OR
 5 VARIABLE INTEREST RATES?

6 A. To date, most utility securitization bonds issued in other states have been bonds that bear
 7 a fixed interest rate to maturity. Fixed interest rates are necessary to permit the likely costs
 8 and benefits of the Bonds to be evaluated in advance and to maintain predictable revenue
 9 requirements over time. Fixed interest rates can be achieved by either issuing fixed interest
 10 rate bonds, or by issuing variable interest rate bonds and converting the variable interest
 11 rate into a fixed interest rate through a related interest rate swap. Pursuant to the terms of
 12 such an interest rate swap, the Authority would pay, to the extent of the receipt of
 13 securitization charges, a fixed rate of interest to the swap counterparty and, in exchange,
 14 would receive the interest index on which the Bonds’ variable interest rate is based, plus

1 possibly a margin, from the swap counterparty. The Authority would use the payments
2 from the swap counterparty to pay the variable interest rate to holders of the Bonds. The
3 economic effect upon customers of such exchange in payments is substantially similar as
4 if the Bonds had been issued at the fixed interest rate stated in the swap agreement.
5 However, with an interest rate swap, there may be a difference in the amount received by
6 the Authority based on the variable interest rate pursuant to the interest rate swap and the
7 variable rate borne by the Bonds. Other considerations on the use of an interest rate swap
8 must be taken into account when entering into such a contract as discussed below.

9 Q. WOULD AN INTEREST RATE SWAP WITHIN THE BOND STRUCTURE CREATE
10 ADDED RISKS FOR CUSTOMERS?

11 A. Yes. Interest rate swap agreements are separate and distinct from bond contracts and may
12 introduce a number of additional risks, including, but not limited to, counterparty risk,
13 termination risk, and amortization risk, a few of which are discussed below.

14 Counterparty risk is the risk that the swap counterparty (seller) of the interest rate swap
15 agreement does not fulfill its obligations under the terms of the interest rate swap
16 agreement. The Authority may not receive amounts from the swap counterparty to which
17 it would otherwise be entitled, including but not limited to ongoing payments under the
18 interest rate swap agreement, termination payments and the return of any excess collateral
19 if applicable. If the swap counterparty defaults on its payment obligations under the
20 interest rate swap agreement, the true-up and reconciliation process may need to be
21 implemented to cover the interest payments on the associated variable interest rate bonds,
22 resulting in a higher securitization charge. Moreover, a swap counterparty could be

1 downgraded to a level that is unacceptable to the Authority and an appropriate replacement
2 swap counterparty may not be able to be obtained, or such replacement could significantly
3 increase the effective fixed rate paid under the interest rate swap agreement.

4 Termination risk is the risk that the interest rate swap could be terminated prior to its
5 scheduled termination date as a result of one of several defined “termination events,” which
6 include a payment default on an interest rate swap or the Bonds or a ratings downgrade of
7 the Bonds or the swap counterparty. Upon an early termination, a substantial termination
8 payment could be due and payable by the Authority from the trust estate securing the Bonds
9 regardless of the condition(s) causing the early termination. The Authority may either owe
10 a termination payment to the swap counterparty, payable from the trust estate securing the
11 Bonds, or receive a termination payment from the swap counterparty depending on then-
12 prevailing interest rates in the relevant market for a swap with the same term and structure.

13 Amortization risk is the risk of a mismatch between the notional (principal) amount of the
14 interest rate swap and the principal amount of the Bonds. An interest rate swap requires
15 payment of interest on a notional amount specified in the swap instrument, which notional
16 amount is used to calculate the exchange of payments between the swap parties. Any swap
17 instrument used in a utility securitization transaction would be an “amortizing swap.” This
18 means that the notional amount of the interest rate swap on each payment date would
19 reduce over time, equaling the principal amount that is scheduled to remain outstanding on
20 the related tranche, assuming principal payments are made as scheduled. However, the
21 actual principal payments on any tranche of Bonds could vary from the scheduled principal
22 payments, depending on the actual cash flows received by the Authority. The cash flows
23 could be affected by several variables, such as weather-driven consumption volatility,

1 customer delinquencies, the true-up and charge-offs. Therefore, the actual principal
2 balance of the tranche of Bonds may be less than the scheduled notional amount of the
3 interest rate swap. If the bond principal balance is more, the variable interest rate payment
4 from the swap counterparty may not be adequate to satisfy the Authority's actual interest
5 payment obligation. Since the Authority will have no significant available assets other
6 than the right to impose, charge and collect securitization charges, this risk would likely be
7 borne by Utility customers, who would have to pay, with increased charges, for the shortfall
8 between the variable interest rate payments owed to bondholders and the variable interest
9 rate payments received from the swap counterparty.

10 Q. WHAT IS YOUR RECOMMENDATION WITH RESPECT TO FIXED INTEREST
11 RATE SECURITIES VERSUS VARIABLE INTEREST RATE SECURITIES AND THE
12 USE OF ANY INTEREST RATE SWAPS?

13 A. I recommend that the Bonds be issued with a fixed interest rate to maturity. As discussed
14 above, the use of interest rate swaps related to the Bonds expose customers of the Utility
15 to additional risks, which may be significant, and require a nonscheduled implementation
16 of the true-up mechanism, potentially leading to higher costs to Utility customers and
17 complicating the Rating Agency assessment, and furthermore may not timely align cost
18 and benefits as early beneficiaries may not be the same parties that pay potential higher
19 costs associated with a swap termination, collateral positing or other event. Thus, when I
20 consider the additional risks for Utility customers, combined with the added complexity to
21 the structure, particularly in connection with the first issuance of Bonds for the benefit of
22 a natural gas utility, I do not believe that the devotion of significant resources and time of

1 the Authority, its advisors, the Utility and the lead underwriter, as well as the incremental
2 legal expenses, associated with the use of interest rate swaps related to the Bonds is justified
3 in this circumstance. In the unlikely event significant numbers of potential investors
4 request a variable rate coupon at the time of marketing the Bonds, interest rate swaps may
5 be executed by the investors away from the Authority to achieve a variable rate of interest.

6 Q. ARE SECURITIZATION BONDS TYPICALLY SUBJECT TO OPTIONAL
7 REDEMPTION BY THE ISSUER THEREOF?

8 A. Bonds in the asset-backed or securitization market are typically issued as non-callable
9 securities, meaning they are not subject to optional redemption. While a make-whole call
10 option is used in the corporate and municipal markets, which provides an investor with
11 similar economics to non-callable securities, make-whole call options are not used in the
12 asset-backed or securitization market.

13 Other than the expected amortization of securitization bonds based on the original pricing
14 assumptions, I can only think of two examples of common bond provisions that result in a
15 variation of average life in the asset-backed security, or broader securitization, market.
16 They are (i) excess funding triggers, currently common in automobile floorplan
17 transactions, due to car dealers selling cars before they are delivered and thus resulting in
18 excess cash, and (ii) the collateral pool has delinquencies that create some lengthening of
19 the average life of the bonds but this is typically minimal given the stress tests of the Rating
20 Agencies for receipt of a triple-A rating on securitization bonds.

1 Q. WOULD YOU RECOMMEND THAT THE BONDS HAVE OPTIONAL CALL
2 FEATURES?

3 A. While it is unlikely that an optional call feature would benefit the pricing, my
4 recommendation is that the Commission give the Authority the flexibility to include such
5 a feature if such a feature could lower the cost of the financing, subject to the approval of
6 the State Deputy Treasurer for Policy and Debt Management.

7 **A. APPROVAL OF FINAL BOND TERMS**

8 Q. DOES THE FINANCING ORDER PROVIDE GUIDELINES RELATING TO THE
9 FINAL TERMS OF THE BONDS, INCLUDING INTEREST RATES?

10 A. Yes. The Parameters contained in the Financing Order include limits to the maximum
11 maturity and maximum interest rate on the Bonds, certain limits on the Utility's issuance
12 costs and servicing cost.

13 Q. WHAT IS THE INTENDED PURPOSE OF THE PARAMETERS?

14 A. The Parameters are designed to ensure that the substantial revenue requirement savings,
15 compared with conventional means of utility financing and other methods of cost recovery,
16 are not compromised. The Parameters in the Financing Order will be established at levels
17 that still satisfy the requirement of the Act to provide substantial revenue requirement
18 savings

19 The Parameters also establish limits on certain Utility costs, to further ensure the
20 reasonableness of such costs as well as substantial revenue requirement savings. Subject
21 to the Parameters, the Authority, with the advice of Hilltop as its financial advisor (the

1 “Financial Advisor”) and the approval of the State Deputy Treasurer for Policy and Debt
2 Management, should be given the flexibility to structure the Bond issuance in a manner
3 which will provide the best execution and lowest cost to customers. As stated, the Bond
4 Purchase Agreement with the underwriters will establish the final terms of the Bonds.

5 Q. ARE THE INTEREST RATE ASSUMPTIONS ASSUMED IN THE DIRECT
6 TESTIMONY OF THE UTILITY REASONABLE?

7 A. To assess the reasonableness of the interest rates presented in the Direct Testimony of Mark
8 W. Smith, we would need more information from ONG and their consultants, as well as
9 the underwriter, with respect to certain assumptions made within their model such as bond
10 rating, average life of transaction, how the securities are structured and stated final maturity
11 in aggregate. We note that while Mr. Smith assumes a ten year final maturity and a 2%
12 coupon, ONG requests a final maturity of 20 years in direct testimony.

13 That being said, gauging current market conditions, finding comparable transactions in a
14 long-dated asset-backed market is challenging and we expect more utility securitizations
15 to be issued, primarily as a result of Winter Storm Uri, which was a multi-state event, and
16 wildfires in California. Currently, we can estimate interest rates to some extent by using
17 roughly comparable recent transactions. For example, as of the week of September 27,
18 2021, certain AAA-rated 3-year, fixed rate automobile securitization is yielding
19 approximately .67% to .70%, with AA 3-year, fixed rate automobile securitization yielding
20 around .85% to .90%. Looking for longer-dated, frequently-issued securitization debt,
21 besides the California tobacco securitization discussed below, we have seen 7-year AAA
22 student loan variable rate securities, yielding approximately 1.90%. As stated earlier,

1 California Tobacco Securitization Corporation is issuing approximately \$1.8 billion of
2 bonds, with anticipated ratings of Aa3, A+ and AA- from Moody Investor Service, Inc.,
3 S&P Global Rating, and Fitch Rating respectively. Such bonds priced September 29, 2021,
4 with the June 1, 2022 maturity priced at par to yield 0.50%; increasing to 3.293% on the
5 term bond due June 1, 2042; and 3.00% on the turbo term bond due June 1, 2046. Finding
6 comparable long-dated transaction that trade with a level of frequency and sized similarly
7 to the proposed Bonds will require time and, consequently, it will be difficult to determine
8 the appropriate levels until this effort is undertaken. That being said, the current scarcity
9 of long-dated stable weighted average life asset-backed securities should lead to improved
10 market acceptance, though we expect this dynamic of the market to lessen as other utility
11 securitizations enter the market. Because of the dynamics of the utility securitizations, and
12 given the novelty of securitization for a natural gas utility, we will work with ODFA, the
13 State Deputy Treasurer for Policy and Debt Management, the Utility and the Underwriters
14 to drive a process that will yield indications of investor demand and preference and create
15 a constructive tension to arrive at a market clearing price that meets the goal of the
16 Authority and the State Deputy Treasurer for Policy and Debt Management. Given the
17 final structure of the transaction has not been settled on, at this time the interest rate
18 assumptions in ONG's testimony are a reasonable starting point for beginning to develop
19 the required financial analysis. The actual interest rate and true interest cost will be based
20 on numerous factors including, but not limited to, the maturity of and ratings on the Bonds,
21 the amount of Bonds being sold, the costs of issuance, the level of credit enhancement
22 used, if any, and market conditions and other competing transactions at the time of sale.

1 Q. CAN UTILITY SECURITIZATION BONDS ASSIGNED A CREDIT RATING OF
2 LESS THAN “AAA” PROVIDE A SIGNIFICANT ECONOMIC BENEFIT RELATIVE
3 TO A TRADITIONAL UTILITY FINANCING BY ONG AS REQUIRED BY THE
4 ACT?

5 We have prepared an analysis of the estimated debt service on securitization bonds issued
6 for the benefit of the Utility relative to a traditional utility financing by ONG based on
7 various credit ratings and terms to maturity, while assuming a level debt service structure,
8 Based on estimated interest rates as of September 29, 2021 and assumed costs of issuance,
9 based on the costs of issuance set forth in Attachment 1, securitization bonds provide a
10 significant economic benefit relative to traditional utility financing by ONG based on their
11 weighted cost of capital as set forth in the Utility’s testimony if the securitization bonds
12 are assigned a minimum rating of single-A, regardless whether the term is 25, 20 or 15
13 years. With respect to the modeled financing by ONG, we have assumed the use of serial
14 and term bonds; a level annual debt service structure, with a level principal repayment
15 structure not having a material affect or resulting in change in conclusion; and a cost of
16 capital of 8.88% reflecting the weighted cost of capital of ONG of 7.06% plus estimated
17 taxes of 1.82% as provided in the testimony of ONG.

	25 Year Final Maturity			ONG Traditional Financing
				Cost of Capital of 8.88%
	AAA	AA	A	BBB+/A3
Dated & Delivery Date	5/1/2022	5/1/2022	5/1/2022	5/1/2022
Last Maturity	5/1/2047	5/1/2047	5/1/2047	5/1/2047
True Interest Cost (TIC)	2.7942%	2.9359%	3.1688%	8.9338%
Net Interest Cost (NIC)	2.8184%	2.9623%	3.1987%	8.9058%
All-In TIC	2.8199%	2.9617%	3.1949%	8.9576%
Weighted Average Maturity	14.2377	14.3017	14.4079	17.1222
Par Amount	\$1,485,095,000	\$1,485,095,000	\$1,485,095,000	\$1,483,600,000
Total Interest	\$589,369,795	\$622,618,316	\$677,884,516	\$2,255,736,672
Total Debt Service	\$2,074,464,795	\$2,107,713,316	\$2,162,979,516	\$3,739,336,672

Interest Rates as of September 29, 2021

	20 Year Final Maturity			ONG Traditional Financing
				Cost of Capital of 8.88%
	AAA	AA	A	BBB+/A3
Dated & Delivery Date	5/1/2022	5/1/2022	5/1/2022	5/1/2022
Last Maturity	5/1/2042	5/1/2042	5/1/2042	5/1/2042
True Interest Cost (TIC)	2.5930%	2.7278%	2.9470%	8.9411%
Net Interest Cost (NIC)	2.6127%	2.7497%	2.9721%	8.9134%
All-In TIC	2.6238%	2.7587%	2.9782%	8.9681%
Weighted Average Maturity	11.2141	11.2517	11.3156	13.2007
Par Amount	\$1,485,095,000	\$1,485,095,000	\$1,485,095,000	\$1,483,600,000
Total Interest	\$428,577,897	\$452,927,186	\$492,899,857	\$1,739,113,812
Total Debt Service	\$1,913,672,897	\$1,938,022,186	\$1,977,994,857	\$3,222,713,812

Interest Rates as of September 29, 2021

	15 Year Final Maturity			ONG Traditional Financing
	AAA	AA	A	Cost of Capital of 8.88%
Dated & Delivery Date	5/1/2022	5/1/2022	5/1/2022	5/1/2022
Last Maturity	5/1/2037	5/1/2037	5/1/2037	5/1/2037
True Interest Cost (TIC)	2.2810%	2.4012%	2.5915%	8.9537%
Net Interest Cost (NIC)	2.2924%	2.4143%	2.6058%	8.9262%
All-In TIC	2.3200%	2.4403%	2.6309%	8.9862%
Weighted Average Maturity	8.3426	8.3605	8.3946	9.5464
Par Amount	\$1,485,095,000	\$1,485,095,000	\$1,485,095,000	\$1,483,600,000
Total Interest	\$277,472,721	\$293,215,157	\$318,301,295	\$1,257,673,068
Total Debt Service	\$1,762,567,721	\$1,778,310,157	\$1,803,396,295	\$2,741,273,068

Interest Rates as of September 29, 2021

1 Q. WHAT ARE THE EFFECT OF THE PARAMETERS?

2 A. Under the proposed financing order, the Authority will not be permitted to execute a Bond
3 Purchase Agreement unless the Authority determines that the terms of the Bonds do not
4 violate any of the Parameters. The execution of the Bond Purchase Agreement will
5 conclusively evidence the Authority's determination of such issues.

6 Q. IS THE USE OF THIS METHOD OF APPROVAL COMMON?

7 A. Yes. In the resolution authorizing the issuance of most corporate and municipal securities,
8 including but not limited to those of the State of Oklahoma through the Capital
9 Improvement Authority, the governing body frequently delegates the details of the sale of
10 the securities to officers and staff subject to parameters such as the Parameters set forth in
11 the Financing Order.

1 Q. ARE THERE ANY OTHER FACTORS THAT WILL HELP ASSURE EFFICIENT
2 EXECUTION AT THE LOWEST RATE ACHIEVABLE IN THE MARKET AT THE
3 TIME OF PRICING?

4 A. As discussed herein and as provided in the Act and in the State's Finance Law, the State
5 Deputy Treasurer for Policy and Debt Management will be involved in all aspects of the
6 transaction, including selection of professionals, and the structuring, marketing, and timing
7 of the transaction. In accordance with the State's Finance Law, the State Deputy Treasurer
8 for Policy and Debt Management will approve the final pricing and structure of the Bonds
9 and each of the non-Utility bond issuance costs and ongoing costs associated with the
10 Bonds. In fact, the Act requires the Commission to consult with State Deputy Treasurer
11 for Policy and Debt Management, *prior to issuing a financing order under the Act*,
12 regarding the marketability and efficiency of any proposed financing structure authorized
13 by a financing order. Thus, State Deputy Treasurer for Policy and Debt Management will
14 help establish the very parameters of the Bonds. We believe that the expertise of the State
15 Deputy Treasurer for Policy and Debt Management, together with the advice from us as
16 financial advisor to the Oklahoma Development Finance Authority as issuer of the Bonds,
17 will help ensure that the Bonds are sold at the lowest cost based upon the terms of the
18 Bonds and then-existing market conditions.

19 Additional oversight of the Bond issuance process is provided by the Council of Bond
20 Oversight. The Council of Bond Oversight was created to implement the Oklahoma Bond
21 Oversight and Reform Act found at 62 Okla. Stat. § 695.1 *et. seq.*, and it responsible for
22 oversight of debt issuance by State Governmental Entities and certain Local Governmental

1 Entities as provided in 62 Okla. Stat. § 695.9(C), including but not limited to issuance of
2 the Bonds.

3 Q. ARE THE UTILITY'S ASSUMPTIONS RELATING TO PROVIDING SUBSTANTIAL
4 REVENUE REQUIREMENT SAVINGS REASONABLE?

5 A. Mr. Slaughter of ONG proposes a recovery period of 20 years in his direct testimony and
6 refers to the testimony of Mr. Smith of ONG for the quantification of savings of
7 securitization as required by the Act. However, Mr. Smith provides an analysis of a
8 securitization with a ten-year term as opposed to the twenty-year term proposed by Mr.
9 Slaughter. Mr. Smith found securitization bonds with a ten-year term provided \$416.8
10 million of customer savings over a ten-year period, and net present value savings of \$346.6
11 million over a five year period, the anticipated term of a conventional utility financing.
12 The actual benefit of securitization relative to conventional financing will take into account
13 a number of variables, such as term and interest rate, which will not be determined until
14 the date of pricing.

15 Please refer to our earlier testimony regarding the estimated potential savings of a
16 securitization relative to a conventional utility financing by ONG for various terms.

1 **B. CREDIT ISSUES**

2 Q. IS THE FINANCING ORDER CRITICAL TO ACHIEVING A SUCCESSFUL
3 SECURITIZATION BOND FINANCING?

4 A. Yes. The Financing Order, when taken together with the Act, establishes the legal right of
5 to receive securitization charges in amounts necessary to pay the interest on and principal
6 of the Bonds and other ongoing financing costs in full and on a timely basis.

7 As I mentioned earlier, the Financing Order must be crafted to meet the specific provisions
8 of the Act and the Rating Agencies to achieve the highest rating possible. The proposed
9 form of Financing Order conforms to the Act.¹⁷ The Financing Order specifies the
10 mechanisms and structures for payments of interest on and principal of the Bonds and
11 ongoing financing costs in a manner that I believe will minimize the amount of additional
12 credit enhancements required by the Rating Agencies to achieve the highest possible credit
13 ratings. Subject to the unique concerns related to natural gas utilities, based upon previous
14 experience with electric utilities, these mechanisms and structures can be reasonably
15 expected to allow the highest possible ratings to be obtained, unless there is a change in
16 Rating Agency criteria. Nevertheless, there can be no guarantee of any specific rating, as
17 the Rating Agencies are independent entities and will issue such rating they deem
18 appropriate for the Bonds. In addition, the Financing Order, when taken together with the
19 Act, will enable the Authority and the Utility to structure the financing in a manner

¹⁷ See § 5 of the Act (to be codified at 74 OKLA. STAT. ANN. § 9074) (setting forth the requirements of the financing order under the Act).

1 reasonably consistent with investor preferences and Rating Agency considerations at the
2 time of pricing.

3 Furthermore, as noted, we have assumed that the Rating Agency's will generally apply
4 their criteria crafted to analyze utility securitizations undertaken for benefit electric utilities
5 to a utility securitization for the benefit of natural gas utilities. Nevertheless, as noted
6 previously, this transaction may raise unique questions for Rating Agencies that we cannot
7 anticipate at this time.

8 Q. HOW DOES THE FINANCING ORDER ENSURE CREDIT STRENGTH OF THE
9 SECURITIZATION PROPERTY?

10 A. To analyze the credit strength of the securitization property, the Rating Agencies will
11 require the lead underwriter or advisor to the Utility to prepare a variety of cash flow
12 scenarios to ensure that the Bonds will be paid on a timely basis if certain stress scenarios
13 occur. In particular, the Rating Agencies will make assumptions and draw conclusion on
14 the following significant factors related to a natural gas securitization:

- 15 • dramatic reductions in natural gas usage by customers of the Utility;
- 16 • the availability of natural gas in the quantities necessary and maintenance of price
17 competitiveness with electricity;
- 18 • the dramatic loss of customers of the Utility;
- 19 • dramatic increases in delinquencies and losses on payments from customers of the
20 Utility;
- 21 • seasonality; and
- 22 • the length of time between the scheduled maturity and the legal final maturity.

1 The Act, requires and the proposed Financing Order includes, a “true-up and
2 reconciliation” process to ensure that revenues from the securitization charges are
3 sufficient to ensure the timely payment of the Bonds and all ongoing financing costs.¹⁸

4 The Financing Order, and particularly the provisions implementing this true-up process
5 authorized by the Act, should ensure the collection of securitization charges arising from
6 the securitization property are expected to be sufficient to pay securitization bond
7 obligations on a timely basis by their terms, even in the face of such stress scenarios.

8 Q. MUST THE FINANCING ORDER BE FINAL, IRREVOCABLE AND NON-
9 APPEALABLE BEFORE ISSUANCE OF THE BONDS?

10 A. Yes, to ensure the highest possible ratings on the Bonds, the Financing Order should final,
11 irrevocable and non-appealable. The Rating Agencies and the underwriters of the Bonds
12 will expect to receive an opinion from regulatory counsel to such effect.

13 Q. DOES THE PROPOSED FORM OF FINANCING ORDER INCORPORATE THE USE
14 OF A BANKRUPTCY REMOTE STRUCTURE SIMILAR TO OTHER UTILITY
15 SECURITIZATIONS?

16 A. Yes, it should, as described below. As I have previously described, in a typical utility
17 securitization, the issuer of the bonds is a bankruptcy-remote subsidiary of the investor
18 owned utility (SPE). It is my understanding based on discussions with the Authority’s
19 counsel that, under the Federal Bankruptcy Code, payments on the debt obligations of the

¹⁸ § 5(A)(4) of the Act (to be codified at 74 OKLA. STAT. ANN. § 9074(A)(4)).

1 issuer in a bankruptcy proceeding may become subject to an automatic stay – *i.e.*, the
2 payments are suspended until the courts decide which creditors of the issuer are to be paid,
3 when they will be paid, and whether they are to be paid in whole or in part. The creation
4 of an SPE, which is bankruptcy remote from the utility, as issuer of the bonds allows the
5 Rating Agencies and investors to conclude that the issuer of the utility securitization bonds
6 is highly unlikely to become the subject of a bankruptcy proceeding in the event that the
7 utility is subject to a bankruptcy proceeding. My testimony in respect of bankruptcy
8 considerations is based on my prior experience, Rating Agency criteria and discussions
9 with the Authority’s counsel and neither Hilltop nor I render any opinion in respect of the
10 legal arrangements in respect of the proposed transactions.

11 Under the Act, ODFA will be the issuer of the Bonds.¹⁹ ODFA, as a State instrumentality,
12 should be unrelated to ONG (or any other utility) from a bankruptcy perspective. Further
13 ODFA will receive opinions of counsel with respect to certain bankruptcy issues, including
14 an opinion to the effect that the bankruptcy of the Utility should not result in the
15 securitization property being recharacterized as property of the Utility²⁰, as well as an
16 opinion to the effect that the Authority, as a State instrumentality, is subject to the
17 provisions of Chapter 9 of the Federal Bankruptcy Code. Under Chapter 9, no creditor of
18 ODFA is able to put the Authority into bankruptcy. Further, it is anticipated that the

¹⁹ §§ 7, 8 of the Act (to be codified at 74 OKLA. STAT. ANN. § 9076, 9077).

²⁰ See §6(F) of the Act (to be codified at 74 OKLA. STAT. ANN. § 9075 (F)) (“Any sale, assignment or transfer of the securitization property to the Authority that expressly states that a transfer is a sale or other absolute transfer signifies that the transaction is a true sale and is not a secured transaction and that title, legal and equitable, has passed to the Authority.”).

1 Authority will pledge not to exercise any power it may have, if any, to put itself into
2 bankruptcy so long as the Bonds are outstanding. While these legal opinions and the pledge
3 language have not yet been reviewed by the Rating Agencies, I am hopeful that Rating
4 Agencies will treat the Authority as bankruptcy remote for all relevant purposes and allow
5 the Bonds to be rated in the highest possible rating category.

6 Q. SHOULD THE FINANCING ORDER AUTHORIZE OBTAINING ADDITIONAL
7 CREDIT SUPPORT IF REQUIRED TO ACHIEVE THE HIGHEST POSSIBLE
8 RATINGS BY THE RATING AGENCIES?

9 A. It is my recommendation that the Financing Order provide flexibility to obtain further
10 credit support such as additional reserve accounts, or letters of credit, bond insurance and
11 surety policies from providers with credit ratings consistent with the goal of securing the
12 highest possible ratings. It is not expected such credit enhancement will be actually
13 required or beneficial; however, it may be valuable to maintain the flexibility for such
14 credit enhancement in the Financing Order. The final decision to utilize credit
15 enhancement will be made by the Authority, acting with the advice of the Hilltop, as the
16 Authority's Financial Advisor and the State Deputy Treasurer for Policy and Debt
17 Management.

1 Q. WHAT LEVEL OF SUPPORT WILL THE AUTHORITY REQUIRE TO ACT AS
2 ISSUER OF THE BONDS?

3 A. As I describe below, the Utility acts as servicer to ensure the imposition and collection of
4 the securitization charges, and their remittance to the Trustee. The Utility will also
5 implement any true-up adjustment of the securitization charge. However, the Authority
6 will have certain ongoing responsibilities as issuer of the Bonds, including calculating and
7 confirming debt service requirements as well as certain reporting obligations under the
8 Act²¹, the Bond Indenture and federal securities law. Accordingly, it will be important for
9 the Authority to assign or obtain administrative support to carry out these functions. All
10 costs incurred by the Authority should be recoverable from securitization charges.

11 Q. DO YOU HAVE ANY COMMENTS CONCERNING THE NONBYPASSABILITY
12 PROVISIONS OF THE ACT OR THE FINANCING ORDER?

13 A. As noted above, it is an essential credit feature that the securitization charge be imposed
14 by a mechanism that makes the charge nonbypassable by customers. The statute states:
15 “Nonbypassable mechanism” shall mean that the payment of the utility customer charges
16 under this act shall not be modified or avoided by any utility customer at an address located
17 within a utility service area by switching providers, switching fuel sources or materially
18 changing usage....”²² For a utility providing both electric and gas charges, imposing a
19 charge which cannot be avoided if the customer switches fuel sources should be obvious

²¹ See §7(B)(2) of the Act (to be codified at 74 OKLA. STAT. ANN. § 9076(B)(2)).

²² §3(5) of the Act (to be codified at 74 OKLA. STAT. ANN. § 9072(5)).

1 and enforceable. However, for a utility which provides only gas, as in the case of ONG,
2 the financing order will have to make clear how the nonbypassability charge will be
3 calculated and collected if the customer switches fuel sources and provide reasonable
4 assurance to meet Rating Agency stress tests.

5 Q. DO YOU HAVE ANY OTHER CONCERNS REGARDING NONBYPASSABILITY
6 AND NATURAL GAS-ONLY UTILITIES?

7 A. Yes. As we have noted, based on our research, it is our understanding that a financing for
8 their benefit will be the first securitization by a utility providing only natural gas as an
9 energy supply in the last 20 years. The Rating Agencies may have some concerns regarding
10 the viability of natural gas as an energy supply in the long run. So the terms of the
11 securitization, the Financing Order, and as stated previously the nonbypassable
12 mechanism, will need to reflect such concerns.

13 Q. DO YOU HAVE ANY COMMENTS ABOUT THE STATE NON-IMPAIRMENT
14 COVENANT (OR "STATE PLEDGE") TYPICALLY REQUIRED IN
15 SECURITIZATION LEGISLATION?

16 A. Yes. One of the Rating Agency criteria is that the State covenant in its securitization
17 legislation not to amend or revoke the securitization legislation or take any other action
18 which would impair the security for the utility securitization bonds. To my knowledge,
19 this non-impairment covenant has been included in all utility securitization legislation

1 enacted to date.²³ Reviewing the Act from a credit perspective, it does not contain a non-
2 impairment covenant. However, the Authority’s legislation does contain a non-impairment
3 covenant by the State which applies to all bonds issued by the Authority.²⁴ Further it is
4 my understanding that appropriate legal counsel will deliver an opinion to the effect that
5 this non-impairment covenant protects against any amendment to the Act (as well as the
6 Authority Act) which would impair bondholder security.

7 Q. DO YOU HAVE ANY ADDITIONAL THOUGHTS ABOUT THE “NON-
8 IMPAIRMENT” OF BONDHOLDER RIGHTS?

9 A. Yes. In addition to the State Pledge, it is typical for the public utility commission, as the
10 issuer of the financing order, to covenant that it will not take any action which would impair
11 the value of the securitization property.²⁵ The non-impairment provisions, a financing
12 order that is irrevocable and authorizes nonbypassable charges that constitute a recognized
13 property right are key criteria that Rating Agencies will expect to see. Section 5(H) of the
14 Act supports, and the proposed form of Financing Order included as Exhibit B, includes
15 such a covenant by the Commission to address this rating criteria.²⁶

²³ See, e.g., FLA. STAT. ANN § 366.8260 (11); TEX. PUB. UTILITY REG. ACT § 39.310; LA. REV. STAT. §45:1259.

²⁴ 74 OKLA. STAT. ANN. § 5062.15.

²⁵ See, e.g., *Application of AEP Texas, Inc. for a Financing Order*, Docket No. 49308, Conclusion of Law 40 (June 17, 2019); *In re. Petition for issuance of a storm recovery financing order, by Florida Power & Light Company*, Docket No. 060038-EI, Order No. PSC-06-0464-FOF-EI, Conclusions of Law 28, 30, 31 (May 30, 2006).

²⁶ See §5(H) of the Act (to be codified at 74 OKLA. STAT. ANN. § 9074(H)).

1 Q. HOW WILL THE VALIDATION PROCESS SUPPORT OR ENHANCE THE CREDIT
2 QUALITY OF THE BONDS?

3 A. Pursuant to Section 10 of the Act, each bond issuance by the Authority must be approved
4 as to validity (or “validated”) by the Oklahoma Supreme Court.²⁷ The Court will then
5 determine whether the Bonds “constitute a valid obligation in accordance with their terms.”
6 It is our understanding the Court decision will bind all persons as to matter relating to the
7 Bonds and make the Bonds and “the revenues pledged to their payment” incontestable in
8 any court of the State. The validation process should help ensure that the security related
9 to the Bonds, including the provisions of the Act, the Authority Act and the Financing
10 Order which provide such security, are final and incontestable.

11 **C. THE PROPOSED FORM FINANCING ORDER**

12 Q. DO YOU HAVE ANY INTRODUCTORY COMMENTS CONCERNING THE
13 PROPOSED FORM OF FINANCING ORDER

14 A. Yes. The attached Financing Order is a template proposed for use by the Commission in
15 connection with the securitization. The form was developed with the assistance of special
16 counsel. Although the form contains conclusions of law and other legal statements, I do
17 not express any view as to the correctness of legal matters set forth in the proposed form.

²⁷ To be codified at 74 OKLA. STAT. ANN. § 9079.

1 Q. PLEASE DESCRIBE SPECIFIC ELEMENTS OF THE FORM FINANCING ORDER,
2 BEGINNING WITH THE STATUTORY OVERVIEW PROVIDED IN SECTION I.

3 Part I of the Financing Order provides a statutory overview of the Act to give context to
4 the Financing Order.

5 In Part II of the Financing Order, the Commission will make its determinations regarding
6 the Utility's qualified costs eligible for recovery in the securitization.

7 In Part III of the Financing Order, the Commission will set forth its findings and
8 determinations regarding substantial revenue requirement savings required to be made by
9 the Commission before issuing a financing order.

10 In Part IV of the Financing Order, the Commission will make additional findings in respect
11 of certain structural provisions of the Bond structure, such as the irrevocable and
12 nonbypassable mechanism and true-up and reconciliation process, that must be included in
13 the Financing Order.

14 In Part V of the Financing Order, which is described in further detail below, provides a
15 detailed summary of the proposed financing structure, which I believe is consistent with
16 Rating Agency criteria.

17 In Part VI of the Financing Order provides a description of certain Bond issuance cost and
18 ongoing financing costs associated with the Bond issuance process and their recovery from
19 bond proceeds or the securitization charges (referred to as WESCR Charges in the
20 Financing Order), as appropriate.

1 Parts VII, VIII and IX of the Financing Order provide the requisite findings of fact,
2 conclusions of law and ordering paragraphs, respectively, to finalize implement the
3 foregoing.

4 Q. WOULD YOU LIKE TO COMMENT ON ANY PARTICULAR PART OF THE
5 FINANCING ORDER?

6 Yes, Part V provides a description of the financing structure which I recommend in my
7 testimony. As described in this section, the Commission will grant the Utility the right to
8 impose and receive the securitization charges, among other rights, under the Financing
9 Order.

10 The imposition and amount, collection period, nonbypassability, and true-up and
11 reconciliation of securitization charges are authorized and affirmed by the Commission in
12 this section of the Financing Order. This section implements the “nonbypassability
13 mechanism” and the true-up and reconciliation requirements of the Act.²⁸ The
14 nonbypassability element minimizes the degree to which the collection of securitization
15 charges will be affected by any customers who, following any fundamental change in
16 Oklahoma utility regulation, are permitted to switch generation suppliers or change sources
17 of power. To this end, the Financing Order provides that the Utility customers directly or
18 indirectly connected to the natural gas facilities of the Utility (or a successor) must pay the
19 securitization charge regardless of the customers’ gas distribution system or power supplier
20 and whether the distribution system is being operated by the Utility or a successor. The

²⁸ §§3(5), (12) of the Act (to be codified at 74 OKLA. STAT. ANN. § 9072(5), (12)).

1 Financing Order reflecting the Act, also addresses how the nonbypassability mechanism
2 addresses customers that switch fuel suppliers or materially change their usage (due, for
3 example, to use of an alternative power source).

4 The Financing Order also creates a binding obligation for the Utility, its successor or
5 assignee to collect the charges for a servicing fee and allows that obligation to be performed
6 by a successor servicer appointed by the Authority, or the Trustee, on behalf of the
7 Authority, if the servicer does not so perform. Thus, the binding obligation to collect and
8 account for securitization charges should survive any event adversely affecting the
9 servicer. I describe some of the contents and purpose of the servicing agreement later in
10 my testimony.

11 The true-up mechanism represents the most fundamental component of credit enhancement
12 to investors and is a cornerstone of the triple-A ratings achieved in prior utility
13 securitizations. True-ups are incorporated so that securitization charges may be adjusted
14 on a periodic basis to correct for any over- or under-collection of securitization charges for
15 any reason and to ensure that the expected collection of future securitization charges is in
16 accordance with the payment terms of the Bonds. To satisfy Rating Agency considerations,
17 I believe that true-up adjustments should be made on a periodic basis, at least annually, and
18 more frequently as requested by the Utility or as otherwise required or beneficial,
19 throughout the life of the Bonds in accordance with the objectives of minimizing credit
20 enhancement and achieving the highest credit ratings per Rating Agency and investor
21 requirements. The frequency of true-up adjustments throughout the life of the Bonds will
22 be set forth in the servicing agreement, and will be subject to the Parameters, consistent
23 with Rating Agency considerations for achieving the highest credit ratings and minimizing

1 credit enhancement levels. In the event any Bonds remain outstanding after the scheduled
2 final maturity date of the last Bond tranche, the mandatory interim true-up adjustment must
3 be implemented on a quarterly basis.

4 It is critical for Rating Agency purposes that, insofar as Commission action is required,
5 true-up adjustments (1) are automatic and (2) are implemented on an immediate basis
6 subject only to mathematical review. True-up adjustments must take into account debt
7 service, ongoing financing costs, updated sales forecasts (if the charge is volume based)
8 and an updated projection of customer payment reconciliations due to customer
9 uncollectibles and delinquencies. The proposed form of Financing Order incorporates this
10 approval process.

11 Q. PLEASE DESCRIBE SECTIONS VII, VIII AND IX OF THE FINANCING ORDER:
12 “FINDINGS OF FACT,” “CONCLUSIONS OF LAW,” AND “ORDERING
13 PARAGRAPHS.”

14 A. My answer to this question is qualified as describe above in the introduction to questions
15 related to the Financing Order. The Findings of Fact, Conclusions of Law and the Ordering
16 Paragraphs constitute the means by which the Commission definitively affirms the
17 conformity of the financing with the applicable provisions of the Act. With these findings
18 and conclusions, counsel will have the basis that they need for the highly technical and
19 specialized legal opinions they must issue in connection with the financing, and upon
20 which the Rating Agencies will rely in assigning the highest possible ratings for the Bonds.
21 I emphasize that the provisions of the Financing Order have been drafted with a view to
22 providing the basis that counsel will need for these essential opinions. With the structure

1 authorized thereby, the stability of the cash flows securing the Bonds will be maximized.
2 The combination of maximized cash flow stability and highest possible credit ratings will
3 allow the Bonds to be structured and priced so as to meet statutory requirements.
4 The servicer discussion contained in the Financing Order delineates standard arrangements
5 for servicing the securitization property, in particular, ensuring that such servicer
6 obligations are assignable and will be so assigned in the event of a servicer default.
7 Allowing for commingling of securitization charges with funds of the Utility for a limited
8 period before remittance to the Collection Account eases administration and is standard for
9 servicers who are sufficiently creditworthy or who provide for credit enhancement that the
10 Rating Agencies find acceptable. The remittance of estimated customer payments (subject
11 to subsequent reconciliation with actual customer receipts) is also normal for this
12 transaction and eases administrative burdens for servicers. Undue servicer administrative
13 burdens are not viewed favorably by either Rating Agencies or investors.
14 The Financing Order addresses two additional key issues that merit further discussion. The
15 finality and irrevocability of the Financing Order is affirmed, subject to the Act itself, with
16 regard to true-ups and refinancing. Thus, so long as the Bonds are outstanding, all of the
17 rights and benefits arising from the securitization property created by virtue of the
18 Financing Order may be definitively relied upon by investors and the Rating Agencies.
19 Relatedly, the Commission must give up any right it may have to rescind the Financing
20 Order as previously discussed herein. The finality and irrevocability of the Financing
21 Order will also be supported by a non-impairment opinion delivered by counsel, which is
22 customary in utility securitizations.

1 Equally important, the Commission pledges in the Financing Order not to take or permit
2 any action that would impair the value of the securitization property authorized by the
3 Financing Order or, except to allow for refinancing or to implement a true-up permitted by
4 the Financing Order and the Act, that would reduce, alter or impair the securitization
5 charges to be imposed, collected, and remitted to the financing parties, until the principal,
6 interest, and any other charges incurred and contracts to be performed in connection with
7 the Bonds have been paid and performed in full.²⁹ The Financing Order also requires the
8 Authority to include in the Bonds a recitation of the State Pledge regarding any Bonds
9 authorized by the Authority. This Commission pledge and the State Pledge are key
10 elements of the Financing Order.

11 Investors generally perceive that the greatest risk that the Bonds might not be paid
12 according to their terms is a change in law that adversely affects the securitization property
13 or their rights under the Act or the Financing Order. The Commission's affirmation in the
14 Financing Order of the Commission pledge and the State Pledge will enhance investor
15 understanding that the risk of an adverse change in law or regulation is remote and will
16 permit counsel to deliver important legal opinions that such adverse changes would not be
17 legally valid.

18 In addition, in the Ordering Paragraphs, the Commission recognizes the need for, and
19 affords the Authority, with the advice of its Financial Advisor and with the approval of the
20 State Deputy Treasurer for Policy and Debt Management, to establish the final structure
21 and terms of the Bonds, within the Parameters established by the Financing Order,

²⁹ See §5(H) of the Act (to be codified at 74 OKLA. STAT. ANN. § 9074).

1 consistent with investor preference, market conditions on the day of pricing, Rating
2 Agency considerations and the terms of the Financing Order.

3 Q. WILL THE ISSUANCE OF BONDS BY THE AUTHORITY, AS AUTHORIZED BY
4 THE ACT TOGETHER WITH THE FINANCING ORDER, BE ABLE TO ACHIEVE
5 THE RECEIPT OF THE HIGHEST POSSIBLE RATINGS?

6 A. While we cannot assure a specific credit rating, we are presenting our view of established
7 rating criteria and historical ratings on transactions we have been involved in. A credit
8 rating is the summation of many different elements, data, credit profile and legal authority
9 acting in concert. The Financing Order in conjunction with existing state law and rulings
10 as well as the strength of the legal opinions work together. Experience has shown that
11 foundational elements consistent with a high rating include an irrevocable nonbypassable
12 charge that has sufficiently frequent true-up mechanisms, with a non-impairment pledge
13 by the State and Commission, and that certain findings by the policy-making arm of the
14 state having rate-setting authority support the framework of a securitization that complies
15 with all the applicable rules and strong financial credit fundamentals. The Financing Order
16 will address several of these elements. The Financing Order will authorize the Authority
17 to issue the Bonds, to purchase the securitization property in a “true sale” and pledge the
18 securitization property to the Authority.³⁰ The effect of this structure, together with
19 associated legal opinions standard to utility securitizations and the Supreme Court
20 validation process, should, in my opinion, allow the Rating Agencies to be comfortable

³⁰ See §6(F) of the Act (to be codified at 74 OKLA. STAT. ANN. § 9075(F)).

1 that while the statutory provisions may vary somewhat from industry standards, the Act
2 supports the issuance of highest possible ratings. The Rating Agencies can then focus
3 strictly on the credit strengths of the securitization property, the true-up and reconciliation
4 mechanism, which other elements of the Financing Order ensure will, in my opinion, be
5 sufficient to achieve the highest possible ratings given all the factors described above.

6 D. SERVICING AGREEMENT

7 Q PLEASE DESCRIBE THE CONTENTS AND PURPOSE OF THE SERVICING
8 AGREEMENT.

9 A. As explained in Section V.C(4) of the Financing Order, the servicing agreement is an
10 agreement between the Utility as the initial servicer of the securitization property and the
11 Authority, as owner of the securitization property. It sets forth the responsibilities and
12 obligations of the servicer, including, among other things, billing and collection of
13 securitization charges, responding to customer inquiries, terminating natural gas service,
14 filing for true-up adjustments, and remitting collections to the Trustee for distribution to
15 bondholders. The servicing agreement prohibits the Utility from resigning as initial
16 servicer unless it is unlawful for the utility to continue in such a capacity. The Utility's
17 resignation would not be effective until a successor servicer assumes its obligations in order
18 to continue servicing the securitization property without interruption. The servicer may
19 also be terminated from its responsibilities under certain instances, such as the failure to
20 remit collections within a specified period of time, or upon a vote of requisite bondholders
21 (as defined in the Financing Order). Any merger or consolidation of the servicer with
22 another entity would require the merged entity to assume the servicer's responsibility under

1 the servicing agreement. The terms of the servicing agreement are critical to the Rating
2 Agency analysis of the Bonds and the ability to achieve credit ratings in the highest
3 categories.

4 Q. PLEASE DESCRIBE THE COMPENSATION PAYABLE TO THE SERVICER.

5 A: As compensation for its role as initial servicer, the Utility is entitled to earn a servicing fee
6 payable out of securitization charge collections, usually expressed as a percentage of the
7 original principal amount of the Bonds. It is important to the Rating Agencies analysis of
8 the transaction that the Utility receives an arm's-length fee as servicer of the securitization
9 property. However, it has become customary in utility securitizations for utilities to
10 be paid a fee based upon their "incremental costs" of providing servicing. It is also
11 common for utilities to be required to include the servicing fee, as well as servicing costs
12 as part of their reported revenue requirements in their base rate proceedings. This process
13 ensures that utilities are not paid more than what is minimally required to support the
14 bankruptcy analysis of legal counsel and to ensure that any excess payment be credited
15 back to customers. The Financing Order incorporates these customer-benefit concepts.
16 Utility securitizations to date have also required an increase in the servicing fee should a
17 successor servicer, which is not an affiliate of the Utility and who decouples the
18 securitization charge bill from other bill amounts, assume the obligations of the utility
19 because the successor servicer would require additional inducement due to its lack of a pre-
20 existing servicing relationship with the Utility's customers. Financing Orders in utility
21 securitizations often approve a substantially higher fee for a successor servicer. The
22 majority of recent transactions have provided for successor servicer annual fees of

1 approximately 0.60% of the initial balance of the bonds or greater. Recent transactions in
2 Texas and Louisiana provided for annual successor servicer fees of up to 0.60% of the
3 initial balance of the bonds; however, recent transactions in California provided that the
4 public utilities commission may approve a higher fee without stating any limit if such fee
5 does not adversely affect the ratings of the bonds. A defined successor servicer fee is
6 helpful for Rating Agencies, who will use the capped fee in their various stress analyses.
7 Similar to the precedent transactions, I recommend that the proposed Financing Order
8 allow a successor servicer to collect a higher servicing fee at a rate approved by the
9 Commission provided, however, that no such approval would be required if the annual fee
10 does not exceed 0.60% of the initial balance of the Bonds. The relevant transaction
11 documents should also provide for an annual successor servicing fee, which should be no
12 higher than 0.60% of the initial balance of the Bonds, without Rating Agency confirmation
13 of the then-current ratings on the Bonds.

14 E. OTHER TRANSACTION-RELATED MATTERS

15 Q. WHAT ARE THE MAIN TRANSACTION DOCUMENTS?

16 A. The main transaction documents include:

- 17 • Financing Order
- 18 • Official Statement
- 19 • Indenture (or Trust Agreement)
- 20 • Sale Agreement
- 21 • Servicing Agreement
- 22 • Bond Purchase Agreement

- 1 • Legal Opinions
- 2 • Rating Agency Reports
- 3 • The Authority’s special counsel, bond counsel and disclosure counsel (as the case may
- 4 be) will provide drafts of the above transaction documents in sufficient time for the
- 5 parties, including the Commission Staff and its advisors, to review before the
- 6 commencement of the marketing process of the Bonds.

7 Q. WILL THERE BE ANY RELATIONSHIP BETWEEN THE RATEPAYER-BACKED
8 BONDS ISSUED PURSUANT TO THE ONG FINANCING ORDER WITH THE
9 RATEPAYER-BACKED BONDS ISSUED PURSUANT TO OTHER FINANCING
10 ORDERS?

11 A. No. Each utility’s bonds will be separately secured. The Act provides that the Authority
12 may only pledge the securitization property and the revenues received from such property
13 arising from a single financing order.

14 Q. WILL THERE BE ANY RECOURSE TO THE AUTHORITY OR THE STATE FROM
15 THE ISSUANCE OF THE BONDS?

16 A. No. The Act states that ratepayer-backed bonds shall not be an indebtedness of the State
17 of Oklahoma or of the Authority but shall be special obligations of the Authority payable
18 solely from the securitization property and other bond collateral.³¹

³¹ §8(F) of the Act (to be codified at 74 OKLA. STAT. ANN. §§ 9077(F)).

1 F. BOND ISSUANCE COSTS

2 Q. PLEASE DESCRIBE THE BOND ISSUANCE COSTS ASSOCIATED WITH THE
3 TRANSACTION.

4 A. "Bond issuance costs" are those costs that will be incurred in advance of, or in connection
5 with, the issuance of ratepayer-backed bonds. Those costs include all amounts required to
6 fund any debt service reserve and any other costs related to the issuance of the Bonds,
7 including but not limited to Trustee fees, legal fees, consulting fees, accounting fees,
8 administrative fees, printing fees, financial advisor fees and expenses, Authority fees,
9 placement and underwriter fees, Rating Agency fees and expenses, the Utility's set-up
10 costs, servicer set-up costs, original issuance discount, and filing fees (including costs
11 related to obtaining the Financing Order). Issuance costs also include, without limitation,
12 costs of the Utility, the Authority, the Commission and the State Treasurer or other State
13 officials.

14 Q. HOW WILL THE AMOUNT OF UTILITY ISSUANCE COSTS BE DETERMINED,
15 AND HOW WILL SUCH COSTS BE RECOVERED?

16 A. The actual costs of issuing the Bonds will not be known until after the Bonds are priced
17 and issued. Accordingly, it is necessary to estimate the costs of those items. The issuance
18 costs generally incurred directly by the Utility include servicer set-up costs, costs related
19 to regulatory proceedings, miscellaneous administrative costs, external servicing costs, and
20 the costs of the Utility's financial and legal advisors (collectively, "Utility Issuance
21 Costs"). The Utility's Issuance Costs should be estimated in the Utility's testimony for
22 review by the Commission.

1 Q. DO YOU RECOMMEND THAT THE UTILITY'S ISSUANCE COSTS BE CAPPED OR
2 OTHERWISE SUBJECT TO AUDIT?

3 A. Since so many of the Utility Issuance Costs are subject to change, I recommend that the
4 issuance costs either be capped or be subject to review and audit following issuance, to
5 ensure such costs are just and reasonable. If the Utility's Issuance Costs will be subject to
6 a cap, there may not be a mechanism to recover additional Utility Issuance Costs above the
7 cap.

8 Q. IF THE UTILITY ISSUANCE COSTS ARE LESS THAN THE ESTIMATE, HOW
9 SHOULD SUCH EXCESS BE APPLIED?

10 A. If the Utility Issuance Costs are less than those estimated, the amounts can be credited back
11 to customers through the securitization charge.

12 Q. PLEASE DISCUSS NON-UTILITY ISSUANCE COSTS AND HOW THOSE COSTS
13 WILL BE DETERMINED AND RECOVERED.

14 A. The Utility has control over some, but not all, of the issuance costs to be incurred in the
15 proposed transaction. The costs incurred by the Authority, the Commission and the State
16 and their respective advisors and counsel must also be recovered. These costs will be
17 identified in the Issuance Advice Letter, the form of which is included in the Financing
18 Order and is intended to provide the Commission with the final details of the Bonds, and
19 will paid from proceeds of the Bonds. Such costs include, but are not limited to, the fees
20 and expenses of Bond Counsel, Special Counsel and Disclosure Counsel of the Authority;
21 financial advisor to the Authority; Trustee and its counsel; underwriters of the Bonds and

1 their counsel; financial printer; Rating Agencies; State of Oklahoma Attorney General;
2 Council of Bond Oversight; and the provider of any credit enhancement, if applicable, and
3 their counsel (the “Non-Utility Issuance Costs”). No cap should be applied to these costs,
4 as they are incurred by the State and its instrumentalities. If the Non-Utility Issuance Costs
5 are greater than estimated the Authority, the Commission or the State should be able to
6 recover those costs from securitization charges, subordinate to the payment of the bonds.
7 If the Non-Utility Issuance Costs are less than estimated, the difference should be credited
8 back to ratepayers through the securitization charge.

9 The Issuance Advice Letter will contain the Utility’s and the Authority’s good faith
10 estimate of the total issuance costs of the financing, though it is recognized that certain of
11 the issuance costs may not have been invoiced at such time and, in the case of expenses
12 that continue through the closing of the Bonds, will not have been fully incurred on the
13 date of the Issuance Advice Letter.

14 Q. PLEASE DESCRIBE THE ORIGINAL ISSUE DISCOUNT AND ORIGINAL ISSUE
15 PREMIUM WITH RESPECT TO THE BONDS.

16 A. As described herein, I recommend the Bonds be issued with a fixed interest rate to maturity,
17 and are expected to bear a taxable rate of interest similar to other utility securitizations.
18 Taxable bonds typically are sold at par, absent original issue premium or original issue
19 discount. While the Bonds are expected to be sold at par, we recommend the flexibility to
20 sell the Bonds with original issue discount or original issue premium if advantageous to
21 secure the lowest interest rate possible based on the conditions at the time of sale of the
22 Bonds given the final structure of the Bonds. Bond Counsel to the Authority will provide

1 guidance to investors relating to the tax treatment of original issue discount and premium
2 and the Bonds will be structured subject to this advice.

3 Q. SHOULD THE COSTS OF CREDIT ENHANCEMENTS, IF ANY, BE CAPPED?

4 A. Customer interests can be fully protected without using the proposed Financing Order to
5 impose caps on costs relating to credit enhancement designed to promote credit quality and
6 marketability. If such credit enhancements are proposed by the underwriters or the
7 Financial Advisor, the Authority, with the advice of its Financial Advisor, will determine
8 if such credit enhancements will assist in substantial revenue requirement savings, subject
9 to the approval of the State Deputy Treasurer for Policy and Debt Management. If there
10 are benefits, such credit enhancements will likely be approved by the State Deputy
11 Treasurer for Policy and Debt Management and the costs of such credit enhancements will
12 be fully reflected in the Issuance Advice Letter.

13 Q. PLEASE DISCUSS UNDERWRITERS' FEES AND EXPENSES.

14 A. Underwriters' fees may not be confirmed until the actual time of issuance of the Bonds as
15 they are based on the principal amount of the Bonds. Such costs will be fully reflected in
16 the Issuance Advice Letter. Based upon the receipt of responses to Requests for Proposals
17 to Provide Underwriting Services for ratepayer-backed bonds and discussions with the
18 State Deputy Treasurer for Policy and Debt Management, for purposes of estimating the
19 issuance costs shown on Attachment 1, I have assumed that underwriters' fees will be \$4.00
20 per \$1,000 plus reasonable and customary expenses, including underwriters' counsel. This
21 estimate will be updated to the extent necessary, and the final compensation and fees to be

1 paid to the underwriters will be approved by the Authority, acting in consultation with
2 Hilltop, as the Authority's Financial Advisor, and the State Deputy Treasurer for Policy
3 and Debt Management and included in the Issuance Advice Letter.

4 Q. PLEASE DESCRIBE RATING AGENCY FEES.

5 A. Based on prior asset backed security ("ABS") bond issuances, in order to sell the Bonds at
6 the lowest available interest rates at the time of sale based on the structure of the Bonds, it
7 will be desirable to have the Bonds rated by at least the two of the three major rating
8 agencies: Standard & Poor's, a division of The McGraw-Hill Companies, Inc., Fitch
9 Ratings, and Moody's Investors Service, Inc. There is typically a fee schedule or a fee that
10 is required by each of the Rating Agencies to rate the Bonds. The fees charged by the
11 Rating Agencies are subject to change at any time and are typically a function of the size
12 and structure of the offering. The issuance fees are calculated by applying a charge to the
13 initial principal balance, plus the annual fee payable for the first year. Additionally, while
14 the Bonds are outstanding, the Rating Agencies charge annual surveillance fees. Neither
15 the Utility, the Authority, nor the Commission has any effective control over the fees
16 charged by the Rating Agencies. However, the Utility may join with the Authority's
17 financial advisor in negotiating with the Rating Agencies to secure the lowest practicable
18 Rating Agency costs. The amount shown in Attachment 1 reflects a current estimate of the
19 fees that are likely to be incurred for the financing. Rating Agency fees can change due to
20 a change in transaction size, transaction structure, or increase in the Rating Agencies' fees
21 and/or fee structure, which could cause the amount due to the agencies to vary from the
22 estimate. Accordingly, the possibility of such a change should be taken into account in

1 determining the appropriate level of fees. As discussed above with respect to underwriting
2 fees and expenses, these Rating Agency fee estimates will be updated in the Issuance
3 Advice Letter. Any Rating Agency fees incurred above the estimate and not included in
4 the amount of issuance costs to be financed should be recoverable through the
5 securitization charge. Ongoing Rating Agency fees will be subject to adjustment in the
6 future based on the actual cost of such fees.

7 In addition to Rating Agency fees and expenses, there will be costs to the Authority related
8 to creating a website to exchange information and questions and answers with the Rating
9 Agencies as required by Rule 17g-5 adopted by the Securities Exchange Commission.

10 Q. PLEASE DESCRIBE THE DEBT SERVICE RESERVE SUBACCOUNT
11 (THE "DSRS").

12 A. Upon the issuance of the Bonds, the Authority will make a deposit into the DSRS from the
13 proceeds of the Bonds. The size of the DSRS will be determined based upon Rating
14 Agency criteria and the desire to achieve the highest possible ratings and thus contribute
15 to the achievement of the lowest possible cost to customers at the time of sale of the Bonds
16 based upon the structure of the Bonds. Lowest possible cost is defined to be the lowest
17 interest rate needed by the underwriters to have a market clearing interest rate for all the
18 Bonds as structured. Based upon prior electric utility securitizations, I estimate a DSRS
19 equal to 0.5% of the initial principal amount of the Bonds. The exact amount will be
20 determined based upon Rating Agency input, which may vary from the preceding as the
21 Utility is solely a natural gas utility, and will be included in the Issuance Advice Letter.

1 The DSRS will serve as collateral to ensure timely payment of principal of and interest on
2 the Bonds and all other components of the periodic payment requirement (“PPR”). The
3 funds in this subaccount will be invested by the Trustee in high-quality investments in
4 accordance with the Act. Any amounts in the DSRS will be available to be used by the
5 Trustee to pay principal of and interest on the Bonds and all other components of the PPR
6 if necessary due to a shortfall in securitization charge collections. Any funds drawn from
7 the DSRS to pay these amounts due to a shortfall in the securitization charge collections
8 will be replenished through future securitization charge remittances. Funds in the DSRS
9 will be applied to the final payment of Bond principal, if not previously applied.

10 Q. WHAT IS A REASONABLE ESTIMATE OF THE UPFRONT FINANCING COSTS?

11 A. The Utility does not provide an estimate of upfront financing costs of a securitization in its
12 testimony. Our estimate of the upfront financing costs for the proposed transaction is
13 approximately 0.66% of the original principal amount of the Bonds, based on an assumed
14 bond issuance of \$1.4 billion, as set forth in Attachment 1, which estimate excludes the
15 cost of funding the DSRS.

16 G. ONGOING FINANCING COSTS

17 Q. WHAT ARE THE ONGOING FINANCING COSTS WHICH WILL BE INCURRED TO
18 SERVICE AND ADMINISTER THE RATEPAYER-BACKED BONDS?

19 A. Ongoing financing costs are those costs that will be incurred annually to support and
20 service the Bonds after issuance, and they will be recovered from securitization charges as
21 approved by the Commission to be assessed by the Authority. Ongoing costs include

1 among other costs, Trustee fees, administration fees, servicing fees, accounting fees related
2 to the validation and certification of the true-up and auditing fees, legal fees and expenses,
3 administrative fees, Rating Agency fees, fees relating to the Rule 17g-5 website, filing fees,
4 and any ongoing fees and expenses of the Authority.

5 Certain on-going financing costs will be determined by pre-existing schedules, with others
6 subject to a competitive procurement process. As previously discussed, Rating Agency
7 annual fees will be based on the fee schedules of the Rating Agencies and negotiations.

8 The fees and expenses of accounting firms related to the validation and certification of the
9 true-up and auditing, and Trustee fees will be determined through a Request for Proposals.

10 With respect to servicing fees, please refer to my prior discussion of servicing fees herein.

11 While different in principal amount, we reasonably expect the ongoing financing costs of
12 the Bonds to be comparable, after adjustment for the difference in principal amounts, to
13 those related to the Southern California Edison Company Senior Secured Recovery Bonds
14 Series 2021-A delivered on February 24, 2021 in the principal amount of \$337,783.000
15 which are as follows:

- 16 • Servicing Fee: 0.05% of the initial principal amount of the Bonds
- 17 • Administration Fee: \$75,000 for initial 12 months
- 18 • Accounting Fees and Expenses: \$94,889 for first 15 months
- 19 • Legal Fees and Expenses: \$41,514 for first 15 months
- 20 • Rating Agency Surveillance Fees: \$74,132 for first 15 months
- 21 • Trustee Fees and Expenses: \$5,931 for first 15 months
- 22 • Miscellaneous Expenses: \$11,861 for the first 15 months

1 ONG does not provide an estimate of ongoing financing costs in its testimony.

2 Q. WHAT ARE ADMINISTRATION FEES?

3 A. In most utility securitizations, the bonds are issued by special-purpose entities that have no
4 staff. Consequently, the sponsoring utility typically performs certain reporting, monitoring
5 and other related administrative functions on behalf of the SPE pursuant to the terms of an
6 administration agreement. As the Act provides that the Authority will be the issuer of the
7 Bonds, the Authority will be required to provide, or cause a third party to provide, such
8 services.

9 Q. WHAT AMOUNT OF ONGOING COSTS ARE PAYABLE TO THE UTILITY IN
10 CONNECTION WITH SERVICING AND SUPPORTING THE BONDS?

11 A. The only fee payable to the Utility will be the servicing fee, which will be fixed in
12 accordance with the Financing Order and payable in accordance with the terms of the
13 servicing agreement (so long as the Utility performs the role of servicer). The Utility
14 should also be entitled to reimbursement for its external accounting costs incurred in
15 connection with its role as servicer.

1 Q. IN ADDITION TO THESE SERVICING FEES AND EXTERNAL ACCOUNTING
2 COSTS, WHAT AMOUNT OF OTHER ONGOING FINANCING COSTS WILL BE
3 INCURRED IN CONNECTION WITH SERVICING AND SUPPORTING
4 THE BONDS?

5 A. These costs include the costs of the Authority's fees; legal and financial advisors and
6 external accountant's fees; Rating Agency annual fees; and the Trustee's fees. I have
7 estimated the annual ongoing financing costs (exclusive of debt service on the Bonds) for
8 the first year following the issuance of the Bonds to be 0.07% of the original principal
9 amount of the Bonds, based on an assumed bond issuance of \$1.4 billion. These estimated
10 ongoing financing costs are itemized by category of cost in Attachment 1. The Authority
11 will update the estimate of the first year of ongoing financing costs in the Issuance Advice
12 Letter. It is not possible to determine how the ongoing financing costs will change over
13 time. For example, rating agency surveillance fees as well as Trustee and other
14 professional fees likely will increase over time. In addition, it is virtually certain that the
15 other ongoing financing costs will increase over that time due to inflation, as service
16 providers periodically increase their fees (and the compounding effect of such increases
17 would magnify the increase over time). Even inflation increases at average historical levels
18 would have a significant effect on costs. Because prospective increases in these ongoing
19 financing costs are impossible to predict, the amounts for such costs in Attachment 1
20 (except for the servicing fee, which is fixed) are presented only for the first year and do not
21 reflect any increases that may occur.

1 Q. HOW WILL ACTUAL ONGOING FINANCING COSTS BE PAID?

2 A. Actual ongoing financing costs will be recovered through securitization charges assessed
3 by the Authority, which will be periodically adjusted as appropriate by the servicer on
4 behalf of the Authority through the true-up mechanism.

5 **H. RATING AGENCY PROCESS**

6 Q. PLEASE DESCRIBE THE RATING AGENCY PROCESS.

7 A. An important element of preparing for the marketing and pricing of the Bonds is obtaining
8 the highest possible credit ratings on the Bonds from the Rating Agencies, but no assurance
9 can be made of a Rating Agency outcome.

10 The Utility, the Authority, their financial and legal advisors and the lead underwriter of the
11 Bonds will prepare written presentations and will meet with Rating Agency personnel to
12 discuss the credit framework and credit strengths of the Bonds. Each Rating Agency will
13 perform a diligence review of the Utility's forecasting capabilities and its billing and
14 collections operations and legal protections afforded in the Financing Order, State Law,
15 and rulings. Each Rating Agency will follow-up with additional questions for the Utility,
16 the Authority, their legal counsel, financial advisors and lead underwriter of the Bonds.
17 Furthermore, each Rating Agency is expected to require the lead underwriter or advisor to
18 the Utility to prepare various cash flow stress scenarios to ensure that the Bonds will be
19 repaid under extremely stressful cash flow projections.

20 Important rating elements include:

- 1 • Legal and Regulatory Framework
 - 2 ○ Current property right established through statute and Financing Order and
 - 3 the establishment of the validity of the securitization charges
 - 4 ○ Nonbypassability of the securitization charges
 - 5 ○ Bankruptcy-proof status of the Authority and perfected security interest in
 - 6 securitization property
 - 7 ○ Automatic securitization charge true-up mechanism to adjust securitization
 - 8 charges
 - 9 ○ Irrevocability of Financing Order and strength of state pledge
 - 10 ○ Federal and state constitutional protections available for bondholders
 - 11 ○ Assurance that the introduction of alternative energy suppliers will not
 - 12 adversely affect the ability of the securitization charge to satisfy principal
 - 13 of and interest on the Bonds
- 14 • Political Environment
 - 15 ○ The political environment surrounding the passage of the authorizing statute
 - 16 ○ The degree of state regulatory support for the Financing Order and the
 - 17 financing
 - 18 ○ The degree of opposition to the financing from various constituencies
 - 19 ○ The degree of customer benefits expected to result from the financing
- 20 • Transaction Structure
 - 21 ○ Bond structure, including scheduled maturities being shorter than legal final
 - 22 maturities

- 1 ○ Collection Account and proposed revenue waterfall through various
- 2 indenture subaccounts
- 3 ○ Proposed frequency of true-ups
- 4 • Utility as Servicer
- 5 ○ Natural gas consumption forecasting capabilities and historical forecast
- 6 variances
- 7 ○ Customer credit guidelines
- 8 ○ Customer delinquency and write-off experience, including collection rights
- 9 and service disconnection
- 10 ○ Billing systems
- 11 ○ Proposed servicer remittance frequency
- 12 ○ Successor and/or back-up servicers and back-up servicing fees
- 13 • Jurisdictional Area Credit Analysis
- 14 ○ Customer base
- 15 ○ Forecasted monthly natural gas consumption
- 16 ○ Consumption cyclical and seasonality
- 17 ○ Risk of alternative power sources
- 18 ○ Size of the securitization charge as a percentage of the average customer
- 19 bill, including previously imposed securitization charges
- 20 • Cash Flow Stress Scenarios
- 21 ○ Consumption forecast variances
- 22 ○ Customer concentration and customer classification
- 23 ○ Customer delinquencies and charge-offs
- 24 ○ Bond default stress level

1 I. **MARKETING PROCESS**

2 Q. PLEASE DESCRIBE THE BOND MARKETING PROCESS.

3 A. The Bonds will be offered for sale to investors through one or more lead underwriter(s),
4 each of which should have deep experience in the marketing of utility securitization bonds
5 in various markets and the ability to underwrite unsold balances. The lead underwriter,
6 working with the Authority and their advisors and the State Deputy Treasurer for Policy
7 and Debt Management, will develop a marketing plan that in consistent with the structure
8 and amount of the Bonds to be sold. The underwriters should prepare the marketing plan
9 at least three weeks in advance of the actual marketing date and give notice to the market
10 of the impending transaction in conjunction with the Authority. The interest rate or bond
11 coupon is a function of many factors including market conditions at the time the Bonds are
12 sold and is influenced not only by general market conditions, and economic releases, but
13 also by factors including the size of the offering, the pricing of comparable securities,
14 ratings of the Bonds, expected final payment date and expected average life of maturities,
15 as well as the number and quality of bond offerings coming to the market at or around the
16 same time and geo political and other world events. The underwriter’s plan to market and
17 price the Bonds includes the following components:

- 18 • The Bonds will be rated by at least two Rating Agencies.
- 19 • No legal maturity of any series or class of the Bonds is expected to exceed the
20 maximum period of time selected by the Commission from the date of issuance, and
21 some tranches will have scheduled maturities. Recognizing that investors frequently
22 are interested in bonds of one maturity but not another, the Bonds may consist of several
23 tranches to present maturity offerings across a spectrum of potential demand in an effort

1 to achieve the widest appeal to investors thereby creating investor demand with the
2 goal of driving down interest rates to the marginal clearing rate that will support
3 demand for the Bonds. The final tranches will be selected to achieve the lowest bond
4 cost based on actual investor demand and investor liquidity considerations at the time
5 of sale given the structure of the Bonds.

- 6 • Information will be provided to investors regarding the Bonds, including statistical data
7 relating to the Utility's service territory. Following the delivery of the preliminary
8 official statement to potential investors, the Utility, the Authority, their financial
9 advisors and the underwriters will work together to bring the Bond transaction to the
10 attention of such investors, to inform them of its structure and terms, and to answer
11 directly any questions they may have. This process may include an electronic, virtual
12 or in-person roadshow, one-on-one conference calls with significant potential
13 investors, and open conference calls which investors may join. The purpose of this
14 process is to stimulate broad investor demand for the issue, so that the pricing process
15 will result in the lowest available interest rates reasonably consistent with market
16 conditions at the time of pricing based on the structure and ratings of the Bonds.

- 17 • During the marketing phase of the transaction, the underwriters will disclose
18 benchmark rates, likely both on an interest rate swap and Treasury basis, and informal
19 credit spread ranges for the Bonds relative to the benchmark rates for each tranche, in
20 response to which investors will provide indications of interest and identify comparable
21 transactions. The underwriters and Financial Advisor will survey the market for other
22 transactions that could affect the pricing of the Bonds. The timing of the Bond sale
23 could also affect the rate on the Bonds due to economic press releases, competing

1 transactions, and time of year. The lead underwriter (the book-running lead
2 underwriter) will be charged with keeping the master record (known as “the book”) in
3 which all indications of investment interest received by the underwriters from potential
4 investors are recorded. Based on the book of indicated interest, the tranches will be
5 adjusted to achieve lower overall interest rates, if possible through what is usually a
6 multi-step process of gauging investor interest and adjusting interest rate to get to a
7 subscription level at which the underwriters will underwrite the Bonds.

8 • At the official launch of the transaction, the underwriters will disclose specific credit
9 spreads for each tranche of Bonds and investors will be invited to place orders through
10 the underwriters for the amount and specific classes of Bonds they are willing to
11 purchase, at certain prices and bond coupon rates.

12 • The book-running lead underwriter, exercising professional judgment based on the
13 amounts of orders received from investors and co-managers, if any, and with
14 concurrence of the Authority, based upon the advice of its Financial Advisor and
15 approval of the State Deputy Treasurer for Policy and Debt Management, may adjust
16 the prices and bond coupon rates to ensure maximum distribution of the Bonds at the
17 lowest bond yields reasonably consistent with a market clearing offering at the time of
18 sale. If a tranche is oversubscribed, the book-running lead underwriter may lower the
19 coupon, provided that this adjustment does not decrease the aggregate investor interest
20 below the size of the tranche; or, if the tranche is undersubscribed, the book-running
21 lead underwriter may increase the coupon to attract sufficient investor orders to sell the
22 entire tranche.

- 1 • In the event one or more tranches of the Bonds continues to generate no or insufficient
2 investor orders, the underwriters acting through the book-running lead underwriter may
3 again increase the coupon to attract sufficient investor orders to sell the entirety of the
4 tranche(s) or choose to underwrite unsold balances. In the event there are no market
5 clearing coupons and prices for one or more tranches, the transaction may be
6 restructured in order to ascertain the tranches and market clearing interest rates required
7 to sell all the Bonds to investors.
- 8 • It is important to note that the interest rate or price of one tranche of the Bonds most
9 likely will have an effect on the price or interest rate on other tranches of the Bonds,
10 since the price and interest rate on a per maturity basis is relative to other maturities.
11 A longer maturity usually has a higher interest rate or spread to the related benchmark
12 than shorter maturities. Keeping the aggregate book in tack is also a key consideration
13 when pricing and repricing specific tranches of the Bonds.
- 14 • Taking into account the actual demand for the Bonds on the day and time of pricing,
15 the underwriters (acting through the book-running lead underwriter(s) and pursuant to
16 executed underwriting (or bond purchase) agreements with the Authority), will agree
17 to purchase the Bonds at specified investor market clearing prices and coupon rates.

18 In summary, it is through this marketing and price discovery process which I have
19 described that the actual investor market clearing interest rates for the Bonds are
20 determined. It should be noted that this determination is specific to the issue of the Bonds
21 in question. The final price and interest rate for the Bonds will be based on the actual
22 investor orders for the Bonds on the actual day of pricing and involves professional

1 judgment. Upon request, the Commission and its staff will be updated throughout the
2 marketing and pricing process. It is this process of testing and retesting that provides
3 assurance that the Bonds in fact have been sold at the lowest rates reasonably consistent
4 with market conditions on the day and time of pricing based on their structure and specific
5 credit and legal characteristics.

6 **VII. CONCLUSION**

7 Q. PLEASE SUMMARIZE YOUR TESTIMONY.

8 A. Based on my review of the Act and the Financing Order and discussions with bond counsel
9 and special counsel that certain issues related to validity of the securitization charge, non-
10 impairment and an irrevocable nonbypassable charge with an automatic true-up
11 mechanism meet Rating Agency criteria, I believe that the structure proposed in the
12 Financing Order will likely enable the Authority and the Utility to achieve the highest
13 possible ratings for the financing. We cannot assure a specific rating outcome for a variety
14 of reasons, including but not limited to this being the first, to our knowledge, utility gas
15 securitization in more than twenty years. As work on the transaction continues, there are
16 factors, information and market conditions that could affect my testimony and I reserve the
17 right to modify my testimony as facts and circumstances change and come to my attention.
18 Structuring the financing in a manner reasonably consistent with investor preferences at
19 the time of pricing and having a high rating by at least two nationally recognized rating
20 agencies, should allow for sufficient investor demand resulting in the lowest investor
21 market clearing interest costs for the financing reasonably consistent with investor demand,
22 market conditions on the day of pricing and the terms of the Financing Order and specific

1 credit characteristics the bonds. For the reasons set forth in my testimony, I recommend
2 that the Financing Order be adopted by the Commission without changes.

I state, under penalty of perjury under the laws of Oklahoma, that the foregoing is true and correct to the best of my knowledge and belief.

Michael Bartolotta

ATTACHMENT 1

ESTIMATE OF BOND ISSUANCE EXPENSES (EXCLUSIVE OF UTILITY ISSUANCE COSTS)

Estimated costs of issuance are as follows:

Bond Counsel:	\$120,000 fee plus \$5,000 expenses based on Request for Proposal response
Special Counsel:	\$675,000 fee plus \$10,000 expenses based on Request for Proposal response
Disclosure Counsel:	\$250,000 fee plus estimated expenses of \$10,000 based on Request for Proposal response
Financial Advisor Counsel to Financial Advisor:	\$410,000 based on Request for Proposal response \$175,000 estimated. Actual fee will be based on actual time and hourly contractual rate.
Counsel to Commission:	\$50,000
ODFA Fee:	\$150,000
ODFA Counsel:	\$50,000 based on discussions with law firm serving in such capacity
BondLink:	\$23,000
Council of Bond Oversight Fee:	Fee set by formula which is as follows 3bps on the first \$5 million = \$1,500 2bps on the next \$45 million = \$9,000 1bps on amount in excess of \$50 million Based on an issue of \$1.4 billion, the fee would be \$8145,500 (subject to possible cap)
State of Oklahoma Attorney General:	Fee set by formula which is as follows 3bps on the first \$5 million = \$1,500 2bps on the next \$45 million = \$9,000 1bps on amount in excess of \$50 million Based on an issue of \$1.4 billion, the fee would be \$145,500 (subject to possible cap)
Underwriter:	\$4.00 per \$1,000 Bond plus expenses based on Request for Proposal response Based on \$1.4 billion financing: \$5,600,000 Estimated expenses: \$418,878, including an estimated underwriters' counsel fee of \$250,000 based on Request for Proposal response. Underwriter expenses based on

September 28, 2021 estimate by Hilltop underwriting desk assuming two tranches.

Trustee \$5,000 acceptance fee – Estimate provided by trustee on August 20

Trustee Counsel: \$20,000 – estimate provided by prospective trustee on August 20, 2021

Printer: \$5,000 - estimate

Net Roadshow (marketing): \$7,500 - estimate

Rating Agencies Expected to use two of the three of the following Rating Agencies
 Fitch: \$300,000 (based on fee schedule, assuming \$1.4 billion transaction and used in estimated costs of issuance
 S&P: \$650,000 (based on fee schedule, assuming \$1.4 billion transaction) and used in estimated costs of issuance
 Moody's: \$1,050,000 (based on the fee schedule, assuming a \$1.4 billion transaction)

Rule 17g-5 Website: Approximately \$16,000, based on price quote and assumed need for 4 gigabytes for the first year

**ESTIMATE OF ANNUAL ONGOING FEES
(FIRST YEAR ILLUSTRATIVE)**

Rating Agencies: (Expected to use two of three)	
S&P	\$20,000 (based on S&P estimate provided September 23, 2021 and used in estimated ongoing fees)
Fitch	\$10,000 (based on Fitch estimate provided September 23, 2021 and used in estimated ongoing fees)
Moody's	\$46,500 (based on Moody's estimate provided September 23, 2021)
Rule 17g-5 Website:	\$4,000 (based on 4 gigabyte usage per 17g-5 quote)
Trustee:	\$5,000 (based on fee quote from prospective trustee on August 23, 2021)
ODFA Administrative Fee:	\$125,000 (estimate based on precedent from Louisiana Utilities Restoration Corporation transactions)
ODFA Counsel Fees:	\$75,000 (estimate based on precedent from Louisiana Utilities Restoration Corporation transactions)
Accounting Fees:	\$100,000 (estimate based on indication from Price Waterhouse Coopers provided approximately August 26, 2021)
Miscellaneous Expenses:	\$50,000 (estimate based on precedent from Louisiana Utilities Restoration Corporation transactions)
Servicing Fee	0.05% of the original principal amount of the Bonds (based Southern California Edison and Entergy Texas precedents)