

Exhibit: _____
Issues: Accounting for Securitization
Financing
Witness: Matt Gummig
Type of Exhibit: Direct Testimony
Sponsoring Party: Evergy Missouri West
Case No. EF-2022-0155
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO:

EF-2022-0155

DIRECT TESTIMONY

OF

MATT GUMMIG

ON BEHALF OF

EVERGY MISSOURI WEST

**Kansas City, Missouri
March 2022**

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DIRECT TESTIMONY

OF

MATT GUMMIG

Case No. EF-2022-0155

1 **I. INTRODUCTION**

2 **Q: Please state your name and business address.**

3 A: My name is Matt Gummig. My business address is 1200 Main Street, Kansas City,
4 Missouri 64105.

5 **Q: By whom and in what capacity are you employed?**

6 A: I am employed by Evergy Metro, Inc. and serve as Senior Manager of External Reporting
7 for Evergy Metro, Inc. d/b/a Evergy Kansas Metro (“EKM”), Evergy Kansas Central, Inc.
8 and Evergy South, Inc., collectively d/b/a as Evergy Kansas Central (“EKC”), Evergy
9 Metro, Inc. d/b/a as Evergy Missouri Metro (“EMM”), Evergy Missouri West, Inc. d/b/a
10 Evergy Missouri West (“EMW” or “Company”), the operating utilities of Evergy, Inc.
11 (“Evergy”).

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

13 A: I am testifying on behalf of EMW in support of the approval of the Company’s Application
14 for a Financing Order authorizing the financing of Qualified Extraordinary Costs incurred
15 as a result of Winter Storm Uri through the issuance of Securitized Utility Tariff Bonds.¹

¹ Capitalized terms such as Financing Order, Qualified Extraordinary Costs, and Securitized Utility Tariff Bonds are defined in Section 393.1700.1, Mo. Rev. Stat. (2016), as amended.

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

2 A: My responsibilities include the coordination, preparation and review of Form 10-K and
3 Form 10-Q filings with the Securities and Exchange Commission for Evergy and its
4 applicable operating utilities and for overseeing accounting policy and research activities.

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

6 A: I graduated from Truman State University in 2008 with a Bachelor of Science degree in
7 Accounting. I also received my Masters of Accountancy degree from Truman State
8 University in 2009. I am a Certified Public Accountant licensed in the state of Missouri.
9 From 2009 to 2011, I performed audit services for the public accounting firm of Ernst &
10 Young. I was first employed by Evergy in 2012 and have held positions of increasing
11 responsibility since that time. I have held my current position of Senior Manager – External
12 Reporting since 2019.

13 **Q: Have you previously testified in a proceeding at the Missouri Public Service
14 Commission (“Commission” or “PSC”) or before any other utility regulatory agency?**

15 A: No, I have not.

16 **Q: What is the purpose of your testimony in this proceeding?**

17 A: The purpose of my testimony is to present the accounting entries that will be required for
18 the proposed Securitized Utility Tariff Charges (“Charge” or “Charges”) for Evergy
19 Missouri West.

20 **Q: Are you sponsoring any exhibits with your Direct Testimony?**

21 A: Yes. Exhibit MG-1 – Accounting Entries to Record Securitized Utility Tariff Charge is
22 presented in conjunction with my direct testimony. This exhibit was prepared under my

1 direction and control, and to the best of my knowledge all factual matters contained
2 therein are true and accurate.

3 II. ACCOUNTING FOR SECURITIZATION FINANCING

4 **Q. Please describe the overall accounting treatment for financing Winter Storm Uri costs**
5 **through Securitization Utility Tariff Bonds.**

6 A. As explained in the direct testimony of Company witness Steffen Lunde of Citigroup
7 Global Markets, Inc., the Company will finance the recovery of Winter Storm Uri costs by
8 Securitized Utility Tariff Bonds (“Securitization Bonds”) issued through a Special Purpose
9 Entity (“SPE”), the purpose of which is generally described by Company witness Jason
10 Humphrey in his direct testimony. The SPE will be created solely to facilitate such
11 financing and will be a wholly-owned subsidiary of Evergy Missouri West. The SPE and
12 Company will maintain separate accounting records. The accounting entries necessary to
13 record financing activities for recovering Qualified Extraordinary Costs incurred by
14 Evergy Missouri West due to Winter Storm Uri through the Securitization Bonds (e.g.,
15 initial bond issuance, monthly collections, etc.), along with an explanation of each, are
16 illustrated in my Exhibit MG-1.

17 **Q. Is the Company requesting Commission approval for any specific accounting**
18 **treatment associated with the proposed Qualified Extraordinary Cost financing?**

19 A. Yes. The Company is seeking approval to sell the right to impose, bill, charge, collect and
20 receive the Securitized Utility Tariff Charges (“Charge” or “Charges”) to its SPE, as
21 authorized under a Commission Financing Order issued in this proceeding, including the
22 right to obtain periodic adjustments to such Charges, and to classify such right as

1 Securitized Utility Tariff Property, as defined in Section 393.1700.1(18) of the
2 Securitization Law enacted in Missouri in 2021.

3 **Q. What amounts of Securitized Utility Tariff Property is the Company proposing to sell**
4 **to its SPE?**

5 A. Evergy Missouri West is proposing to sell Securitized Utility Tariff Property in the
6 approximate amount of \$356.8 million to its SPE which, assuming a February 2023
7 issuance, includes approximately \$54.6 million of carrying costs and \$6.6 million of up-
8 front financing costs, primarily representing bond issuance costs.

9 **Q. How will the SPE amortize Securitized Utility Tariff Property?**

10 A. The SPE will amortize the relevant Securitized Utility Tariff Property based on the
11 principal amount required for the repayment of the relevant series of Securitization
12 Bonds over the expected life of the Securitization Bonds.

13 **Q. What are the anticipated accounting entries to be recorded at the SPE?**

14 A. As illustrated in Exhibit MG-1, the accounting entries to be recorded by the SPE are as
15 follows: (1) recording of capital subaccount from the Company's equity investment; (2)
16 recording of proceeds from the issuance of the Securitization Bonds; (3) purchase of
17 Securitized Utility Tariff Property from the Company; (4) receipt of cash from the
18 Company and recognition of revenue for the Charges collected; (5) amortization of the
19 Securitized Utility Tariff Property; (6) accrual of interest expense; (7) amortization of up-
20 front financing costs; (8) payment of Securitization Bond's principal and interest; (9)
21 recording of on-going operating costs and servicing fees payable; (10) replenishment of

1 capital subaccount, if needed; (11) permitted return on the capital subaccount; and (12)
2 transfer of cash to the excess funds subaccount in the event of excess Charges collected.

3 **Q. How will the SPE account for the difference between its expenses and the revenues**
4 **collected from the Company?**

5 A. Each month the SPE will compare its total expenses (including the amortization of
6 Securitized Utility Tariff Property, amortization of up-front bond issuance costs, interest
7 expenses, and on-going operating costs and servicing fees) to its total revenues. The
8 difference will be deferred as either a regulatory asset or a regulatory liability, to serve as
9 a balancing account for the SPE. The differences that occur in the balancing account for
10 the SPE will be trued-up periodically as part of the True-Up Adjustment Mechanism, as
11 discussed in Company witness Ronald Klote's testimony.

12 **Q. What are the anticipated accounting entries to be recorded at the Company?**

13 A. As illustrated in Exhibit MG-1, the accounting entries to be recorded by the Company are
14 as follows: (1) recording of expenditure of cash to fund the capital subaccount of the
15 SPE; (2) sale of the Securitized Utility Tariff Property to the SPE; (3) recognition and
16 collection of Charges; (4) recording of servicing fees and costs billed to the SPE; and (5)
17 impact of earnings on the capital subaccount of the SPE.

18 **Q. How will Charges collected from customers be recorded?**

19 A. The Charges collected will be remitted to and recorded as revenues at the SPE.

20 **Q. Please describe how the Company, as servicer, proposes to remit Charges to the SPE.**

21 A. The Company, as servicer, will be required to remit Charges directly to the appropriate
22 bond trustee for the Securitization Bonds issued to finance and recover Qualified
23 Extraordinary Costs from Winter Storm Uri. The Company expects that these remittances

1 will occur on a daily basis. Subject to the availability of actual daily collection information
2 or other system constraints of the Company's billing system, the determination of the
3 amount of daily remittances to the bond trustee will either be based on actual or estimated
4 daily collections of the Charges from customers. If an estimate of daily collections is
5 utilized, the Company would perform periodic reconciliations of estimated with actual
6 collections of the Charges on at least an annual basis, subject to the final terms of the
7 servicing agreement with the SPE.

8 **Q. Could the Company remit the Charges less frequently than daily under certain**
9 **conditions?**

10 A. Potentially, under certain circumstances this could occur. Provisions within the servicing
11 agreement may permit the Company to remit such charges monthly, instead of daily. The
12 Company could only exercise this option if the conditions of the servicing agreement were
13 satisfied. These conditions will be driven by rating agency requirements to achieve and
14 maintain the targeted "AAA" ratings on the Securitization Bonds and may include the
15 maintenance by the Company of a minimum credit rating(s), the maintenance of reserves,
16 or other conditions. If the Company is eligible to remit charges monthly, and elects to
17 do so, then charges would be remitted based upon either actual or estimated collections
18 using the same general methodology previously discussed for daily remittances. The
19 Company would include in any remittance investment earnings which are estimated to have
20 been earned on such collections in the hands of the Company. A monthly remittance
21 process for the Charges would only occur if it does not negatively impact the credit
22 ratings for the Securitization Bonds and is permitted by the servicing agreement.

1 **Q. How will the Company allocate partial payments on a bill to the Charges?**

2 A. Partial payments will be allocated to the Charge in the same proportion that such
3 charges bear to the total bill. The first dollars collected would be attributed to past due
4 balances, if any. Once those balances are paid in full, if cash collections are not sufficient
5 to pay a customer's current bill, then the cash would be prorated between the different
6 components of the bill. In my opinion this is an appropriate method to use for tracing funds
7 collected as Charges and identifying the cash proceeds of the Securitized Utility Tariff
8 Property, an element that must be included in the Commission's financing order under
9 Section 393.1700.2(3)(c)j of the Securitization Law. This method of tracing funds
10 collected as Charges has been included in the proposed Financing Order that is appended
11 to Mr. Lunde's direct testimony.

12 **Q: Does this conclude your testimony?**

13 A: Yes.

Accounting Entries to Record Securitized Utility Tariff Charge - SPE
Exhibit MG-1

Account	Dr	Cr	Income Statement	Balance Sheet
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Entry #1 - Set-up of the SPE

-Establish initial capital subaccount at SPE

Restricted Cash - Capital Subaccount	x			x
SPE Equity		x		x

Entry #2 - Issuance of Securitized Utility Tariff Bonds

-Record the proceeds of the Securitized Utility Tariff Bonds

Restricted Cash - General Subaccount	x			x
Upfront Bond Issuance Costs	x			x
Securitized Utility Tariff Bonds Payable		x		x

Entry #3 - Purchase of Securitized Utility Tariff Property

-Record the purchase of the Securitized Utility Tariff Property from Evergy Missouri West

Regulatory Asset - Securitized Utility Tariff Property	x			x
Restricted Cash - General Subaccount		x		x

Entry #4 - Record Revenues Collected from Customers and Receipt of Cash from Evergy Missouri West

-Entry to recognize revenue for amounts collected from customers

Accounts Receivable from Evergy Missouri West	x			x
Revenues		x	x	

-Entry to recognize cash received from Evergy Missouri West

Restricted Cash - General Subaccount	x			x
Accounts Receivable from Evergy Missouri West		x		x

Entry #5 - Amortization of Securitized Utility Tariff Property

-Monthly entry to record the amortization of the Securitized Utility Tariff Property

Amortization Expense	x		x	
Regulatory Asset - Securitized Utility Tariff Property		x		x

Entry #6 - Interest Expense on Securitized Utility Tariff Bonds

-Monthly entry to record the interest expense on Securitized Utility Tariff Bonds

Interest Expense	x		x	
Accrued Interest		x		x

Entry #7 - Amortization of Upfront Financing Costs

-Monthly entry to amortize the upfront issuance costs related to the Securitized Utility Tariff Bonds

Interest Expense	x		x	
Upfront Bond Issuance Costs		x		x

Account	Dr	Cr	Income Statement	Balance Sheet
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Entry #8 - Payment of Bond Principal and Interest

-Semi-annual payment of bond principal and interest

Securitized Utility Tariff Bonds Payable	x			x
Accrued Interest	x			x
Restricted Cash - General Subaccount		x		x

Entry #9 - Ongoing Operating and Servicing Costs

-Entry to record the operating and servicing fees of the SPE

Administrative and General Expense	x		x	
Restricted Cash - General Subaccount		x		x
Servicing Fees - Billed by Evergy Missouri West	x		x	
Accounts Payable - Evergy Missouri West		x		x
Accounts Payable - Evergy Missouri West	x			x
Restricted Cash - General Subaccount		x		x

Entry #10 - Replenishment of Cash - Capital Subaccount

-These entries are only needed if cash in the general subaccount is insufficient to make semi-annual bond and interest payments

-Recognize bond and interest payment from Restricted Cash - Capital Subaccount, if necessary

Securitized Utility Tariff Bonds Payable	x			x
Accrued Interest	x			x
Restricted Cash - Capital Subaccount		x		x

-Replenish Restricted Cash - Capital Subaccount through True-Up Mechanism of Securitized Utility Tariff Charge

Restricted Cash - Capital Subaccount	x			x
Restricted Cash - General Subaccount		x		x

Entry #11 - Record Earnings on Restricted Cash - Capital Subaccount held by SPE

-Record the collection of return on the capital investment component of the Securitized Utility Tariff Charge

Restricted Cash - Capital Subaccount	x			x
Restricted Cash - General Subaccount		x		x

-Record the cash dividend to Evergy Missouri West for return on the cash capital investment

SPE Equity	x			x
Restricted Cash - Capital Subaccount		x		x

Entry #12 - Record Excess Proceeds from the Securitized Utility Tariff Charge

-Record the excess proceeds from the Securitized Utility Tariff Charge remitted to the SPE after payments for principal, interest and on-going service fees

Restricted Cash - Excess Funds Subaccount	x			x
Restricted Cash - General Subaccount		x		x

**Accounting Entries to Record Securitized Utility Tariff Charge - EMW
Exhibit MG-1**

Account	Dr	Cr	Income Statement	Balance Sheet
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Entry #1 - Set-up of the SPE

-Initial funding of cash to establish the investment in the SPE

Investment in SPE	x			x
Cash		x		x

Entry #2 - Sale of Securitized Utility Tariff Property to SPE

-Record the sale of Securitized Utility Tariff Property to the SPE

Cash	x			x
Regulatory Asset - Securitized Utility Tariff Property		x		x

Entry #3 - Record Storm Recovery Charges Received from Customers and Transfer of Cash to SPE

-Entry to recognize the Securitized Utility Tariff Charge on customer bills (Note 1)

Customer Accounts Receivable	x			x
Payable to SPE		x		x

-Entry to record cash collected from customers

Cash	x			x
Customer Accounts Receivable		x		x

-Entry to transfer cash collected to SPE for Securitized Utility Tariff Charge

Payable to SPE	x			x
Cash		x		x

Entry #4 - Servicing Fees Charged to the SPE

-Entry to record servicing fees and costs billed to the SPE

Accounts Receivable from SPE	x			x
Other Income		x	x	

Cash	x			x
Accounts Receivable from SPE		x		x

Entry #5 - Earnings on Investment in SPE

-Entry to record earnings on Cash - Capital Subaccount held by SPE that are dividend to Evergy Missouri West

Investment in SPE	x			x
Equity Earnings		x	x	
Cash - Dividend from SPE	x			x
Investment in SPE		x		x

Note 1: Evergy Missouri West will assess applicable gross receipt taxes, franchise fees, etc.