

# Securitization Bond Interest Cost and Issuance Cost compared to OCC Approved Financing Caps

# May 29, 2024 Release

**On 29, 2024, the Oklahoma Corporation Commission (OCC) issued a release** in which it provided a link to its mathematical calculation that demonstrated the interest costs to utility ratepayers and the expenses to issue the bonds related to Winter Storm Uri were below the cap set by the Commission. **The calculation was issued to show ratepayers there was no overrun, even with delays.**

The previous release also included a calculation that utilized the change in the “Fed Rate” which occurred during the Supreme Court process. The fed rate at the time of final orders was **0.08%**. The fed rate at the time of the first pricing of bonds was **1.58%**. The calculation used one-half of that increase for illustrative purposes at **0.75%**.

**Since the date of the news release, concerns have been raised in comparing the bond securitization rate with the fed rate.** Therefore, the Public Utility Division (PUD) has provided additional calculations utilizing the Treasury Rate which has been represented as a closer proxy. The following will explain the calculations utilized in the additional illustrative comparison.

Source for Interest Rates; <https://www.macrotrends.net>

# Bond Pricing Expected Timelines

**According to financial advisor, Hilltop, the industry standard for bond pricing is approximately 10-12 weeks (70-84 days) from order to pricing.** In its pre-protest estimate, the bond issuance working group used a similar period. In its presentation before the Commission, Hilltop utilized 91 days in its estimate. We would note the following “order to pricing” dates for the four utilities were actually:

OG&E – 204 days

ONG – 205 days

PSO – 201 days

Summit – 244 days

**Unfortunately, this delay in pricing coincided with extreme volatility in all interest rate impacted markets.** While it is impossible to know the exact impact on pricing, it is clear the protests during the Supreme Court process more than doubled the estimated timeline. It is a reasonable assumption that the extended timeline correlated to increased interest cost.

# Treasury Bond Variance Illustrative Calculation

This calculation uses the 30-year Treasury Bond Yield Rate 91 days after OCC Order Date, as utilized by Hilltop in a Commission meeting. It compares the Treasury rate on expected pricing date versus the actual bond pricing date, to provide an illustrative figure, by utility, for the securitization bonds' interest cost variance. The Hilltop timeline included a **standard Supreme Court review period absent protests.**

This calculation method is more conservative than the initial method and shows the bond interest costs increase of \$157,776,427.

**Both methods are illustrative only** and account for an increase in different rates which had held steady for many months prior to March of 2022.

## Change in Interest Rate Only

	Principle	Fed Rate Change *0.75%	30-Year Treasury Bond Rate Change **	**Revised Variance
<b>OG&amp;E</b>	\$ 761,654,000	\$ 84,192,680	\$ 86,513,964	0.77%
<b>ONG</b>	\$ 1,354,200,000	\$ 133,451,444	\$ 48,897,252	0.28%
<b>PSO</b>	\$ 696,920,000	\$ 54,878,704	\$ 16,552,628	0.23%
<b>Summit</b>	\$ 81,565,000	\$ 4,826,717	\$ 5,812,583	0.90%
		<b>\$ 277,349,544</b>	<b>\$ 157,776,427</b>	

# Important Facts

**Securitization reduced the monthly bill impact to assist those who could least afford an increase.**

**All components of bond pricing were at or below Commission-ordered caps:**

**The interest costs for all four utilities came in below the Commission-ordered cap;**

	<i>Principle</i>	<i>Term (Years)</i>	<i>Ordered Interest Cap %</i>	<i>Amount of Interest at 6% Cap</i>	<i>Actual Interest Rate</i>	<i>Actual Interest From Schedules</i>	<i>Amount Below Interest Cap</i>
<b>OG&amp;E</b>	\$ 761,654,000	28	6%	\$ 820,096,065	4.947%	\$ 638,505,579	\$ 181,590,485
<b>ONG</b>	\$ 1,354,200,000	25	6%	\$ 1,277,382,629	4.523%	\$ 897,926,835	\$ 379,455,794
<b>PSO</b>	\$ 696,920,000	20	6%	\$ 509,096,656	4.545%	\$ 370,995,780	\$ 138,100,876
<b>Summit</b>	\$ 81,565,000	15	6%	\$ 43,276,577	5.269%	\$ 38,196,269	\$ 5,080,308
				<b>\$ 2,649,851,926</b>		<b>\$ 1,945,624,462</b>	<b>\$ 704,227,464</b>

# Important Facts

**The Utility Issuance Cost, such as associated legal and administrative expenses passed through to ratepayers for all four utilities, came in at or below the Commission-ordered cap;**

<b>Utility Bond Issuance Costs</b>	<b>Per Advice Letter</b>	<b>Actuals</b>	<b>Cost Under Cap</b>
<b>OG&amp;E</b>	\$ 500,000	\$ 459,071	\$ 40,929
<b>ONG</b>	\$ 500,000	\$ 484,242	\$ 15,758
<b>PSO</b>	\$ 700,000	\$ 771,264	\$ - *
<b>Summit</b>	\$ 500,000	\$ 418,162	\$ 81,838
			\$ 138,525

**PUD ensures these costs are removed from rate case calculations to avoid double recovery.**

\*PSO shareholders absorbed Utility Issuance Costs over \$700K

# Important Facts

**The Non-Utility Issuance Costs, such as underwriting, attorney and advisor fees securitized through the bonds for all four utilities, came in at or below the estimates presented in sworn testimony to the Commission;**

<b>Non-Utility Bond Issuance Costs</b>	<b>Costs Per Advice Letter</b>	<b>Actuals</b>	<b>Cost Under Estimate</b>
<b>OG&amp;E</b>	\$ 6,948,761	\$ 6,489,521	\$ 459,240
<b>ONG</b>	\$ 9,079,411	\$ 8,779,703	\$ 299,708
<b>PSO</b>	\$ 6,303,459	\$ 5,713,142	\$ 590,317
<b>Summit</b>	\$ 2,435,410	\$ 2,355,073	\$ 80,337
			<b>\$ 1,429,602</b>

See complete listing in the summary *Final Issuance Costs by Payee* posted on the OCC website.

# Important Facts

**The protests before the Supreme Court were lawful and an important expression of Oklahoma residents' rights. The timing of market volatility was just unfortunate.**

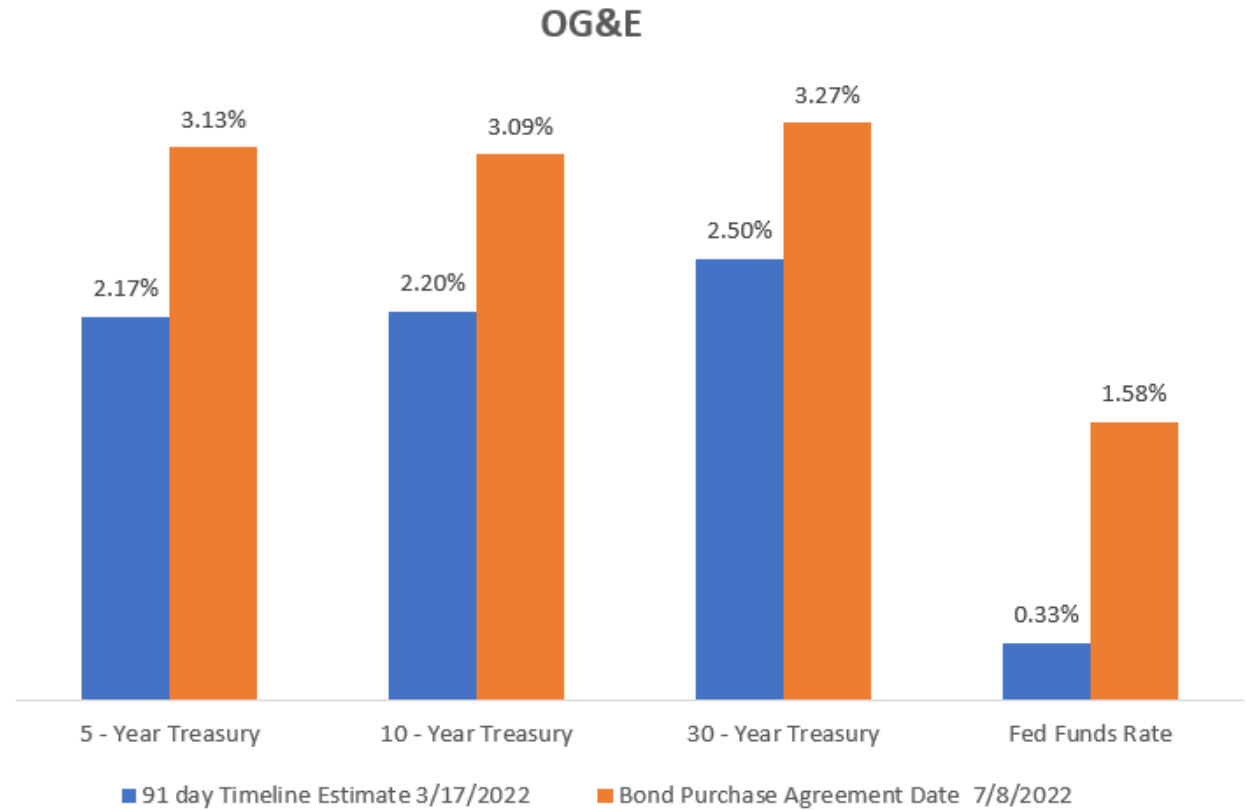
The calculations presented were fundamentally for the purpose of showing ratepayers there was no overrun, despite delays.

**The OCC Public Utility Division is consistently auditing these four utility companies** to ensure their reports on collection of the securitization debt from ratepayers is accurate and the payment to the bond holders is timely and correct.



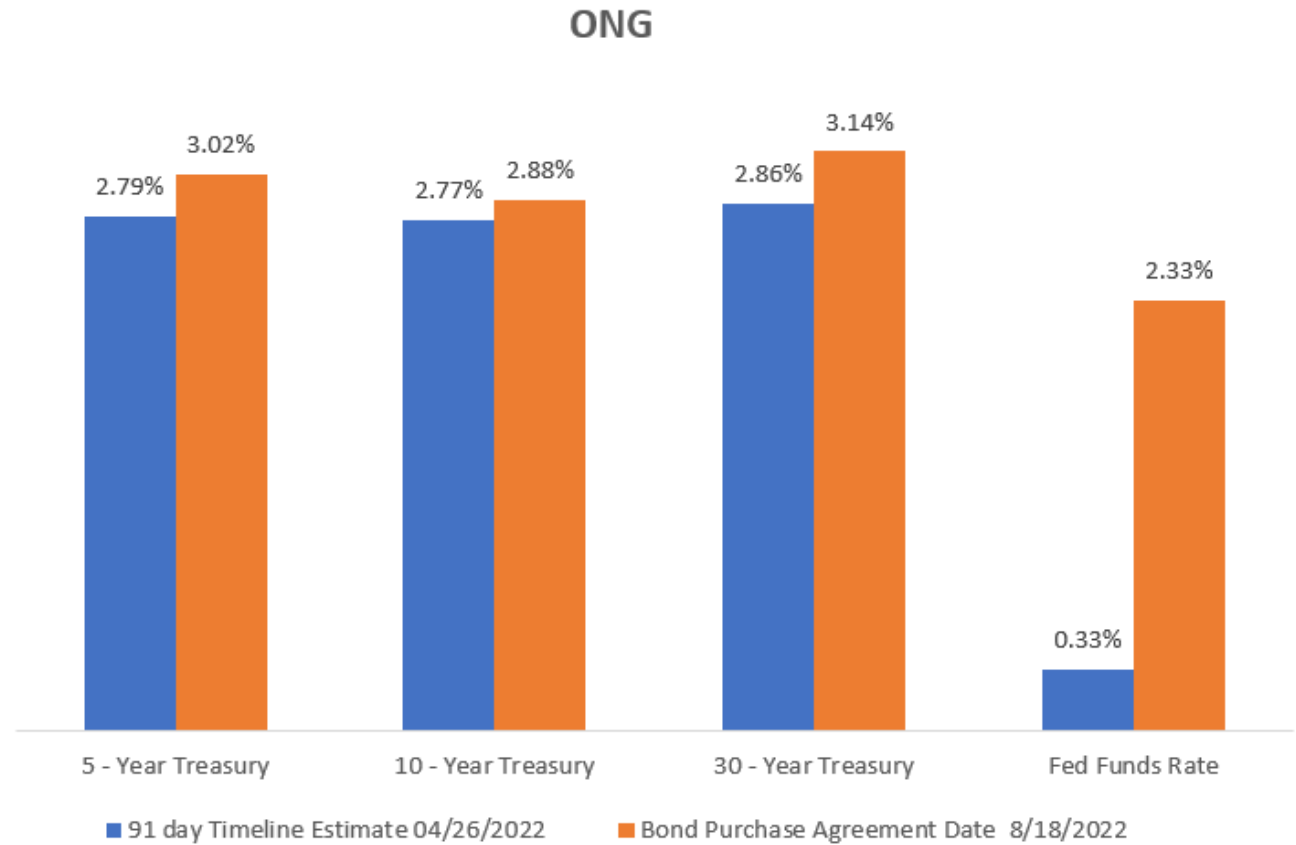
# Appendix

<b>OG&amp;E</b>	<b>91 day Timeline Estimate 3/17/2022</b>	<b>Bond Purchase Agreement Date 7/8/2022</b>
5 - Year Treasury	2.17%	3.13%
10 - Year Treasury	2.20%	3.09%
30 - Year Treasury	2.50%	3.27%
Fed Funds Rate	0.33%	1.58%



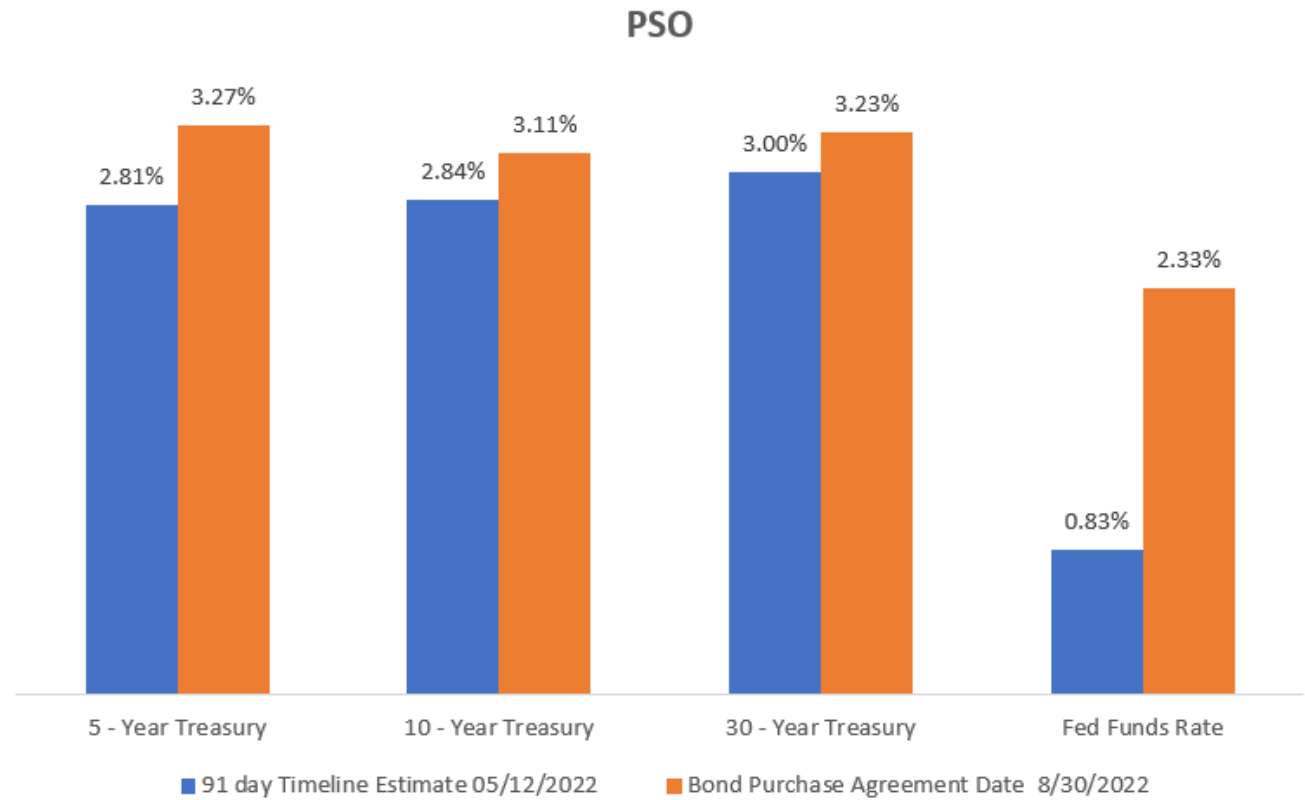
# Appendix (Cont.)

ONG	<u>91 day Timeline</u>	<u>Bond Purchase</u>
	<u>Estimate</u>	<u>Agreement Date</u>
	<u>04/26/2022</u>	<u>8/18/2022</u>
5 - Year Treasury	2.79%	3.02%
10 - Year Treasury	2.77%	2.88%
30 - Year Treasury	2.86%	3.14%
Fed Funds Rate	0.33%	2.33%



# Appendix (Cont.)

<b>PSO</b>	<b>91 day Timeline</b>	<b>Bond Purchase</b>
	<b>Estimate</b>	<b>Agreement Date</b>
	<b>05/12/2022</b>	<b>8/30/2022</b>
5 - Year Treasury	2.81%	3.27%
10 - Year Treasury	2.84%	3.11%
30 - Year Treasury	3.00%	3.23%
Fed Funds Rate	0.83%	2.33%



# Appendix (Cont.)

<b>SUMMIT</b>	<b>91 day Timeline</b>	<b>Bond Purchase</b>
	<b>Estimate</b>	<b>Agreement Date</b>
	<b>05/12/2022</b>	<b>10/12/2022</b>
5 - Year Treasury	2.81%	4.12%
10 - Year Treasury	2.84%	3.91%
30 - Year Treasury	3.00%	3.90%
Fed Funds Rate	0.83%	3.08%

