

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. EF-2020-0301, Evergy Metro, Inc. d/b/a Evergy Missouri Metro

FROM: Seoung Joun Won, PhD, Financial and Business Analysis Division

/s/ Seoung Joun Won, PhD 04/30/2020 /s/ Casi Aslin 04/30/2020
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 Authority to issue, in principle amount, up to Four Hundred Million Dollars (\$400,000,000) of General Mortgage Bonds through December 31, 2021.

DATE: April 30, 2020

1. (a) **Type of Issue:** Senior secured indebtedness ("General Mortgage Bonds") issued 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 \$400,000,000.

(c) **Rate:** Fixed rate not to exceed 4.75% coupon.

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, 2021.

3. (a) **Statement of Purpose of the Issue** Company proposes to use the proceeds from the issuance and sale of the General Mortgage Bonds to repay or refinance outstanding short-term indebtedness, including the potential to repay Variable Rate Demand Notes, with the exact amount and issuance dates subject to market conditions. The amount of Company's short-term debt as of December 31, 2019 was ** _____

_____**

- (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:**

Such instruments have not been executed.

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 fee is required pursuant to Section 386.300, RSMo. Because the proposed issuance of New Indebtedness will be used to discharge, refund or retire outstanding indebtedness.

9. **Recommendation of the Staff:**

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

COMMENTS:

Evergy Metro is a public utility engaged in providing electric utility services in portions of Missouri under the jurisdiction of this Commission.

On April 10, 2020, Evergy Metro filed an Application with the Missouri Public Service Commission (“Commission”) requesting approval for authority to issue and sell up to \$400,000,000 principal amount of General Mortgage Bonds and to enter into the agreements (including supplements to the General Mortgage Indenture) necessary for the transaction. Evergy Metro states in its Application:

The Applicant’s service territory is under shelter at home mandates. In response to spiking unemployment levels in its service territory, Evergy has

temporarily suspended payment related disconnection activities for all customers and has waived late payment charges that might accrue for service provided on and after March 1, 2020 for residential and small general service customers. Applicant projects lower kwh sales and an increase in customer arrears. This will likely cause Applicant to have less eligible accounts receivable and result in a requirement to pay-down borrowings under Applicant's accounts receivable securitization facility, creating additional stress on Applicant's short-term liquidity.

The Applicant further states that it:

...began to see stress in the commercial paper (CP) market on March 10, 2020 resulting in difficulty issuing new CP, elevated rates and compression of tenors to only 1-day maturities. Applicant then switched to borrowings from the CP market to its revolving credit facility, which has higher borrowing cost. Applicant also has \$146.5 million in Variable Rate Demand Notes outstanding that have interest resetting on a weekly basis. The interest on these bonds reached a high of 6.93% on March 18, 2020 as compared to 1.43% on March 4, 2020. In the event these bonds are not able to be remarketed weekly, the Applicant may be required to redeem the bonds at par with a 7-day notice.

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 that it generally supports Evergy Metro's obligations to provide service to Missourians. Important in Staff's analysis of stated uses is determining whether the stated uses match the allowable purposes of investment in long-term capital, improvement and maintenance of service, and refunding of maturing short-term and or long-term obligations used for allowable purposes.¹ 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. Additionally, Staff analyzed the current financial market and economic conditions to understand the impact of the COVID-19 pandemic on the capital market.

Evergy Metro states in its Application that the proceeds will be used:

- (1) to boost its liquidity by accessing the debt capital market.

¹ The allowable purposes of long-term financing authorization regarding to the statute, Section 393.200.1 are listed in page 9 of Report and Order, issue date June 16, 2010, of the case No. GF-2009-0450.

Staff has verified that Evergy Metro’s past and future capital expenditure plans support the need to refinance short-term debt with long-term debt. Staff confirmed that recently both the volatility of commercial paper interest rates and Evergy Metro’s average default ratio of receivables and uncollectibles have significantly increased.²

The pro forma impact of Evergy Metro’s proposed debt financing on Evergy Metro’s and Evergy Inc’s balance sheet as of March 31, 2020 is as follows:

<u>Evergy Metro:</u>	<u>As of March 31, 2020</u>		<u>Pro Forma</u>	
Common Equity	**	_____	**	_____
Preferred Stock	**	_____	**	_____
Long-Term Debt	**	_____	**	_____
Short-Term Debt	**	_____	**	_____

<u>Evergy Inc.:</u>	<u>As of March 31, 2020</u>		<u>Pro Forma</u>	
Common Equity	**	_____	**	_____
Preferred Stock	**	_____	**	_____
Long-Term Debt	**	_____	**	_____
Short-Term Debt	**	_____	**	_____

The impact of the issuance of the long-term debt on Evergy Metro’s balance sheet should be limited to a shift from short-term debt to long-term debt. Consequently, the impact of the proposed long-term financing on Evergy Metro’s financial risk is insignificant.

RECOMMENDED CONDITIONS:

Staff recommends that the Commission approve the Application submitted by Evergy Metro in this case 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

² The analysis results are presented in Staff’s workpaper.

treatment to be afforded the financing transaction and its impact on cost of capital, in a later rate proceeding;

2. That the Company shall file with the Commission within 10 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 any information concerning communication with credit rating agencies concerning any such issuance; and
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.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Evergy)
Metro, Inc. d/b/a Evergy Missouri Metro For)
Authority to Issue Debt Securities) Case No. EF-2020-0301

AFFIDAVIT OF SEOUNG JOUN WON, PhD

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW Seoung Joun Won, PhD and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff Recommendation in Memorandum form*; and that the same is true and correct according to his best knowledge and belief, under penalty of perjury.

Further the Affiant sayeth not.

/s/ Seoung Joun Won, PhD
Seoung Joun Won, PhD

SCHEDULE 1

HAS BEEN DEEMED

CONFIDENTIAL

IN ITS ENTIRETY