

Public Version

Exhibit No.:

Issues: Capital Structure, Cost of Debt;
Return on Equity Support

Witness: Kirkland B. Andrews

Type of Exhibit: Direct Testimony

Sponsoring Party: Evergy Missouri West

Case No.: ER-2022-0130

Date Testimony Prepared: February 2, 2024

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2024-0189

DIRECT TESTIMONY

OF

KIRKLAND B. ANDREWS

ON BEHALF OF

EVERGY MISSOURI WEST

Kansas City, Missouri

February 2024

DIRECT TESTIMONY
OF
KIRKLAND B. ANDREWS
Case No. ER-2024-0189

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 d/b/a
10 as Evergy Kansas Central (“Evergy Kansas Central”) the operating utilities of Evergy, Inc.

11 **Q: What are your responsibilities?**

12 A: I have management responsibility for all corporate financial functions, including treasury,
13 accounting, planning, tax, capital allocation, investor relations, risk management and
14 supply chain.

15 **Q: Please describe your education, experience and employment history.**

16 A: I served as Executive Vice President and Chief Financial Officer of NRG Energy, Inc. from
17 2011 until I joined Evergy in February 2021 after having served on Evergy’s Board of
18 Directors over the prior 11 months. I was a director of NRG Yield, Inc. from 2012-2018
19 and also served as Executive Vice President, Chief Financial Officer of NRG Yield from

1 2012-2016. Prior to joining NRG, I was Managing Director and Group Head of Power &
2 Utilities Investment Banking for the Americas at Deutsche Bank from 2009-2011. I
3 previously served as Group Head of North American Power and Utilities at Citi from 2007-
4 2009, and Head of Power and Utilities Mergers and Acquisitions from 2005-2007. I hold
5 a Bachelor of Arts degree in Philosophy from Wake Forest University and a Master of
6 Business Administration (MBA) from the University of Virginia's Darden School of
7 Business.

8 **Q: Have you previously testified in a proceeding at the Missouri Public Service**
9 **Commission ("MPSC") or before any other utility regulatory agency?**

10 A: Yes.

11 **Q: On whose behalf are you testifying?**

12 A: I am testifying on behalf of Evergy Missouri West ("EMW" or "Company") in this
13 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.

1 I. RETURN ON EQUITY

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

4 A: Evergy Missouri West is requesting a ROE of 10.5 percent. This ROE is at the lower end
5 of the range of 10.25 percent to 11.25 percent recommended in the Direct Testimony of
6 Company witness Ann Bulkley and represents a reasonable, but conservative ROE.

7 **Q: Have you reviewed the risk analysis performed by Company witness Bulkley?**

8 A: Yes.

9 **Q: Do you agree with her assessment of risk factors considered by credit agencies and**
10 **investors and the importance of considering those factors in determining the**
11 **appropriate authorized ROE and capital structure?**

12 A: Yes, I do. In my current role and during my time at NRG, I have had numerous discussions
13 on these topics with credit agencies as well as debt and equity investors. Capital providers'
14 assessment of regulatory environment and peer comparisons of regulatory mechanisms are
15 paramount in determining a utility's ability to attract adequate capital at a reasonable price.
16 I have reviewed Ms. Bulkley's assessment and comparison to peer companies and her
17 analysis is very consistent with recent discussions I have had with credit agencies and
18 investors. As discussed in Ms. Bulkley's testimony, the regulatory environment is
19 specifically evaluated in both S&P and Moody's ratings methodologies. It is imperative
20 that the Commission appropriately balance these risks in its deliberations and order. The
21 analysis provided by Ms. Bulkley supports Evergy Missouri West's requested 10.5% ROE
22 and capital structure in this case.

1 **II. CAPITAL STRUCTURE AND COST OF DEBT**

2 **Q: Please summarize the Company’s requested capital structure and overall rate of**
3 **return.**

4 A: The requested capital structure components and resulting overall rate of return are
5 presented in Table 1 below:

6 *Table 1: Summary of Overall Rate of Return*

Capital Components	Ratio	Cost	Weighted Cost
Long-Term Debt	47.96%	4.3826%	2.1018%
Common Equity	52.04%	10.5000%	5.4643%
Total	100.00%		7.5661%

7 **Q: What is the basis for the Company’s requested capital structure and overall rate of**
8 **return?**

9 A: The requested capital structure, as well as the Cost of Debt, are based on Evergy Missouri
10 West’s projected capital structure on June 30, 2024. The data supporting the requested
11 capital structure is presented in Schedule KA-1, with the June 30, 2024 summary shown
12 on page 1 of that schedule. The Company is requesting an overall rate of return of 7.5661%.

13 **Q: Have you made a specific adjustment to the projected June 30, 2024, capital structure**
14 **to address goodwill recorded on Evergy Missouri West’s regulated financial**
15 **statements resulting from the 2008 acquisition?**

16 A: Yes. Consistent with how it was addressed through the Company’s 2016, 2018 and 2022
17 rate cases, we have made a goodwill adjustment to Evergy Missouri West’s capital
18 structure in the amount of \$168.97 million. This goodwill adjustment is reflected in our
19 requested 52.04% equity component of Evergy Missouri West’s capital structure and will

1 also be reflected in the Company's true-up revenue requirement calculation in this rate
2 case.

3 **Q: Is Evergy Missouri West's requested capital structure reasonable and sufficient to**
4 **support Evergy Missouri West's financial metrics and investment plans?**

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

15 **Q: Please summarize the key items that cause the difference in Evergy Missouri West's**
16 **capital structure between May 31, 2022 and June 30, 2024.**

17 A: The actual Evergy Missouri West capital structure as of June 30, 2023 is shown on page 2
18 of Schedule KA-1. As noted on page 2 of Schedule KA-1, there are 3 items that comprise
19 the difference in the Company's capital structure between June 30, 2023 and June 30, 2024.
20 Those items are as follows.

21 1) Projected net income from July 2023 through June 2024 is ** [REDACTED]

22 [REDACTED]** which will increase equity by that same amount.

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1 2) There are two long term debt bonds totaling \$10 million maturing prior to
2 the True-up date: \$3 million on November 30, 2023 and \$7 million on
3 December 1, 2023.

4 3) A planned \$200 million long-term debt issuance before the end of Q2 2024.

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

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

16 **Q: Please explain what you mean by "an appropriately designed capital structure".**

17 A: We continually evaluate the capital structure and seek to maintain a balance just over 50%
18 equity and slightly less than 50% debt optimized over the long-term for the timing of
19 financing, capital plans, rating agency views and alignment with peer companies' capital
20 structures with which we compete for investor capital. We not only consider a historical
21 view, but also look forward as we consider these factors in order to maintain a strong
22 balance sheet and protect our current credit rating which is benefits customers in the long-
23 term.

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 4.3826% 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, is
8 based on the projected capital structure at the expected true-up date in this case. At true-
9 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 methodology
11 and elements of Evergy Missouri West's capital structure that were presented in its 2022
12 rate case.

13 Evergy Missouri West's requested ROE of 10.5% is at the lower end of the range
14 supported by Ms. Bulkley. A 10.5% ROE is necessary and appropriate to ensure Evergy
15 Missouri West has access to the capital necessary to support its planned investments in grid
16 modernization and reliability, as well as its plans to continue its transition to cleaner energy
17 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. Specifically,
20 for Missouri, the 2018 Plant-in-Service Accounting statute (393.1400 RSMo.) and the
21 Electric Utility Financing and Securitization statute (393.1700 RSMo.) reflect the state's
22 policy to support and encourage such investments. Therefore, I request that the
23 Commission authorize a return on equity rate of 10.5% and approve the recommended

1 capital structure, based on Evergy Missouri West's actual capital structure at the expected
2 true-up date of June 30, 2024 in this case.

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

4 A: Yes, it does.

Evergy Missouri West Electric Utility

Capital Structure and Rate of Return

Projected June 30, 2024

Summary				
	Balance	Weight	Rate	Rate of Return
Long-term Debt*	1,487,253,334	47.96%	4.3826%	2.1018%
Common Equity	1,613,860,989	52.04%	10.5000%	5.4643%
Total Capitalization	3,101,114,323	100.00%		7.5661%

*Includes current maturities of long-term debt and unamortized issuance, discount, and premium costs.

Long-Term Debt										
Description	Date of Settlement	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
2013 Sr. Notes Series A 3.49% Due 2025	08/16/13	08/15/25	3.4900%	36,000,000	35,160,299	3.7330%	36,000,000	1,343,867	839,701	97.667498%
2022 FMB 5.15% Due 2027	12/05/22	12/15/27	5.1500%	300,000,000	296,931,414	5.3845%	300,000,000	16,153,628	3,068,586	98.977138%
2021 Sr. Notes Series A 2.86% Due 2031	04/20/21	04/20/31	2.8600%	350,000,000	347,764,660	2.9342%	350,000,000	10,269,554	2,235,340	99.361332%
2022 FMB 3.75% Due 2032	03/17/22	03/15/32	3.7500%	250,000,000	247,375,275	3.8777%	250,000,000	9,694,231	2,624,725	98.950110%
2021 Sr. Notes Series B 3.01% Due 2033	04/20/21	04/20/33	3.0100%	75,000,000	74,520,999	3.0740%	75,000,000	2,305,533	479,001	99.361332%
2013 Sr. Notes Series B 4.06% Due 2033	08/16/13	08/15/33	4.0600%	60,000,000	59,439,316	4.1291%	60,000,000	2,477,457	560,684	99.065527%
2021 Sr. Notes Series C 3.21% Due 2036	04/20/21	04/20/36	3.2100%	75,000,000	74,520,999	3.2642%	75,000,000	2,448,141	479,001	99.361332%
2013 Sr. Notes Series C 4.74% Due 2043	08/16/13	08/15/43	4.7400%	150,000,000	148,827,724	4.7894%	150,000,000	7,184,033	1,172,276	99.218483%
Forecast Bond	06/01/24	06/01/34	6.7000%	200,000,000	198,500,000	6.6046%	200,000,000	13,609,222	1,500,000	99.250000%
Miscellaneous loss on reacquired debt								77,863		
Total				1,496,000,000	1,483,040,686		1,496,000,000	65,563,529	12,959,314	

Weighted Average Cost of Debt Capital

4.3826%

**

Projected Common Equity	
Balance 6/30/23	
Goodwill Adjustment	
Projected Balance 6/30/2024	

Projected Long-term Debt	
	Balance
Balance 6/30/23	1,297,184,895
Retirements	(10,000,000)
Projected New Issuance	200,000,000
Projected Change in Unamortized Issuance and Discount Costs	68,439
Projected Balance 6/30/2024	1,487,253,334

**

Evergy Missouri West Electric Utility

Capital Structure and Rate of Return

Actual June 30, 2023

Summary				
	Balance	Weight	Rate	Rate of Return
Long-term Debt*	1,297,184,895	46.48%	4.0370%	1.8766%
Common Equity	1,493,398,022	53.52%	10.5000%	5.6191%
Total Capitalization	2,790,582,917	100.00%		7.4957%

*Includes current maturities of long-term debt and unamortized issuance, discount, and premium costs.

Long-Term Debt										
Description	Date of Settlement	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
1993 Medium Term Notes 7.33% Due 2023	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%
1993 Medium Term Notes 7.17% Due 2023	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%
2013 Sr. Notes Series A 3.49% Due 2025	08/16/13	08/15/25	3.4900%	36,000,000	35,160,299	3.7330%	36,000,000	1,343,867	839,701	97.667498%
2022 FMB 5.15% Due 2027	12/05/22	12/15/27	5.1500%	300,000,000	296,931,414	5.3845%	300,000,000	16,153,628	3,068,586	98.977138%
2021 Sr. Notes Series A 2.86% Due 2031	04/20/21	04/20/31	2.8600%	350,000,000	347,764,660	2.9342%	350,000,000	10,269,554	2,235,340	99.361332%
2022 FMB 3.75% Due 2032	03/17/22	03/15/32	3.7500%	250,000,000	247,375,275	3.8777%	250,000,000	9,694,231	2,624,725	98.950110%
2021 Sr. Notes Series B 3.01% Due 2033	04/20/21	04/20/33	3.0100%	75,000,000	74,520,999	3.0740%	75,000,000	2,305,533	479,001	99.361332%
2013 Sr. Notes Series B 4.06% Due 2033	08/16/13	08/15/33	4.0600%	60,000,000	59,439,316	4.1291%	60,000,000	2,477,457	560,684	99.065527%
2021 Sr. Notes Series C 3.21% Due 2036	04/20/21	04/20/36	3.2100%	75,000,000	74,520,999	3.2642%	75,000,000	2,448,141	479,001	99.361332%
2013 Sr. Notes Series C 4.74% Due 2043	08/16/13	08/15/43	4.7400%	150,000,000	148,827,724	4.7894%	150,000,000	7,184,033	1,172,276	99.218483%
Miscellaneous loss on reacquired debt								77,863		
Total				1,306,000,000	1,293,994,821		1,306,000,000	52,722,931	12,005,179	

Weighted Average Cost of Debt Capital **4.0370%**

Common Equity Balance	
	Balance
Balance 6/30/23	1,662,367,612
Goodwill Adjustment	(168,969,590)
Actual Balance	1,493,398,022

**Evergy Metro, Inc. d/b/a Evergy Missouri Metro and
Evergy Missouri West, Inc. d/b/a Evergy Missouri West**

Docket No.: ER-2024-0189

Date: February 2, 2024

CONFIDENTIAL INFORMATION

The following information is provided to the Missouri Public Service Commission under CONFIDENTIAL SEAL:

Document/Page	Reason for Confidentiality from List Below
Andrews Direct, p. 5, Ins. 21-22	3, 4, and 6
Schedule KA-1	3, 4, and 6

Rationale for the “confidential” designation pursuant to 20 CSR 4240-2.135 is documented below:

1. Customer-specific information;
2. Employee-sensitive personnel information;
3. Marketing analysis or other market-specific information relating to services offered in competition with others;
4. Marketing analysis or other market-specific information relating to goods or services purchased or acquired for use by a company in providing services to customers;
5. Reports, work papers, or other documentation related to work produced by internal or external auditors, consultants, or attorneys, except that total amounts billed by each external auditor, consultant, or attorney for services related to general rate proceedings shall always be public;
6. Strategies employed, to be employed, or under consideration in contract negotiations;
7. Relating to the security of a company's facilities; or
8. Concerning trade secrets, as defined in section 417.453, RSMo.
9. Other (specify) _____.

Should any party challenge the Company’s assertion of confidentiality with respect to the above information, the Company reserves the right to supplement the rationale contained herein with additional factual or legal information.