

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

In the Matter of the Application of Kansas City )  
Power & Light Company For Authority To ) **File No. EF-2018-0314**  
Collateralize Existing Debt Securities. )

**STAFF RECOMMENDATION REGARDING APPLICATION OF  
KCP&L TO ISSUE DEBT SECURITIES TO COLLATERALIZE  
EXISTING UNCOLLATERALIZED DEBT SECURITIES**

**COMES NOW** Staff of the Missouri Public Service Commission (“Staff”), by and through Staff Counsel’s Office, in response to the Missouri Public Service Commission’s (“Commission”) October 15, 2018, Order Extending Deadline For Staff Recommendation to no later than November 2, 2018, and files Staff’s Recommendation (“Attachment A”) that the Commission grant authority to Kansas City Power & Light Company (“KCP&L” or “Applicant”) to collateralize the \$1.9 billion of debt identified in its September 11, 2018, Application with the Commission in File No. EF-2018-0314 contingent upon the Commission requiring Staff’s recommended conditions on page 5 of Attachment A. In support thereof, Staff states as follows:

1. On May 1, 2018, KCP&L filed its Notice of Intended Case filing, pursuant to 4 CSR 240-4.017(1) establishing File No. EF-2018-0314.

2. On September 11, 2018, KCP&L filed an Application with the Commission in File No. EF-2018-0314 requesting authority to issue debt securities (“General Mortgage Bonds”) under KCP&L’s General Mortgage Indenture and Deed of Trust. KCP&L explained that it was seeking Commission authorization to secure KCP&L’s currently outstanding unsecured debt. KCP&L states in its **“COMES NOW”** section of its Application that it is filing its Application pursuant to

Sections 393.180, 393.190 and 393.200, 4 CSR 240-3.120, 4 CSR 240-2.060 and 4 CSR 240-4.017(1)(7)(D).

3. The Application notes in Paragraph 3 at page 2 that Staff in its memorandum recommendation in File No. EF-2017-0242 indicated that it was interested in the cost differences between KCP&L's potential secured and unsecured debt offerings and KCP&L filed information that indicated a cost savings of 15-20 basis points with secured debt. Staff stated in its memorandum recommendation in KCP&L's most recently preceding financing case, File No. EF-2018-0114, in the first full paragraph at page 4, that it was unaware of any benefit to KCPL's regulated utility operations to KCP&L not pledging its assets as collateral to obtain lower cost debt.

4. KCP&L states in its Application in Paragraph 3 at page 2 that it plans to secure any future debt that will be issued under the Commission's remaining authorization in File No. EF-2018-0114,<sup>1</sup> and collateralize any existing debt previously authorized by the Commission in order to maintain positive bond holder relations and assure continued access to capital in the future. KCP&L relates that this collateralization will not increase the current amount of KCP&L's existing indebtedness nor change the cost of the currently outstanding debt.

5. KCP&L intends to collateralize currently outstanding unsecured senior notes totaling \$1.9 billion with General Mortgage Bonds by December 31, 2019, and seeks the Commission's authorization to do so through six (6) separate issuances, each matching the six (6) series of currently outstanding Senior Notes previously issued by

---

<sup>1</sup> KCP&L currently has \$450 million of authorization remaining under the Commission's February 7, 2018 Order Granting Application in File No. EF-2018-0114.

KCP&L.<sup>2</sup> KCP&L relates that the terms and conditions of the General Mortgage Bonds which will be issued will generally conform with the existing terms and conditions in the outstanding Senior Notes. The General Mortgage Bonds will be senior and will be secured debt as provided under KCP&L's General Mortgage Indenture. KCP&L has authority from its Board of Directors for the issuance of the General Mortgage Bonds pursuant to 4 CSR 240-3.120(1)(D).

6. Staff in KCP&L's most recently preceding financing case, File No. EF-2018-0114, for authority to issue debt securities, in principal amount up to \$750 million through September 30, 2019, and to enter into interest rate hedging instruments in connection with such debt securities, recommended that the Commission approve the requested authority subject to seven (7) conditions. KCP&L in Paragraphs 12 and 20 in its pending Application basically agrees in advance to six (6)<sup>3</sup> of those seven (7) conditions that it agreed to in File No. EF-2018-0114.

7. In Staff's review of KCP&L's Application an issue has arisen regarding whether the new mortgage bonds need to be rated by the rating agencies and the recovery in rates of the associated rating agency fees, if new ratings occur. KCP&L provided information that the cost of updating the ratings could be as high as \$1,750,000. Staff sought to make it clear to KCP&L financing personnel, and Staff explains in the attached Staff Recommendation that if updated ratings by rating agencies occur and KCP&L seeks recovery of the costs in a future rate case, Staff will address this subject matter in that rate case, as appropriate. Therefore, Staff

---

<sup>2</sup> The six (6) issuances comprise the following Commission financing cases: File No. EF-2005-0498; File No. EF-2008-0214; File No. EF-2010-0178; File No. EF-2012-0187; File No. EF-2014-0346; and EF-2017-0242.

<sup>3</sup> Staff proposes the addition of Evergy Inc. to condition 5.

recommends the Commission approve KCP&L's requested financing authority, on the condition that the financing authority granted to KCP&L is not a ratemaking determination respecting recovery of any updated rating fees. The condition of no ratemaking determination being made in the financing proceeding is covered in Staff's first condition in Attachment A, is a standard recommendation of Staff made to the Commission and accepted by the Commission, and is a condition accepted by KCP&L in its Application in this proceeding.

8. It is Staff's recommendation at the top of page 5 of Attachment A that it would be prudent for the Commission to grant authority to KCP&L to collateralize the \$1.9 billion of debt identified as "not detrimental to the public" contingent upon Staff's proposed conditions.

9. In *Re Great Plains Energy Incorporated, Kansas City Power & Light Company, and Aquila, Inc.*, Case No. EM-2007-0374, Report and Order, 17 Mo.P.S.C.3d 338, 535-36, 541 (July 1, 2008), the Commission expounded on the standard for Section 393.190 RSMo. of "not detrimental to the public":

No party contests that the appropriate standard the Commission must apply to evaluate the proposed transaction, pursuant to the application of Section 393.190, is the "not detrimental to the public interest" standard. The parties have each laid out descriptions of what they assert the application of this standard entails in their post-hearing briefs. The Commission looks to the relevant case law and prior Commission orders for guidance and concludes that the Missouri Supreme Court delineated this standard and prescribed its application for cases filed pursuant to Section 393.190 in *City of St. Louis v. Public Service Com'n of Missouri*, when it stated:

The state of Maryland has an identical statute with ours, and the Supreme Court of that state in the case of *Electric Public Utilities Co. v. Public Service Commission*, 154 Md. 445, 140 A. 840, loc. cit. 844, said: "To prevent injury to the public, in the clashing of private interest with the public good in the operation of public

utilities, is one of the most important functions of Public Service Commissions. It is not their province to insist that the public shall be benefited, as a condition to change of ownership, but their duty is to see that no such change shall be made as would work to the public detriment. 'In the public interest,' in such cases, can reasonably mean no more than 'not detrimental to the public.'"<sup>900</sup>

The Missouri Supreme Court based its determination on a review of Section 393.190's predecessor, Section 5195, RSMo 1929.<sup>901</sup> No Missouri court has deviated from that ruling in terms of it being the proper standard to apply for applications filed pursuant to Section 393.190.

-----  
<sup>900</sup> *State ex rel. City of St. Louis v. Public Service Com'n of Missouri*, 73 S.W.2d 393, 400 (Mo banc 1934).

<sup>901</sup> *Id.*

\* \* \* \*

. . . the Commission may not withhold its approval of the proposed transaction unless the Applicants fail in their burden to demonstrate that the transaction is not detrimental to the public interest, and detriment is determined by performing a balancing test where attendant benefits are weighed against direct or indirect effects of the transaction that would diminish the provision of safe or adequate of [sic] service or that would tend to make rates less just or less reasonable.<sup>906</sup>

-----  
<sup>906</sup> *State ex rel. City of St. Louis v. Public Service Commission of Missouri*, 73 S.W.2d 393, 400 (Mo. banc 1934); *State ex rel. Fee Fee Trunk Sewer, Inc. v. Litz*, 596 S.W.2d 466, 468 (Mo. App. 1980).

*See also In Re Union Electric Co., d/b/a Ameren UE*, Case No. EO-2004-0108, Report and Order on Rehearing, 13 Mo.P.S.C.3d 266, 293 (February 10, 2005).

10. As previously noted, KCP&L cited in its Application in addition to Section 393.190 RSMo., Commission Rule 4 CSR 240-3.120 Filing Requirements for Electric Utility Applications for Authority to Issue Stock, Bonds, Notes and Other Evidences of Indebtedness, Section 393.180 RSMo., and Section 393.200 RSMo. Commission Rule 4 CSR 240-3.120 contains no standard other than the information required by the Commission Rule.

In *In Re Laclede Gas Co. v. Public Serv. Comm'n.*, 526 S.W.3d 245 (Mo.App. W.D. 2017), the Western District Court of Appeals held that Sections 393.180

and 393.200 authorize public utilities to issue long-term financing when necessary for the enumerated purposes, if the Commission determines that the money, property, or labor to be procured or paid for is reasonably required for the purposes specified. The Staff recommends that the Commission grant the authority requested but with the conditions proposed by the Staff in the Staff Recommendation.

11. KCP&L in the “**WHEREFORE**” section of its Application requests that the Commission enter an Order authorizing its Application with an effective date of November 30, 2018 or earlier.

**WHEREFORE**, Staff submits Staff’s Recommendation (“Attachment A”) which suggests that the Commission grant authority to KCP&L to collateralize the \$1.9 billion of debt identified in KCP&L’s September 11, 2018, Application filed with the Commission in File No. EF-2018-0314 contingent upon the Commission requiring Staff’s recommended conditions on page 5 of Attachment A.

Respectfully submitted,

**/s/ Steven Dottheim**

Steven Dottheim  
Mo. Bar No. 29149  
Deputy Counsel,  
Telephone: (573) 751-7489  
Fax: (573) 751-9285  
E-mail: [steve.dottheim@psc.mo.gov](mailto:steve.dottheim@psc.mo.gov)

Attorney for Staff of the  
Missouri Public Service Commission  
200 Madison Street, Suite 800  
P. O. Box 360  
Jefferson City, MO 65102

**CERTIFICATE OF SERVICE**

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record this 2nd day of November, 2018.

**/s/ Steven Dottheim**

## MEMORANDUM

**TO:** Missouri Public Service Commission Official Case File  
Case No. EF-2018-0314, Kansas City Power & Light Company

**FROM:** Jeffrey Smith, Financial Analysis

/s/ David Murray, CFA / Date 11-02-18  
Financial Analysis Dept. / Date

/s/ Steven Dottheim / Date 11-02-18  
Staff Counsel's Office / Date

**SUBJECT:** Staff's Recommendation regarding Kansas City Power & Light Company's (Company, Applicant, or KCP&L), *Application For Authority To Collateralize Existing Debt Securities* ("Application"), totaling \$1,900,000,000 ("1.9 billion"), with General Mortgage Bonds by December 31, 2019. KCP&L is seeking a Commission Order with an effective date no later than November 30, 2018.

**DATE:** November 2, 2018

1. (a) **Type of Issue:** Collateralization of currently outstanding unsecured senior notes through the issuance of General Mortgage Bonds. Collateralization will occur under KCP&L's existing General Mortgage Indenture and Deed of Trust, dated as of December 1, 1986.  
  
(b) **Amount:** Up to \$1.9 billion.  
  
(c) **Rate:** Interest rates on existing debt securities will not change after collateralization:
  - i. 3.15% Series due 2023 (\$300 million)
  - ii. 3.65% Series due 2025 (\$350 million)
  - iii. 6.05% Series due 2035 (\$250 million)
  - iv. 5.30% Series due 2041 (\$400 million)
  - v. 4.20% Series due 2047 (\$300 million)
  - vi. 4.20% Series due 2048 (\$300 million)  
(d) **Other Provisions:** The terms of maturity for the various series of indebtedness will not change after collateralization. Current maturities range from five (5) years to thirty (30) years.
2. **Proposed Date(s) of Transaction(s):** Any time from the effective date of the Commission's authorization Order until December 31, 2019.
3. (a) **Statement of Purpose of the Issue:**  
  
The Applicant states the Mortgage Bonds will be used to collateralize outstanding long-term debt issuances. Commission authority for said debt issuances outstanding was granted in cases EF-2005-0498, EF-2008-0214, EF-2010-0178, EF-2012-0187, EF-2014-0346, and EF-2017-0242.



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

Yes

4. **Copies of executed instruments defining terms of the proposed securities:**

Such instruments have not been executed, but each Mortgage Bond will have the same general terms as the series of senior notes to which it relates.

5. **Certified copy of the 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:**

N/A

7. **Capital expenditure schedule reviewed:**

N/A

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

No

9. **Recommendation of Staff:**

Conditional Approval granted pending acceptance of Staff's recommended conditions and receipt of final terms of bonds.  
(see "Comments" and "Recommended Conditions" below)

**COMMENTS:**

KCP&L is a wholly owned subsidiary of Evergy, Inc., and is headquartered in Kansas City, Missouri. KCP&L is an integrated, regulated electric utility that engages in the generation, transmission, distribution and sale of electricity at retail and wholesale in Missouri and Kansas. On September 11, 2018, KCP&L filed an Application requesting that the Commission authorize KCP&L to issue General Mortgage Bonds to collateralize and secure \$1.9 billion of unsecured indebtedness under indentures previously filed with the Commission. KCP&L states in Paragraph 3 of its Application:

KCP&L plans to secure any future debt that will be issued under the Commission's remaining authorization in EF-2018-0114. The issuance of new secured debt means that the Company will collateralize existing debt previously authorized by the Commission in order to maintain positive bondholder relations and assure continued access to capital in the future.

*Use of Funds:*

Issuance of \$1.9 billion in General Mortgage Bonds to collateralize current outstanding unsecured bonds will not generate new funds for KCP&L. The new General Mortgage Bonds will be issued pursuant to supplemental indentures to the existing General Mortgage Indenture. The supplemental indentures to the General Mortgage Indenture will create a lien on mortgaged property. Mortgage Bonds will be delivered to the trustee of each series of currently unsecured bond, effectively completing the collateralization process. Previously unsecured bondholders will thereafter have the security of the Mortgage Bonds for recourse in the event of default.

*Terms of Debt:*

Paragraph 3 of KCP&L's *Application* indicates that approval "will not increase the current amount of KCP&L's existing indebtedness nor change the cost of the currently outstanding debt." Collateralization of all of KCP&L's current outstanding unsecured bonds is consistent with Evergy's intent to have all of its subsidiaries, including KCP&L Greater Missouri Operations ("GMO"), become secured debt issuers. Pricing information provided by KCP&L indicates issuing secured debt reduces the coupon on each debt issuance by approximately 15 to 20 basis points.

Staff issued Data Request Nos. 0002 and 0005 to inquire about the cost and benefit analysis KCP&L performed when determining to issue secured debt. The information KCP&L provided indicates cost estimates between \$400,000 and \$2,150,000 to secure current outstanding debt. The major difference in cost assumptions relates to rating agency fees. In responding to Data Request No. 0002, KCP&L notes that it does "not believe the new mortgage bonds need to be rated; however, if required the cost of ratings could be as high as \$1,750,000." The issue of rating agency fees raises concerns for Staff because Staff is not aware of any need to have the bonds rated.

Responses to Data Request No. 0005 estimate cost saving differentials of 15 - 28 basis points<sup>1</sup> when issuing secured "A" rated debt compared to unsecured "A" rated debt. Considering KCP&L's intention to refinance \$400 million of debt coming due April 1, 2019, the annual cost saving realized from refinancing with secured debt, using a conservative 15 basis point

---

<sup>1</sup> Estimates derived from analysis at Goldman, Sachs & Co. indicate average price differentials of 15 basis points. Using a similar, but different time period, estimates derived from analysis at Bank of America Merrill Lynch indicate average price differentials of 28 basis points.

differential assumption, amounts to \$600,000. Considering the lower cost estimate (\$400,000) and using a conservative discount rate assumption of 6% reveals a present value of cost savings of approximately \$4 million and \$8 million for 10 year and 30 year refinancing arrangements, respectively. Considering the higher cost estimate (\$2.15 million) and using a conservative discount rate assumption of 6% reveals a present value of cost savings of approximately \$2 million and \$6 million for 10 year and 30 year refinancing arrangements, respectively.

Staff's concern about potential unreasonable rating agency fees arises from the fact that rating agencies receive their compensation from those they rate. This relationship, coupled with the fact that KCP&L would likely request recovery of these costs through rates, caused Staff to follow-up verbally with KCP&L as to what would cause the need for a rating. KCP&L notified Staff that KCP&L does not intend to seek a credit rating for the new mortgage bonds; that no rating is required under an indenture; and that the only reason KCP&L would request a rating is if its existing engagement agreements with the rating agencies indicate KCP&L must have the ratings on these bonds updated. KCP&L indicates it currently, is not aware of any such requirements in its engagement agreements. If KCP&L decides it must have the bond's ratings updated, KCP&L will provide said documentation to Staff to substantiate that the rating action is reasonably required and continuing.

As Staff noted earlier, Evergy's corporate strategy is to make all of its subsidiaries secured debt issuers in order to reduce the debt costs charged to ratepayers. Because KCP&L is a Missouri Corporation, it is required to seek Commission authority for any long-term financing, whether secured or unsecured, pursuant to Section 393.180 and 393.200, RSMo. KCP&L's sister company, GMO, is a Delaware Corporation; therefore, it is not required to seek Commission authority to issue unsecured long-term financing.<sup>2</sup> However, pursuant to Section 393.190, RSMo, any utility company seeking to encumber its Missouri utility assets for the purpose of securing its debt obligations must receive Commission authority to do so. To the extent Evergy transitions GMO to a secured debt issuer in order to realize a lower cost of debt, it is Staff's opinion that GMO will have to file an application with the Commission. Staff expects GMO to submit such an application to become a secured issuer in the near future if situations warrant.

#### *Recommendation Regarding Conditions:*

Staff recommends the Commission approve KCP&L's requested financing authority on the continued condition that KCP&L's financing authority is not binding for ratemaking purposes. This condition of no ratemaking determination being made in the financing proceeding is covered in Staff's first recommended condition, which is a standard recommendation of Staff. Staff will review any rating action which is taken related to the financing, and Staff will address the matter in KCP&L's next rate case if Staff encounters an issue regarding the rating action. Staff Counsel's Office advises that Missouri Courts have held the legal standard under Section 393.190 RSMo 2016 to be "not detrimental to the public." It is Staff's opinion that it would be prudent for the Commission to grant authority to KCP&L to securitize the \$1.9 billion of debt identified as "not detrimental to the public"; contingent on Staff's recommended

---

<sup>2</sup> GMO did not seek Commission authority to issue unsecured debt in 2013.

conditions below. With the exception of the addition of Evergy Inc. to condition 5, the Company presumptively agreed to the following recommended conditions in its own *Application* in paragraph 12 on pages 4 and 5.

## **RECOMMENDED CONDITIONS:**

Staff recommends that the Commission approve KCP&L's Application, granting authority to securitize \$1.9 million of debt, subject to the conditions set forth below.

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 reserves the right to consider the rate making treatment to be afforded the financing transaction and its impact on cost of capital, in any future proceeding;
2. That Applicant shall file with the Commission within ten (10) days of the issuance of the General Mortgage Bonds on the already outstanding debt, a report describing any costs required to execute the transaction;
3. That the interest rate for any individual General Mortgage Bond covered by the application will not exceed that of the corresponding underlying Senior Note it is collateralizing;
4. That Applicant shall file with the Commission through its electronic filing and information system (EFIS) in this case any information concerning communication with credit rating agencies concerning this issuance;
5. That Applicant 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 KCP&L's or Evergy<sup>3</sup>, Inc.'s corporate credit quality or the credit quality of its securities;
6. That to the extent that any non-regulated investments made by Applicant or Evergy, Inc. and affiliated companies may potentially impact Applicant's credit quality and resulting credit ratings, Applicant shall notify Staff of such possibility and provide a status report to the Commission.

---

<sup>3</sup> Staff recommends Evergy be added to the reporting requirements of this condition.

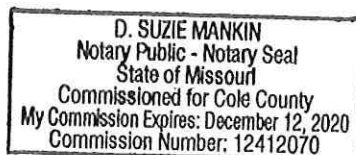
In the Matter of the Application of )  
 Kansas City Power & Light Company ) Case No. EF-2018-0314  
 For Authority to Issue Debt Securities )


STATE OF MISSOURI            )  
  )  
COUNTY OF COLE            )            ss.

Further the Affiant sayeth not.

  
JEFFREY SMITH

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 2nd day of November 2018.



  
Notary Public