

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. EF-2023-0241, Evergy Metro, Inc., d/b/a Evergy Missouri Metro

FROM: Kelli McKinley, Financial Analyst, Financial Analysis Department

/s/ Seoung Joun Won 03/13/2023 /s/ Scott Stacey 03/13/2023
Financial Analysis Department / Date Staff Counsel's Office / Date

SUBJECT: Staff Recommendation concerning the Application of Evergy Metro, Inc., d/b/a Evergy Missouri Metro ("Evergy Metro," "Company," or "Applicant"), for Approval of Financing Authority to issue, in principal amount, up to Three Hundred Million Dollars (\$300,000,000) of General Mortgage Bonds through December 31, 2023 to repay or refinance outstanding indebtedness.

DATE: March 13, 2023

1. (a) **Type of Issue:** To repay or refinance senior secured debt securities ("General Mortgage Bonds") under the Applicant's existing General Mortgage Indenture and Deed of Trust, dated as of December 1, 1986 (General Mortgage Indenture").

(b) **Amount:** Up to \$300,000,000.

(c) **Rate:** Fixed or variable rate not to exceed 7.00%.¹
2. **Proposed Date of Transaction:** Anytime during the period after the effective date of the order resulting from the Company's Application through December 31, 2023.
3. (a) **Statement of Purpose of the Issue** Company proposes to use the proceeds to refinance existing senior secured debt securities and funds for capital investments.

(b) **From a financial perspective, does Staff deem this Statement of Purpose of the Issue reasonable?**

Yes, with conditions imposed.
4. **Copies of executed instruments defining terms of the proposed securities:**

No instruments have been executed.

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¹ Paragraph 16, page 4 and Exhibit 1, page 2, Evergy Metro's Application.

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5. **Certified copy of resolution of the directors of applicant, or other legal documents authorizing the issuance of the securities reviewed:**

Yes

6. **Pro-forma Balance Sheet and Income Statement reviewed:**

Yes

7. **Capital expenditure schedule reviewed:**

Yes

8. **Journal entries required to be filed by Evergy Metro to allow for the Fee Schedule to be applied:**

No. The debt issuances are not expected to be subject to the fee schedule in Section 386.300, RsMO. The company will file a statement of the portion of the issuance of the General Mortgage Bonds, if any, which is subject to the fee schedule in 4 Section 386.300, RsMO and pursuant to 20 CSR 4240-10.125(F).

9. **Recommendation of the Staff:**

Conditional Approval granted pending receipt of definite terms of issuance (see Comments and Recommended Conditions below).

COMMENTS:

Evergy Metro is a public utility engaged in providing electric utility services in portions of Missouri under the jurisdiction of this Commission and is a subsidiary of Evergy, Inc. Evergy Metro serves approximately 571,500 customers, including 505,000 residences; 64,600 commercial firms; and 1,900 industrials, municipalities, and other electric utilities. Evergy Metro, headquartered in Kansas City, was formerly known as Kansas City Power & Light Company and was incorporated in 1922. The corporate credit ratings assigned to Evergy Metro by Moody's and S&P are 'Baa1' and 'A', respectively.²

² S&P Capital IQ Pro – Evergy Metro, Inc.

On February 27, 2023, Evergy Metro filed an Application with the Commission requesting approval for authority to issue and sell up to \$300,000,000 in principal amount of General Mortgage Bonds through December 31, 2023 to refinance outstanding indebtedness and seek funds for capital investments. Evergy Metro has stated in responses to Staff's Data Requests that ** [REDACTED]

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Staff applies the "not detrimental to the public interest" standard to financing applications. In reviewing requests for long-term financing authority, Staff analyzes the requested amount as it relates to the stated uses to ensure that the amount requested is reasonable and generally supports long-term capital investment. Staff also analyzes the pro forma impact the requested financing may have on the company's credit metrics, which may include the estimated impact on the parent company's credit metrics if the subject company's rating is influenced by the parent company's financial risk.

The Applicant states that the interest rate cap for this debt issuance will be 7%.⁴ In February 2023, the Fed increased the benchmark rate to a range of 4.5% to 4.75% in order to reduce inflation.⁵ With the benchmark at this level, a 7% cap appears reasonable. Although the interest rate of the existing senior secured debt is lower (** [REDACTED] **) ⁶, the debt has a due date later this month and the Applicant is choosing to refinance it. Not granting this request and not allowing for the refinancing of this debt could potentially not support the public interest. Without the approval of this refinancing, the debt would need to be funded through the contribution of equity capital as opposed to long-term debt. Equity capitalization is typically more expensive than debt capitalization which would not be in the best interest of the public.⁷

Evergy Metro states in its Application at Page 3, Paragraph 9 that the proceeds will be used to:

[R]efinance existing 3.15% Sr. Notes which are due March 15, 2023 as well as seek funds for capital investments.

3 Staff Data Request 0012.STA

4 Exhibit 1, Evergy Metro's Application.

5 Federal Reserve Board - Federal Reserve issues FOMC statement;

<https://www.federalreserve.gov/newsevents/pressreleases/monetary20230201a.htm>

6 Staff Data Request 0004.

7 Evergy Metro's response to Data Request No. 0013.

As of December 31, 2022, the Applicant’s long-term indebtedness was \$2,927 million which included \$1,900.0 million in collateralized Senior Secured Notes less \$13.1 million in unamortized discounts and issuance costs.⁸ In response to Data Request No. 0006, Evergy Metro indicated that the purpose of this issuance is primarily to support the maturity of Evergy Metro’s 2013 Senior Notes which mature on March 15, 2023 and will not have a large impact on their 2023 capital plan. Evergy Metro’s 2023 total projected capital expenditures totaled just over ** [REDACTED] **, equating to roughly ** [REDACTED] ** of expenditures per month.⁹ Evergy Metro currently projects that it needs ** [REDACTED] ** for the period 2022 to 2026.¹⁰

The pro forma impact of Evergy Metro’s proposed debt financing on their balance sheet as of December 31, 2022 is as follows:¹¹

<u>Evergy Metro:</u>	<u>As of December 31, 2022</u>		<u>Pro Forma</u>	
Common Equity	**	[REDACTED]	**	[REDACTED]
Long-Term Debt	**	[REDACTED]	**	[REDACTED]

This transaction indicates a minimal change for the Long-Term Debt and Common Equity. Common Equity decreases by ** [REDACTED] ** while Long-Term Debt increases by ** [REDACTED] **. The results of financial ratios, such as Funds from Operations (“FFO”) to Debt, Debt to Earnings, (“EBITDA”), and Debt to Capital, indicate that all ratios for Evergy Metro’s financial risk profile are not significantly changed by the approval of the Application. The FFO to Debt ratio improves from ** [REDACTED] **; the Debt to EBITDA sees no change from ** [REDACTED] **; and the Total Debt to Total Capital shows a minimal increase from ** [REDACTED] **. ¹²

Consequently, the impact of the proposed refinancing on Evergy Metro’s financial risk is insignificant.

⁸ Paragraph 6, page 2, Evergy Metro’s Application

⁹ Exhibit 2, Evergy Metro’s Application.

¹⁰ Ibid.

¹¹ The long-term debt uses the Outstanding Debt Capital amount from the 12/31/22 Evergy Cost of Debt Capital provided in response to Data Request No. 0016. This amount excludes unamortized debt expenses and discounts, but includes current maturities (unlike the balance sheet Long-Term Debt numbers). The pro forma information used in response to Data Request No. 0001 was used to obtain the Long-Term Debt Pro Forma numbers.

¹² Evergy Metro’s response to Data Request No. 0009.

RECOMMENDED CONDITIONS:

Staff recommends that the Commission approve the Application submitted by Evergy Metro in this case as not detrimental to the public interest, subject to the following conditions:

1. That nothing in the Commission's order shall be considered a finding by the Commission of the value of this transaction for rate making purposes, and that the Commission reserve the right to consider the rate making treatment to be afforded the financing transaction and its impact on cost of capital, in any later rate proceeding;
2. That the Company shall file with the Commission within thirty (30) days of issuance of any financing authorized pursuant to a Commission order in this proceeding, a report including the amount of secured indebtedness issued, date of issuance, interest rate (initial rate if variable), maturity date, redemption schedules or special terms, if any, use of proceeds, estimated expenses, and loan or indenture agreement concerning each issuance. In addition, the Company shall also provide the analysis, to include but not be limited to, indicative pricing information provided by investment banks it performed to determine that the terms for the debt it decided to issue were the most reasonable at the time;
3. That the Company shall file with the Commission through its electronic filing and information system ("EFIS") any information concerning communication with credit rating agencies concerning this issuance;
4. That the Company shall file with the Commission as a non-case related submission in EFIS under "Resources" - "Non-Case Related Query" - "Ordered Submission" any credit rating agency reports published on Evergy Metro's or Evergy Inc's corporate credit quality or the credit quality of its securities;
5. That the Company be required to file a five-year capitalization expenditure schedule in future finance cases;

6. That to the extent that any non-regulated investments made by the Company or Evergy, Inc. and affiliated companies may potentially impact the Company's credit quality and resulting credit ratings, the Company shall notify Staff of such possibility and provide a status report to the Commission; and
7. That the Commission's grant of authority shall expire three years from the effective date of the order in this proceeding.

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


In the Matter of the Application of Evergy)
Missouri Metro, Inc. d/b/a Evergy Missouri) **File No. EF-2023-0241**
Metro for Authority to Issue Debt Securities)

AFFIDAVIT OF KELLI McKINLEY

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

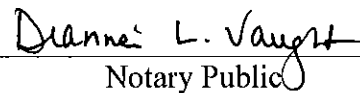
COMES NOW KELLI McKINLEY, and on her oath states that she is of sound mind and lawful age; that she contributed to the foregoing *Staff Recommendation*; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.


_____ **KELLI McKINLEY**

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 13th day of March, 2023.


_____ **Notary Public**

