

Public Version

Exhibit No.:
Issues: Capital Structure, Cost of Debt
Witness: Kirkland B. Andrews
Type of Exhibit: Direct Testimony
Sponsoring Party: Evergy Missouri West
Case No.: ER-2022-0130
Date Testimony Prepared: January 7, 2022

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2022-0130

DIRECT TESTIMONY

OF

KIRKLAND B. ANDREWS

ON BEHALF OF

EVERGY MISSOURI WEST

**Kansas City, Missouri
January 2022**

DIRECT TESTIMONY
OF
KIRKLAND B. ANDREWS
Case No. ER-2022-0130

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” or “Company”), Evergy Metro, Inc. d/b/a Evergy Kansas Metro (“Evergy
9 Kansas Metro”), and Evergy Kansas Central, Inc. and Evergy South, Inc., collectively
10 d/b/a as Evergy Kansas Central (“Evergy Kansas Central”) the operating utilities of
11 Evergy, Inc.

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 in February 2021 after having served on Evergy’s Board
19 of Directors over the prior 11 months. I was a director of NRG Yield, Inc. from 2012-

1 2018 and also served as Executive Vice President, Chief Financial Officer of NRG Yield
2 from 2012-2016. Prior to joining NRG, I was Managing Director and Group Head of
3 Power & Utilities Investment Banking for the Americas at Deutsche Bank from 2009-
4 2011. I previously served as Group Head of North American Power and Utilities at Citi
5 from 2007-2009, and Head of Power and Utilities Mergers and Acquisitions from 2005-
6 2007. I hold a Bachelor of Arts degree in Philosophy from Wake Forest University and a
7 Master of Business Administration (MBA) from the University of Virginia's Darden
8 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 Missouri West 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 Evergy Missouri West's weighted average cost of capital. I am also
17 providing the rationale for the specific Return on Equity ("ROE") rate requested by the
18 Company and the Company's weighted average cost of capital.

19 **RETURN ON EQUITY**

20 **Q: What specific ROE rate is being requested by Evergy Missouri West and why was**
21 **that rate chosen?**

22 A: Evergy Missouri West is requesting a ROE of 10.00 percent. This ROE is at the lower
23 end of the range of 9.90 percent to 10.50 percent recommended in the Direct Testimony

1 of Company witness Ann Bulkley and represents a reasonable, but conservative ROE
2 within the recommended range of Evergy Missouri West'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 Evergy Missouri West's requested 10.0%
18 ROE and capital 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	48.19%	3.787%	1.825%
Common Equity	51.81%	10.000%	5.181%
Total	100.00%		7.006%

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 Evergy Missouri
5 West’s projected capital structure on May 31, 2022. The data supporting the requested
6 capital structure is presented in Schedule KBA-1, with the May 31, 2022 summary shown
7 on page 1 of that schedule. The Company is requesting an overall rate of return of
8 7.006%.

9 **Q: Have you made a specific adjustment to the projected May 31, 2022 capital**
10 **structure to address goodwill recorded on Evergy Missouri West’s regulated**
11 **financial statements resulting from the 2008 acquisition?**

12 A: Yes. Consistent with how it was addressed through the Company’s 2016 and 2018 rate
13 cases, we have made a goodwill adjustment to Evergy Missouri West’s capital structure
14 in the amount of \$168.97 million. This goodwill adjustment is reflected in our requested
15 51.81% equity component of Evergy Missouri West’s capital structure and will also be
16 reflected in the Company’s true-up revenue requirement calculation in this rate case.

1 **Q: Is Evergy Missouri West’s requested capital structure reasonable and sufficient to**
2 **support Evergy Missouri West’s financial metrics and investment plans?**

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

13 **Q: Please summarize the key items that cause the difference in Evergy Missouri West’s**
14 **capital structure between September 30, 2021 and May 31, 2022?**

15 A: The actual Evergy Missouri West capital structure as of September 31, 2021 is shown on
16 page 2 of Schedule KBA-1. As noted on page 2 of Schedule KBA-1, there are 4 items
17 that comprise the difference in the Company’s capital structure between September 30,
18 2021 and May 31, 2022. Those items are as follows.

19 1) Projected net income from October 2021 through May 31, 2022 is ** [REDACTED] **
20 which will increase equity by that same amount.

21 2) A projected equity contribution of ** [REDACTED] ** from Evergy, Inc. in March
22 2022 to maintain an appropriate long-term capital structure.

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1 3) There are two long term debt maturities totaling \$180.8 million: \$80.8 million on
2 November 15, 2021 and \$100 million on March 1, 2022.

3 4) A planned \$250 million long-term debt issuance in March 2022.

4 **Q: Please explain why an equity contribution is planned given that Missouri has**
5 **implemented the PISA mechanism.**

6 A: As of September 30, 2021, the Company has invested over \$398 million in PISA eligible
7 projects. As discussed more fully in the testimony of Company witness Ann Bulkley,
8 PISA is a mechanism that minimizes lag between rate cases. However, PISA does not
9 provide for cash recovery of that investment until the next general rate case. But, there
10 are many factors to assess in capital structure management. We not only considered the
11 effects from PISA eligible investments, but also future planned investments to support
12 reliability, resilience and grid modernization as well as plans to transition to cleaner
13 energy. After assessing these items, we determined it was necessary to plan for both
14 equity and debt. to maintain an appropriate capital structure.

15 **Q: Please explain what you mean by “to maintain an appropriate capital structure”.**

16 A: We continually evaluate and manage the capital structure to maintain a balance of
17 approximately 50% equity and 50% debt optimizing over the long-term for the timing of
18 financing, capital plans and rating agency views. We not only consider a historical view,
19 but also look forward as we consider these factors in order to maintain a strong balance
20 sheet and protect our current credit rating which is good for customers in the long-term.

1 **Q: Is the planned March 2022 long-term debt issuance and equity contribution**
2 **included in the Company's filed revenue requirement?**

3 A: No. These actions were approved by the Company's Board of Directors at the December
4 15, 2021 board meeting and as such, are not included in the Company's forecasted true-
5 up model included with our direct filing.

6 **Q: Will the planned March 2022 issuance and equity contribution be included in the**
7 **Company's true-up filing?**

8 A: Yes, we expect the \$250 million issuance of long-term debt and ** [REDACTED] ** equity
9 contribution will be completed and included in the Company's true-up filing.

10 **Q: How does the capital structure affect the cost of equity?**

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

1 **Q: Is Evergy Missouri West's requested cost of debt reasonable?**

2 A: Yes. I would refer the Commission to the direct testimony of Ms. Bulkley. She has
3 performed an analysis to determine the reasonableness of Evergy Missouri West's
4 embedded cost of long-term debt. Her review and analysis demonstrate Evergy Missouri
5 West's 3.787% cost of debt is reasonable.

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

7 A: Evergy Missouri West's requested capital structure, as presented in my direct testimony,
8 is based on the projected capital structure at the expected true-up date in this case. At
9 true-up we will reflect the actual capital structure for Evergy Missouri West in the true-up
10 revenue requirement. The capital structure in this case is consistent with the
11 methodology and elements of Evergy Missouri West's capital structure that were
12 presented in its 2018 rate case.

13 Evergy Missouri West's requested ROE of 10.0% is at the lower end of the range
14 supported by Ms. Bulkley. A 10.0% ROE is necessary and appropriate if Evergy
15 Missouri West is to have access to the capital necessary to support its planned
16 investments in grid modernization and reliability, as well as its plans to continue its
17 transition to cleaner energy resources.

18 These ambitious plans to modernize the grid and serve our customers with cleaner
19 resources are aligned with both Missouri and federal policies and objectives.
20 Specifically, for Missouri, the 2018 Plant-in-Service Accounting statute (393.1400
21 RSMo.) and the recently enacted Electric Utility Financing and Securitization statute
22 (393.1700 RSMo.) reflect the state's policy to support and encourage such investments.
23 Therefore, I request that the Commission authorize a return on equity rate of 10.0% and

1 approve the recommended capital structure, based on Evergy Missouri West's actual
2 capital structure at the expected true-up date of May 31, 2022 in this case.

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

4 A: Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Evergy Missouri West, Inc. d/b/a)
Evergy Missouri West's Request for Authority to) Case No. ER-2022-0130
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:

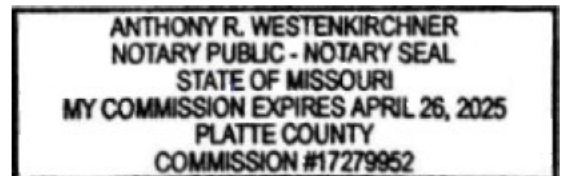
1. My name is Kirkland B. Andrews. I work in Kansas City, Missouri, and I am employed by Evergy Metro, Inc. as Executive Vice President and Chief Financial Officer.
2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Evergy Missouri West consisting of nine (9) 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



Evergny Missouri West Electric Utility

Capital Structure and Rate of Return

Projected May 31, 2022

Summary				
	Balance	Weight	Rate	Rate of Return
Long-Term Debt*	1,293,500,000	48.19%	3.787%	1.825%
Common Equity	1,390,538,211	51.81%	10.000%	5.181%
Total Capitalization	2,684,038,211	100.00%		7.006%

*Excludes unamortized debt expenses and discounts. **Includes** current maturities of long-term debt.

Long-Term Debt										
Description	Date of Offering	Date of Maturity	Interest Rate	Principal Amount of Issue	Net Proceeds	Yield to Maturity	Outstanding Debt Capital	Cost of Debt	Net Premium, Discount & Expense	Net Proceeds Percent of Original Issue
GMO Intercompany Debt - 2012 5 292% Senior Notes	03/21/12	06/15/22	5.1500%	287,500,000	287,500,000	5.1490%	287,500,000	14,803,274		100.000000%
GMO 1993 7.33% SJLP Medium Term Notes	11/30/93	11/30/23	7.3300%	3,000,000	2,836,394	7.8032%	3,000,000	234,095	163,606	94.546467%
GMO 1993 7.17% SJLP Medium Term Notes	12/06/93	12/01/23	7.1700%	7,000,000	6,617,741	7.6361%	7,000,000	534,529	382,259	94.539157%
GMO 2013 Senior Notes Series A 3.49% due 2025	08/16/13	08/15/25	3.4900%	125,000,000	124,217,730	3.5545%	36,000,000	1,279,627	782,270	99.374184%
GMO 2013 Senior Notes Series B 4.06% due 2033	08/16/13	08/15/33	4.0600%	75,000,000	74,532,997	4.1059%	60,000,000	2,463,567	467,003	99.377329%
GMO 2013 Senior Notes Series C 4.74% due 2043	08/16/13	08/15/43	4.7400%	150,000,000	149,061,612	4.7795%	150,000,000	7,169,192	938,388	99.374408%
2021 Senior Notes Series A 2.86% due 2031	04/20/21	04/20/31	2.8600%	350,000,000	348,075,000	2.9238%	350,000,000	10,233,405	1,831,118	99.450000%
2021 Senior Notes Series B 3.01% due 2033	04/20/21	04/20/33	3.0100%	75,000,000	74,610,000	3.0621%	75,000,000	2,296,581	392,382	99.480000%
2021 Senior Notes Series C 3.21% due 2036	04/20/21	04/20/36	3.2100%	75,000,000	74,654,625	3.2490%	75,000,000	2,436,773	392,382	99.539500%
2022 Senior Note	03/01/22	03/01/32	2.7500%	250,000,000	247,500,000	2.8657%	250,000,000	7,164,305	392,382	99.000000%
Miscellaneous loss on reacquired debt								367,876		
Total				1,397,500,000	1,389,606,099		1,293,500,000	48,983,223	5,741,792	

Weighted Average Cost of Debt Capital 3.787%

Common Equity				
	Last Actual Balance	Projected Earnings (Losses)	Projected Equity Contribution	Total
Balance 9/30/21	1,318,996,792			1,318,996,792
Oct-21				
Nov-21				
Dec-21				
Jan-22				
Feb-22				
Mar-22				
Apr-22				
May-22				
Projected Balance	1,318,996,792			
Goodwill Adjustment				
Adjusted Balance				

Long Term Debt				
	Last Actual Balance	L-T Debt Maturities	Projected L-T Debt Issuances	Total
Balance 9/30/21	1,224,350,000			1,224,350,000
Oct-21		-	-	-
Nov-21		(80,850,000)	-	(80,850,000)
Dec-21		-	-	-
Jan-22		-	-	-
Feb-22		-	-	-
Mar-22		(100,000,000)	250,000,000	150,000,000
Apr-22		-	-	-
May-22		-	-	-
Projected Balance	1,224,350,000	(180,850,000)	250,000,000	1,293,500,000

Actual Sept 30, 2021

Summary				
	Balance	Weight	Rate	Rate of Return
Long-Term Debt*	1,224,350,000	51.57%	4.289%	2.211%
Common Equity	1,150,027,202	48.43%	9.506%	4.604%
Total Capitalization	2,374,377,202	100.00%		6.816%

*Excludes unamortized debt expenses and discounts. **Includes** current maturities of long-term debt.

Long-Term Debt										
Description	Date of Offering	Date of Maturity	Interest Rate	Principal Amount of Issue	Net Proceeds	Yield to Maturity	Outstanding Debt Capital	Cost of Debt	Net Premium, Discount & Expense	Net Proceeds Percent of Original Issue
GMO 1999 8.27% Senior Notes	03/31/99	11/15/21	8.2700%	131,750,000	128,158,857	8.5425%	80,850,000	6,906,633	3,591,143	97.274275%
GMO 2019 3.74% Senior Notes	03/01/19	03/01/22	3.7400%	100,000,000	99,876,960	3.7838%	100,000,000	3,783,771	123,040	99.876960%
GMO Intercompany Debt - 2012 5.292% Senior Notes	03/21/12	06/15/22	5.1500%	287,500,000	287,500,000	5.1490%	287,500,000	14,803,274		100.000000%
GMO 1993 7.33% SJLP Medium Term Notes	11/30/93	11/30/23	7.3300%	3,000,000	2,836,394	7.8032%	3,000,000	234,095	163,606	94.546467%
GMO 1993 7.17% SJLP Medium Term Notes	12/06/93	12/01/23	7.1700%	7,000,000	6,617,741	7.6361%	7,000,000	534,529	382,259	94.539157%
GMO 2013 Senior Notes Series A 3.49% due 2025	08/16/13	08/15/25	3.4900%	125,000,000	124,217,730	3.5545%	36,000,000	1,279,627	782,270	99.374184%
GMO 2013 Senior Notes Series B 4.06% due 2033	08/16/13	08/15/33	4.0600%	75,000,000	74,532,997	4.1059%	60,000,000	2,463,567	467,003	99.377329%
GMO 2013 Senior Notes Series C 4.74% due 2043	08/16/13	08/15/43	4.7400%	150,000,000	149,061,612	4.7795%	150,000,000	7,169,192	938,388	99.374408%
2021 Senior Notes Series A 2.86% due 2031	04/20/21	04/20/31	2.8600%	350,000,000	348,075,000	2.9238%	350,000,000	10,233,405	1,831,118	99.450000%
2021 Senior Notes Series B 3.01% due 2033	04/20/21	04/20/33	3.0100%	75,000,000	74,610,000	3.0621%	75,000,000	2,296,581	392,382	99.480000%
2021 Senior Notes Series C 3.21% due 2036	04/20/21	04/20/36	3.2100%	75,000,000	74,654,625	3.2490%	75,000,000	2,436,773	392,382	99.539500%
Miscellaneous loss on reacquired debt								367,876		
Total				1,379,250,000	1,370,141,916		1,224,350,000	52,509,323	9,063,592	

Weighted Average Cost of Debt Capital 4.289%

Common Equity				
	Last Actual Balance	Projected Earnings (Losses)	Projected Equity Contribution	Total
Balance 9/30/21	1,318,996,792			1,318,996,792
Goodwill Adjustment				(168,969,590)
Actual Balance				1,150,027,202