

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
File No. EF-2023-0425, Evergy Metro Inc., d/b/a Evergy Missouri Metro

FROM: Randall T. Jennings, Senior Utility Regulatory Auditor,
Financial Analysis Department

/s/ Seoung Joun Won 09/13/2023
Financial & Business Analysis Div. / Date

SUBJECT: Staff Recommendation concerning the Application of Evergy Metro Inc., d/b/a Evergy Missouri Metro (“Evergy Missouri Metro”, “Company,” or “Applicant”), for Approval to refinance existing Environmental Improvements Revenue Refunding Bonds (“EIRR Bonds”).

DATE: September 13, 2023

1. (a) **Type of Issues:** Refinance \$79,480,000 of EIRR Bonds scheduled to mature on December 1, 2023.
 - (b) **Amount:** Up to \$79.5 Million.
 - (c) **Rate:** Applicant intends to refinance the existing debt using bonds with tax-exempt interest rates, which typically carry lower interest rates than taxable bonds with similar security, tenor, etc. The Company requests the Commission allow the Company to retain the flexibility to offer either fixed rate or floating rate refunding bonds. The Series 2023 EIRR Bonds are expected to have maturity of up to 25 years.¹
2. **Proposed Date(s) of Transaction:** Applicant will refinance on or before December 1, 2023.
 - (a) **Statement of Purpose of the Issue:** To refinance the “Series 1993 Bonds” through the issuance of a Series 2023 EIRR Bonds. The proceeds of the original bonds, from the City of Burlington, Kansas in 1983, were used to finance the design, purchase and installation of certain air and water pollution control facilities at the Wolf Creek generating station. These bonds were subsequently refunded with the “Series 1993 Bonds.”²

¹ Paragraph 9, The Application.

² Paragraph 8, The Application.

(b) **Does Staff deem this Statement of Purpose of the Issue reasonable?**

Yes.

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

Such instruments have not been executed.

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

Yes.

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

Yes.

6. **Capital expenditure schedule reviewed:**

Yes.

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

Not Applicable.

8. **Recommendation of the Staff:**

Conditional Approval granted (see Comments and Recommended Conditions below).

COMMENTS:

Evergy Missouri Metro is a wholly-owned subsidiary of Evergy Inc. The Applicant is a corporation duly organized and existing under the laws of the State of Missouri, with its principal office and place of business at 1200 Main Street, Kansas City, Missouri 64105. The Company is primarily engaged in the business of generating, transmitting, distributing, and selling electric energy in portions of eastern Kansas and western Missouri.

On August 22, 2023, Evergy Missouri Metro submitted an application and motion for expedited treatment pursuant to 20 CSR 4240-10.125, 20 CSR 4240-2.060, 20 CSR 4240-4.017(1)(D), requesting that the Commission grant Evergy Missouri Metro authority to refinance existing 1993 Environmental Improvements Revenue Refunding Bonds (“EIRR Bonds”) through the issuance of Series 2023 EIRR Bonds.

Evergy Missouri Metro stated that “The original proceeds of the bonds were used to finance the design, purchase and installation of certain air and water pollution control facilities at the Wolf Creek generating station.³ The pollution control facilities were initially financed with bond proceeds from the City of Burlington, Kansas, in 1983. The original bonds were subsequently refunded with EIRR Bonds Series 1993A and 1993B refunding bonds (collectively, the “Series 1993 Bonds”). The Series 1993 Bonds consist of \$40,000,000 of 1993A Burlington EIRR Bonds 2.95% due December 1, 2023, and \$39,480,000 of 1993B Burlington EIRR Bonds 2.95% due December 1, 2023.”

The Federal Reserve has increased interest rates 100 basis points in 2023 and the average interest rate on a 30-year Treasury bond was 3.96% in July of 2023; up from 3.87 during June.⁴ Per the August Mergent Bond Record, interest rates for Public Utility bonds rated “A” during July was 5.41%. Based on an analysis dated December 2, 2022, S&P Global lists Evergy Metro Inc. having an issuer credit rating of “A-.” Evergy Missouri Metro anticipates the interest rate for the new bond issue will be approximately ** [REDACTED] **. ⁵ Based on financial statements provided with the Application, this increase in interest rate over the existing debt’s interest rate appears to result in no change to the Applicant’s Balance Sheet and a minimal reduction in Net Income due to an increase in interest expense.⁶ Based on the expected interest rate for the new bond issuance, the overall weighted average cost of debt capital will increase by less than 0.1%.⁷

Staff concludes that Evergy Missouri Metro has a reasonable need for refinancing its existing long-term debt.

Evergy Missouri Metro’s capital structure as of June 30, 2023 has ** [REDACTED] ** equity.⁸ Pro Forma calculations indicate that upon approval of this Application, the ratio of debt to capital will remain the same due to no additional debt being issued.⁹ Because there will be no change in the capital structure ratio for Evergy Missouri Metro, Staff is not concerned that

³ Paragraph 8, The Application.

⁴ Federal Reserve Economic Data | FRED | St. Louis Fed (stlouisfed.org); fred.stlouisfed.org/data/GS30.txt.

⁵ Application Exhibit 3, Page 1.

⁶ Application Exhibit 3 Pages 3 and 4.

⁷ Staff Data Request No. 0002 and Jennings workpaper.

⁸ Staff Data Request No. 0002.

⁹ Staff Data Request No. 0004.

Evergy Missouri Metro's ability to access capital will be impacted because of the Commission's approval of the Application.

Examination of credit metrics including FFO to Debt, Interest Coverage, Debt to EBITDA, and Debt to Capital, with pro forma, indicate little to no material change in each of them upon approval of the Application.¹⁰ This lack of change provides further evidence of the Application having no detrimental effect upon the Applicant's financial analysis.

RECOMMENDED CONDITIONS:

Staff recommends that the Commission approve the Application submitted 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, which includes, but is not limited to the capital structure, and that the Commission reserves the right to consider the rate making treatment to be afforded these transactions, and their effect on the cost of capital in future rate cases; and,
2. 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; and,
3. 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 Applicant's corporate credit quality or the credit quality of its securities; and,
4. That Applicant be required to file a five-year capitalization expenditure schedule in future finance cases; and,
5. That to the extent that any non-regulated investments made by Applicant or Evergy, Inc. and affiliated companies may materially impact Applicant's credit quality and resulting credit ratings, Applicant shall notify Staff of such possibility within ten (10) business days of filing a report to the Securities and Exchange Commission ("SEC") and provide a status report to the Commission.

¹⁰ Staff Data Request No. 0004.

