

## MEMORANDUM

**TO:** Missouri Public Service Commission Official Case File  
File No. EF-2024-0192, Evergy Metro, Inc., d/b/a Evergy Missouri Metro

**FROM:** Seoung Joun Won, PhD, Financial Analyst, Financial Analysis Department

/s/ Seoung Joun Won, 02/28/2024

Financial Analysis Department / Date

**SUBJECT:** Staff Recommendation concerning the Application of Evergy Metro, Inc., d/b/a Evergy Missouri Metro (“Evergy Metro,” “Company,” or “Applicant”), for Approval of Financing Authority to issue, in principal amount, up to Three Hundred Million Dollars (\$300,000,000) of General Mortgage Bonds through December 31, 2024 to repay outstanding short-term indebtedness or finance capital investments.

**DATE:** February 28, 2024

1. (a) **Type of Issue:** To issue debt securities (“General Mortgage Bonds”) under Evergy Missouri Metro’s General Mortgage Indenture and Deed of Trust, dated as of December 1, 1986, as supplemented and amended (“General Mortgage Indenture”).

(b) **Amount:** Up to \$300,000,000.

(c) **Rate:** Fixed or variable rate not to exceed 6.5%.<sup>1</sup>

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, 2024.

3. (a) **Statement of Purpose of the Issue** Company proposes to use the proceeds to refinance existing short-term indebtedness as well as seek funds for capital investments.

(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:**

No, instruments have not been executed.

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<sup>1</sup> Staff’s Data Request No. 0010.

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. The debt issuances are not expected to be subject to the fee schedule in Section 386.300, RSMo. The company will file a statement of the portion of the issuance of the General Mortgage Bonds, if any, which is subject to the fee schedule in Section 386.300, RSMo and pursuant to 20 CSR 4240-10.125(F).<sup>2</sup>

9. **Recommendation of the Staff:**

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

**COMMENTS:**

Evergy Metro is a regulated electric utility engaged in providing electric utility services, including the generation, transmission, distribution, and sale of electricity, in portions of Missouri under the jurisdiction of this Commission and is a subsidiary of Evergy, Inc. Evergy Metro serves approximately 1,652,200 customers, including 1,444,900 residences; 199,500 commercial firms; and 7,800 industrials, municipalities, and other electric utilities.<sup>3</sup> Evergy Metro, headquartered in Kansas City, was formerly known as Kansas City Power & Light Company and was incorporated in 1922. The corporate credit ratings assigned to Evergy Metro by Moody's and S&P are 'Baa1' and 'A-', respectively.<sup>4</sup>

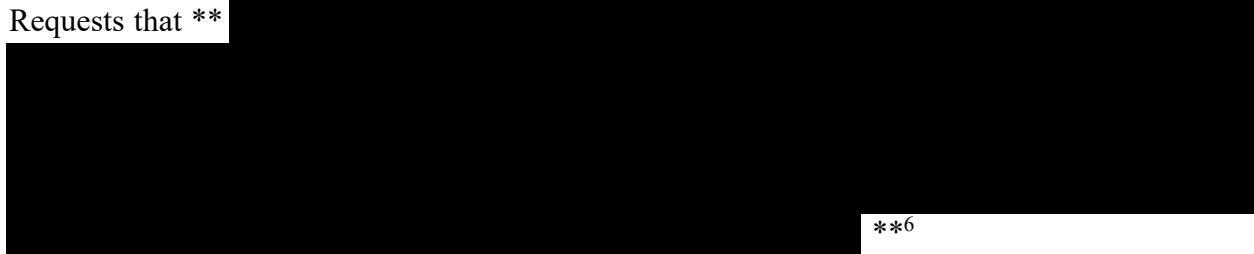
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<sup>2</sup> Paragraph 16, The Application.

<sup>3</sup> S&P Capital IQ Pro – Evergy Metro, Inc. Retrieved February 22, 2024.

<sup>4</sup> Ibid.

On February 15, 2024, Evergy Metro filed an Application with the Commission requesting approval for authority to issue and sell up to \$300,000,000 in principal amount of General Mortgage Bonds through December 31, 2024 to refinance outstanding short-term indebtedness and seek funds for capital investments.<sup>5</sup> Evergy Metro has stated in responses to Staff's Data Requests that \*\*



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 generally supports long-term capital investment. 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.

The Applicant states that the interest rate cap for this debt issuance will be 6.5%.<sup>7</sup> In January 2024, The Federal Open Market Committee (“FOMC”) of the Federal Reserve System (“Fed”) decided to maintain the target range for the federal funds rate at 5.25% to 5.50% with the aim of bringing inflation back to its 2% objective.<sup>8</sup> With the benchmark at this level, a 6.5% cap appears reasonable.<sup>9</sup> In addition, the new issuance of debt securities in the Application will not be detrimental to the public interest because Evergy Metro is a regular issuer of such debt securities with an investment grade rating which gives it access to relatively low-cost debt capital.<sup>10</sup> Considering the swiftly evolving financial market conditions, not granting this request and not allowing for the refinancing of this debt could potentially not support the public interest.

As of September 30, 2023, the Applicant's long-term indebtedness was approximately \$2,925 million which included \$1,600.0 million of collateralized Senior Secured Notes,

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<sup>5</sup> Paragraph 9, The Application.

<sup>6</sup> Staff Data Request No. 0006.

<sup>7</sup> Staff's Data Request No. 0010.

<sup>8</sup> Federal Reserve Board - Federal Reserve issues FOMC statement;  
<https://www.federalreserve.gov/monetarypolicy/files/monetary20240131a1.pdf>.

<sup>9</sup> Evergy Metro requested a 7.0 cap in the Application of EF-2023-0241.

<sup>10</sup> Staff's Data Request No. 0011.

\$1,168.7 million of General Mortgage Bonds, and \$169.9 million of Environmental Improvement Revenue Refunding bonds.<sup>11</sup>

Evergy Metro anticipates approximately \*\* [REDACTED] \*\* for capital expenditures in the period 2023 to 2027 and approximately \*\* [REDACTED] \*\* for the fiscal year 2024.<sup>12</sup> The pro forma impact of Evergy Metro’s proposed debt financing on their balance sheet as of September 30, 2023 is as follows:<sup>13</sup>

**Evergy Missouri Metro, Inc.:**

	<u>As September 30, 2023</u>			<u>Pro Forma</u>		
Common Equity	**	[REDACTED]	**	**	[REDACTED]	**
Total Debt	**	[REDACTED]	**	**	[REDACTED]	**
Long-Term Debt	**	[REDACTED]	**	**	[REDACTED]	**
Short-Term Debt	**	[REDACTED]	**	**	[REDACTED]	**

This transaction indicates a minimal change for the ratio of Total Debt to Common Equity. Common Equity decreases by \*\* [REDACTED] \*\* while Long-Term Debt increases by \*\* [REDACTED] \*\* because new Long-Term Debt will be used to refinance Short-Term Debt. The results of financial ratios, such as Funds from Operations (“FFO”) to Debt, Debt to Earnings, (“EBITDA”), and Debt to Capital, indicate that all ratios for Evergy Metro’s financial risk profile are not significantly changed by the approval of the Application. The FFO to Debt ratio improves from \*\* [REDACTED] \*\*, the Debt to EBITDA sees no change from \*\* [REDACTED] \*\*, and the Total Debt to Total Capital shows a minimal increase from \*\* [REDACTED] \*\*. <sup>14</sup>

Consequently, the impact of the proposed refinancing on Evergy Metro’s financial risk is insignificant.

<sup>11</sup> Paragraph 6, The Application.

<sup>12</sup> Page 1, Exhibit 2, The Application.

<sup>13</sup> The long-term debt uses the Outstanding Debt Capital amount from the 12/31/22 Evergy Cost of Debt Capital provided in response to Data Request No. 0016. This amount excludes unamortized debt expenses and discounts, but includes current maturities (unlike the balance sheet Long-Term Debt numbers). The pro forma information used in response to Data Request No. 0001 was used to obtain the Long-Term Debt Pro Forma numbers.

<sup>14</sup> Evergy Metro’s response to Data Request No. 0008.

**RECOMMENDED CONDITIONS:**

Staff recommends that the Commission approve the Application submitted by Evergy Metro in this case as not detrimental to the public interest, 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 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 the Company shall file with the Commission through its electronic filing and information system ("EFIS") any information concerning communication with credit rating agencies concerning this issuance;
3. 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;
4. That to the extent that any non-regulated investments made by the Company or Evergy, Inc. and affiliated companies may potentially impact the Company's credit quality and resulting credit ratings, the Company shall notify Staff of such possibility and provide a status report to the Commission;
5. That the Company be required to file a five-year capitalization expenditure schedule in future finance cases;
6. That the Company shall file with the Commission within ten (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; and
7. That the Commission's grant of authority shall expire one year from the effective date of the order in this proceeding.

**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 ) **File No. EF-2024-0192**  
Authority to Issue Debt Securities )

**AFFIDAVIT OF SEOUNG JOUN WON, PhD**

STATE OF MISSOURI     )  
  ) ss  
COUNTY OF COLE     )

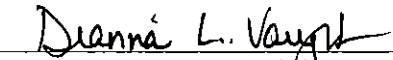
**COMES NOW SEOUNG JOUN WON, PhD**, and on his oath states that he is of sound mind and lawful age; that he contributed to the foregoing *Staff Recommendation, in Memorandum form*; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

  
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**SEOUNG JOUN WON, PhD**

**JURAT**

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 27<sup>th</sup> day of February 2024.

  
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Notary Public

DIANNA L. VAUGHT Notary Public - Notary Seal State of Missouri Commissioned for Cole County My Commission Expires: July 18, 2027 Commission Number: 15207377
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