

Public Version

Exhibit No.:
Issues: Capital Structure, Cost of Debt
Witness: Kirkland B. Andrews
Type of Exhibit: Direct Testimony
Sponsoring Party: Evergy Missouri Metro
Case No.: ER-2022-0129
Date Testimony Prepared: January 7, 2022

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2022-0129

DIRECT TESTIMONY

OF

KIRKLAND B. ANDREWS

ON BEHALF OF

EVERGY MISSOURI METRO

**Kansas City, Missouri
January 2022**

DIRECT TESTIMONY
OF
KIRKLAND B. ANDREWS
Case No. ER-2022-0129

1 **Q: Please state your name and business address.**

2 A: My name is Kirkland B. Andrews. My business address is 1200 Main, Kansas City,
3 Missouri 64105.

4 **Q: By whom and in what capacity are you employed?**

5 A: I am employed by Evergy Metro, Inc. I serve as Executive Vice President and Chief
6 Financial Officer for Evergy Metro, Inc. d/b/a as Evergy Missouri Metro (“Evergy
7 Missouri Metro”), Evergy Missouri West, Inc. d/b/a Evergy Missouri West (“Evergy
8 Missouri West”), Evergy Metro, Inc. d/b/a Evergy Kansas Metro (“Evergy Kansas
9 Metro”), and Evergy Kansas Central, Inc. and Evergy South, Inc., collectively d/b/a as
10 Evergy Kansas Central (“Evergy Kansas Central”) the operating utilities of Evergy, Inc.
11 (“Evergy”).

12 **Q: What are your responsibilities?**

13 A: I have management responsibility for all corporate financial functions, including treasury,
14 accounting, planning, tax, capital allocation, investor relations, risk management and
15 supply chain.

16 **Q: Please describe your education, experience, and employment history.**

17 A: I served as Executive Vice President and Chief Financial Officer of NRG Energy, Inc.
18 from 2011 until I joined Evergy and its operating utilities in February 2021 after having
19 served on Evergy’s Board of Directors over the prior 11 months. I was a director of NRG

1 Yield, Inc. from 2012-2018 and also served as Executive Vice President and Chief
2 Financial Officer of NRG Yield from 2012-2016. Prior to joining NRG, I was Managing
3 Director and Group Head of Power & Utilities Investment Banking for the Americas at
4 Deutsche Bank from 2009-2011. I previously served as Group Head of North American
5 Power and Utilities at Citi from 2007-2009, and Head of Power and Utilities Mergers and
6 Acquisitions from 2005-2007. I hold a Bachelor of Arts degree in Philosophy from
7 Wake Forest University and a Master of Business Administration (MBA) from the
8 University of Virginia's Darden School of Business.

9 **Q: Have you previously testified in a proceeding at the Missouri Public Service**
10 **Commission ("MPSC") or before any other utility regulatory agency?**

11 A: No.

12 **Q: On whose behalf are you testifying?**

13 A: I am testifying on behalf of Evergy Metro in this proceeding.

14 **Q: What is the purpose of your testimony?**

15 A: My testimony presents evidence and supports the Company's capital structure and cost of
16 debt for calculating Metro's weighted average cost of capital. I am also providing the
17 rationale for the specific Return on Equity ("ROE") rate requested by the Company and
18 the Company's weighted average cost of capital.

19 **RETURN ON EQUITY**

20 **Q: What specific ROE rate is being requested by Metro and why was that rate chosen?**

21 A: Metro is requesting an ROE of 10.00 percent. This ROE is at the lower end of the range
22 of 9.90 percent to 10.50 percent recommended in the Direct Testimony of Company

1 witness Ann Bulkley and represents a reasonable, but conservative ROE within the
2 recommended range of Metro's Cost of Equity.

3 **Q: Have you reviewed the risk analysis performed by Company witness Bulkley?**

4 A: Yes.

5 **Q: Do you agree with her assessment of risk factors considered by credit agencies and**
6 **investors and the importance of considering those factors in determining the**
7 **appropriate authorized ROE and capital structure?**

8 A: Yes I do. In my current role and during my time at NRG, I have had numerous
9 discussions on these topics with credit agencies as well as debt and equity investors.
10 Assessment of regulatory environment and peer comparisons of regulatory mechanisms
11 are paramount in a utility's ability to attract adequate capital at a reasonable price. I have
12 reviewed Ms. Bulkley's assessment and comparison to peer companies and her analysis
13 is very consistent with recent discussions I have personally had with credit agencies and
14 investors. As discussed in Ms. Bulkley's testimony, the regulatory environment is
15 specifically evaluated in both S&P and Moody's ratings methodologies. It is imperative
16 that the Commission appropriately balance these risks in its deliberations and order. The
17 analysis provided by Ms. Bulkley supports Metro's requested 10.0% ROE and capital
18 structure in this case.

19 **CAPITAL STRUCTURE AND COST OF DEBT**

20 **Q: Please summarize the Company's requested capital structure and overall rate of**
21 **return.**

22 A: The requested capital structure components and resulting overall rate of return are
23 presented in Table 1 below:

1

Table 1: Summary of Overall Rate of Return

Capital Components	Ratio	Cost	Weighted Cost
Long-Term Debt	48.81%	3.920%	1.913%
Common Equity	51.19%	10.00%	5.119%
Total	100.00%		7.032%

2 **Q: What is the basis for the Company’s requested capital structure and overall rate of**
3 **return?**

4 A: The requested capital structure, as well as the Cost of Debt, are based on Metro’s
5 projected capital structure on May 31, 2022. The data supporting the requested capital
6 structure is presented in Schedule KBA-1, with the May 31, 2022 summary shown on
7 page 1 of that schedule. The Company is requesting an overall rate of return of 7.032%.

8 **Q: Is Metro’s requested capital structure reasonable and sufficient to support Metro’s**
9 **financial metrics and investment plans?**

10 A: Yes. I would refer the Commission to the direct testimony of Ms. Bulkley. She has
11 reviewed and presented evidence regarding the capital structures of the utility operating
12 subsidiaries of the fifteen companies in the proxy group she utilized to present her cost of
13 capital and related recommendations for Metro. Her review demonstrates that Metro’s
14 requested capital structure is reasonable and squarely in the range of peer company
15 capital structures. Additionally, given Metro’s need to maintain strong financial metrics
16 in the years after rates become effective in this case, I am confident that the requested
17 capital structure and an ROE in the range recommended by Ms. Bulkley is appropriate
18 and sufficient to support Metro’s future investment plans.

1 **Q: What is the difference between Metro’s capital structure as of September 30, 2021**
2 **and May 31, 2022?**

3 A: The actual Metro capital structure as of September 31, 2021 is shown on page 2 of
4 Schedule KBA-1. The key difference between the actual capital structure and the
5 requested capital structure is ** [REDACTED]
6 [REDACTED] **

7 **Q: How does the capital structure affect the Cost of Equity?**

8 A: An appropriately designed capital structure should enable the Company to maintain or
9 enhance its financial integrity, thereby providing for access to capital at competitive rates
10 under a variety of economic and financial market conditions. Capital structure relates to
11 financial risk, which is a function of the percentage of debt relative to equity and is often
12 referred to as financial leverage. As financial leverage increases, so do the fixed
13 obligations for the repayment of that debt and the associated interest payments and,
14 therefore, the risk that cash flows may not be sufficient to meet those obligations on a
15 timely basis. Since the capital structure can affect a company’s overall level of risk, it is
16 an important consideration in establishing a just and reasonable rate of return. Therefore,
17 it is important to consider the capital structure in light of industry practice and investor
18 requirements.

19 **Q: Is Metro’s requested cost of debt reasonable?**

20 A: Yes. The cost of debt is a result of market issuances over time entered directly by Metro
21 in support of its regulated operations. I would also refer the Commission to the direct
22 testimony of Ms. Bulkley. She has performed an analysis to determine the

1 reasonableness of Metro’s embedded cost of long-term debt. Her review and analysis
2 demonstrate Metro’s 3.92% cost of debt is reasonable.

3 **Q: What are your concluding remarks and requests to the Commission?**

4 A: Metro’s requested capital structure is based on the projected capital structure at the
5 expected true-up date in this case. At true-up, we will reflect the actual capital structure
6 for Metro in the true-up revenue requirement. My capital structure request in this case is
7 consistent with the methodology and elements of Metro’s capital structure that were
8 presented in its 2018 rate case.

9 Metro’s requested ROE of 10.0% is at the lower end of the range supported by
10 Ms. Bulkley. A 10.0% ROE is necessary and appropriate if Metro is to have access to the
11 capital necessary to support its planned investments in grid modernization and reliability,
12 as well as its plans to continue its transition to cleaner energy resources.

13 These ambitious plans to modernize the grid and serve our customers with cleaner
14 resources are aligned with both Missouri and federal policies and objectives.
15 Specifically, for Missouri, the 2018 Plant-in-Service Accounting statute (393.1400
16 RSMo.) and the recently enacted Electric Utility Financing and Securitization statute
17 (393.1700 RSMo.) reflect the state’s policy to support and encourage such investments.
18 Therefore, I request that the Commission authorize a Return on Equity rate of 10.0% and
19 approve the recommended capital structure, based upon Metro’s actual capital structure at
20 the expected true-up date of May 31, 2022 in this case.

21 **Q: Does that conclude your testimony?**

22 A: Yes.

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of Evergy Metro, Inc. d/b/a Evergy)
Missouri Metro's Request for Authority to) Case No. ER-2022-0129
Implement A General Rate Increase for Electric)
Service)

AFFIDAVIT OF KIRKLAND B. ANDREWS

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

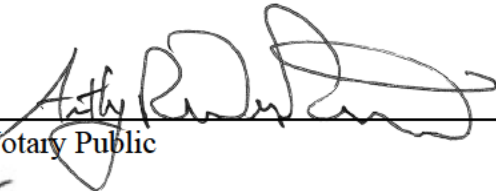
Kirkland B. Andrew, being first duly sworn on his oath, states:

1. My name is Kirkland B. Andrews. I work in Kansas City, Missouri, and I am employed by Evergy Metro, Inc. as Executive Vice President and Chief Financial Officer.
2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Evergy Missouri Metro consisting of six (6) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.
3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.



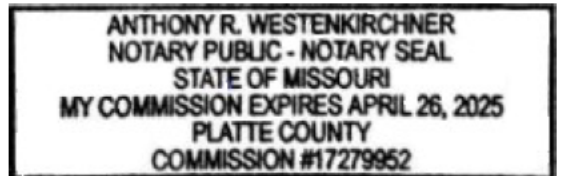
Kirkland B. Andrews

Subscribed and sworn before me this 7th day of January 2022.



Notary Public

My commission expires: 4/26/2025



Evergy Missouri Metro Electric Utility

Capital Structure and Rate of Return

Projected May 31, 2022

Summary				
	Balance	Weight	Rate	Rate of Return
Long-term Debt*	2,949,380,000	48.81%	3.920%	1.913%
Common Equity	3,093,559,220	51.19%	10.000%	5.119%
Total Capitalization	6,042,939,220	100.00%		7.032%

*Excludes unamortized debt expenses and discounts. Normally **includes** current maturities of long-term debt, but there are none at this point.

Long-Term Debt										
Description	Date of Offering	Date of Maturity	Interest Rate	Principal Amount of Issue	Net Proceeds (b)	Yield to Maturity	Outstanding Debt Capital (d)	Cost of Debt	Net Premium, Discount & Expense	Net Proceeds Percent of Original Issue
KCPL Senior Notes Due 2023 - 3.15% Coupon	03/14/13	03/15/23	3.1500%	300,000,000	297,378,059	3.2531%	300,000,000	9,759,160	2,621,941	99.126020%
KCPL MATES Series 1993-A	12/07/93	12/1/2023	2.9500%	40,000,000	39,042,690	3.0727%	40,000,000	1,229,083	957,310	97.606725%
KCPL MATES Series 1993-B	12/07/93	12/1/2023	2.9500%	39,480,000	38,536,579	3.0725%	39,480,000	1,213,030	943,421	97.610382%
KCPL Senior Notes Due 2023 - 3.65% Coupon	08/13/15	08/15/25	3.6500%	350,000,000	345,828,621	3.7942%	350,000,000	13,279,855	4,171,379	98.808177%
KCPL EIRR La Cygne 2005 Series - 4.65% Coupon	02/23/94	9/1/2035	4.6500%	21,940,000	21,379,303	4.7924%	21,940,000	1,051,444	560,697	97.444407%
KCPL 2005 Series Due 2035 - 4.65% Coupon	09/01/05	9/1/2035	4.6500%	50,000,000	48,662,914	4.8195%	50,000,000	2,409,748	1,337,086	97.325828%
KCPL 2007 Series A Due 2035 (a)	09/19/07	9/1/2035	0.1740%	73,250,000	72,288,211	0.2225%	73,250,000	162,965	961,789	98.686977%
KCPL 2007 Series B Due 2035 (a)	09/19/07	9/1/2035	0.1740%	73,250,000	72,288,211	0.2225%	73,250,000	162,965	961,789	98.686977%
KCPL GMB Due 2030 - 2.25% Coupon	05/26/20	06/01/30	2.2500%	400,000,000	396,180,825	2.3576%	400,000,000	9,430,220	3,819,175	99.045206%
KCPL Senior Notes Due 2035 - 6.05% Coupon	11/17/05	11/15/35	6.0500%	250,000,000	246,235,946	6.1607%	250,000,000	15,401,637	3,764,054	98.494378%
KCPL 2008 Series Due 2038	05/28/08	5/1/2038	2.8750%	23,400,000	22,991,912	2.9632%	23,400,000	693,394	408,088	98.256034%
KCPL Senior Notes Due 2041 - 5.30% Coupon	09/20/11	10/01/41	5.3000%	400,000,000	393,432,638	5.4111%	400,000,000	21,644,342	6,567,362	98.358160%
KCPL Senior Notes Due 2047 - 4.20% Coupon	06/15/17	06/15/47	4.2000%	300,000,000	296,181,182	4.2757%	300,000,000	12,827,114	3,818,818	98.727061%
KCPL Senior Notes Due 2048 - 4.20% Coupon	03/01/18	03/15/48	4.2000%	300,000,000	296,470,931	4.2698%	300,000,000	12,809,316	3,529,069	98.823644%
KCPL GMB Due 2049 - 4.125% Coupon	03/27/19	04/01/49	4.1250%	400,000,000	393,655,190	4.2186%	400,000,000	16,874,558	6,344,810	98.413797%
Miscellaneous loss on reacquired debt								522,667		
Put/call option settlement								(397,575)		
Tax-exempt Debt Repurchased							(71,940,000)	(3,461,192)		
Total				3,021,320,000	2,980,553,212		2,949,380,000	115,612,731	40,766,788	

Weighted Average Cost of Debt Capital 3.920%

Common Equity				
	Last Actual Balance	Projected Earnings (Losses)	Projected Dividend Payments	Total
Balance 9/30/21	3,012,443,871			3,012,443,871
Oct-21				
Nov-21				
Dec-21				
Jan-22				
Feb-22				
Mar-22				
Apr-22				
May-22				
Projected Balance	3,012,443,871			

Long Term Debt				
	Last Actual Balance	L-T Debt Maturities	Projected L-T Debt Issuances	Total
Balance 9/30/21	2,949,380,000			2,949,380,000
Oct-21		-	-	-
Nov-21		-	-	-
Dec-21		-	-	-
Jan-22		-	-	-
Feb-22		-	-	-
Mar-22		-	-	-
Apr-22		-	-	-
May-22		-	-	-
Projected Balance	2,949,380,000			2,949,380,000

**Evergy Missouri Metro Electric Utility
Capital Structure and Rate of Return
Actual Sept 30, 2021**

	Balance	Weight	Rate	Rate of Return
Long-term Debt*	2,949,380,000	49.47%	3.920%	1.939%
Common Equity	3,012,443,871	50.53%	9.440%	4.770%
Total Capitalization	5,961,823,871	100.00%		6.709%

*Excludes unamortized debt expenses and discounts. Normally includes current maturities of long-term debt, but there are none at this point.

Long-Term Debt											
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Weighted Average Cost of Debt Capital **3.920%**