

**BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

DIRECT TESTIMONY OF

LORI A. WRIGHT

**ON BEHALF OF
EVERGY METRO, INC. D/B/A EVERGY KANSAS METRO,
EVERGY KANSAS CENTRAL, INC. D/B/A EVERGY KANSAS CENTRAL,
AND EVERGY KANSAS SOUTH, INC. D/B/A EVERGY KANSAS SOUTH**

**IN THE MATTER OF THE APPLICATION OF
EVERGY METRO, INC. D/B/A EVERGY KANSAS METRO,
EVERGY KANSAS CENTRAL, INC. D/B/A EVERGY KANSAS CENTRAL,
AND EVERGY KANSAS SOUTH, INC. D/B/A EVERGY KANSAS SOUTH
TO MAKE CERTAIN TARIFF CHANGES
REQUIRED BY KANSAS HOUSE BILL 2585**

DOCKET NO. 20-EKME-____-TAR

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

2 A: My name is Lori Wright. My business address is 1200 Main, Kansas City, Missouri
3 64105.

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

5 A: I serve as an officer for Evergy, Inc. and I am employed by Evergy Metro, Inc. and serve
6 as Vice President, Corporate Planning, Investor Relations, and Treasurer for Evergy
7 Metro, Inc. d/b/a Evergy Kansas Metro (“Evergy Kansas Metro”), Evergy Kansas
8 Central, Inc. [f/k/a/ Westar Energy, Inc.], Evergy Kansas South, Inc. [f/k/a Kansas Gas
9 and Electric Company] (collectively referred to herein as Evergy Kansas Central) and
10 Evergy Missouri West, Inc. and Evergy Metro, Inc. d/b/a Evergy Missouri Metro.

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

1 A: I am testifying on behalf of Evergy Kansas Metro [f/k/a Kansas City Power & Light
2 Company] and Evergy Kansas Central, all three collectively referred to herein as the
3 “Companies”).¹

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

5 A: I have primary responsibility for the preparation of the short-term corporate budget and
6 long-term financial plan, all cash management and financing activities and
7 communication of the Company’s investment thesis to current and potential shareholders.

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

9 A: I graduated from The University of Iowa with a Bachelor of Business Administration
10 degree in Accounting and a Master of Business Administration degree. I am a Certified
11 Public Accountant holding a certificate in the State of Iowa. I was first employed at
12 Kansas City Power & Light Company in 2001 serving in various accounting roles,
13 including Controller from 2002 until 2014, and then I moved into my current position.
14 Prior to 2001, I held various accounting positions at Central and South West and
15 American Electric Power (Central and South West was acquired by American Electric
16 Power in 2000).

¹ Effective October 8, 2019, Evergy Metro, Inc. d/b/a Evergy Kansas Metro adopted the service territory and tariffs of KCP&L; *Order Approving Name Change*, Docket No. 20-KCPE-122-CCN, dated October 8, 2019. Effective October 8, 2019, Evergy Kansas Central, Inc. and Evergy Kansas South, Inc. d/b/a collectively as Evergy Kansas Central adopted the service territory and tariffs of Westar; *Order Approving Name Change*, Docket No. 20-WSEE-123-CCN, dated October 8, 2019.

1 **Q: Have you previously testified in a proceeding at the State Corporation Commission**
2 **for the State of Kansas (“KCC” or “Commission”) or before any other utility**
3 **regulatory agency?**

4 A: Yes, I have filed written testimony with the KCC and with the Missouri Public Service
5 Commission (“MPSC”).

6 **Q: What is the purpose of your testimony?**

7 A: My testimony will explain why we are proposing a two-year implementation for the
8 change in Evergy Kansas Central’s retail rates in order to help maintain the credit quality
9 of the Company. As Mr. Klote explains, Evergy Kansas Central is proposing to
10 implement the reduction in rates required by HB No. 2585 in three-steps over a two-year
11 period.

12 **Q: Is Evergy Kansas Central’s proposal for a two-year implementation period**
13 **consistent with the language of the legislation that required this filing?**

14 A: Yes. Our proposal is consistent with the language of HB No. 2585, Section 3(d)(1),
15 which provides that the utility can request the Commission give “due consideration to the
16 common interests of the public utility and its customers, including, but not limited to, use
17 of a two-year implementation of current period rate changes to maintain the credit quality
18 of the utility by ensuring that any such change in retail rates will not cause the utility’s
19 credit metrics that are traditionally considered by the credit rating agencies to deteriorate
20 to a level that could impair the utility’s current credit rating.” As I discuss below,
21 implementation of the rate change in this docket for Evergy Kansas Central without a
22 phase-in will reduce certain credit metrics for Evergy Kansas Central to a level that

would create a significant risk of a credit downgrade. The use of the two-year implementation period will help minimize that risk.

Q: What credit rating agencies currently publish credit ratings for Evergy Kansas Central, Inc.?

A: Moody's Investor Services ("Moody's") and S&P Global Ratings ("S&P") currently provide credit opinions and ratings for Evergy Kansas Central.

Q: What are the current credit ratings for Evergy Kansas Central, Inc.?

A: Moody's most recent credit opinion, included as Attachment A, was issued on April 28, 2020, with a long-term rating of Baa1 and a Stable outlook.

S&P's most recently issued credit report, included as Attachment B, was issued on May 27, 2020, with a long-term rating of A- and a Stable outlook.

Q: What credit metrics are calculated by the credit rating agencies and used in their rating analysis?

A: Moody's calculates the following four metrics (where "CFO" stands for Cash from Operations, "WC" stands for Working Capital and "/" means divided by):

- (1) CFO Pre-WC plus Interest / Interest,
- (2) CFO Pre-WC / Debt,
- (3) CFO Pre-WC less Dividends / Debt and
- (4) Debt / Capitalization.

S&P calculates the following three metrics (where "FFO" stands for Funds from Operations and "/" means divided by):

- (1) FFO / Debt,
- (2) FFO Cash Interest Coverage and

(3) Debt / Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA).

Each rating agency calculates its metrics independently based on reported financial statements and footnote disclosures as well as various methodologies and assumptions that are subject to change from time to time.

Q: What are the historical credit metrics for Evergy Kansas Central?

A: The following table provides a summary of 2017-2019 historical credit metrics traditionally considered by the rating agencies.

Evergy Kansas Central			
Historical Credit Metrics			
Last Twelve Months (LTM)	Dec-17	Dec-18*	Dec-19
Moody's			
CFO Pre-WC + Interest to Interest	6.2x	5.2x	5.5x
CFO Pre-WC to Debt	20.9%	16.8%	18.1%
CFO Pre-WC - Dividends to Debt	16.1%	10.6%	15.6%
Debt to Capitalization	50.1%	51.0%	48.9%
S&P			
FFO to Debt	20.4%	18.0%	19.9%
FFO Cash Interest Coverage	6.5x	6.1x	7.3x
Debt to EBITDA	4.2x	4.7x	4.2x

*Merger transition year

Q: Is there a specific credit metric Evergy Kansas Central focuses on when evaluating potential impacts on its credit quality?

A: Yes, Evergy Kansas Central focuses on Moody's CFO Pre-WC / Debt metric as an indication of the potential impacts on credit quality.

Q: Why does Evergy Kansas Central focus on this credit metric?

1 A: Based on experience, the CFO Pre-WC / Debt credit metric is the one most sensitive to
2 changes. It is also very similar to S&P's FFO / Debt metric, which moves in the same
3 direction, but n. Moody's highlights CFO Pre-WC / Debt and S&P highlights FFO /
4 Debt as a major factor that could lead to a credit rating downgrade.
5 Therefore, for simplicity, my following testimony will solely focus on Moody's CFO
6 Pre-WC / Debt metric.

7 **Q: What caused the CFO Pre-WC / Debt credit metric for Evergy Kansas Central to**
8 **deteriorate from 20.9% in 2017 to 18.1% in 2019?**

9 A: The primary reasons the Evergy Kansas Central CFO Pre-WC / Debt metric decline from
10 20.9% in 2017 to 18.1% in 2019 are (1) the Federal Tax Cuts and Jobs Act ("TCJA")
11 lowered retail rates and (2) increased cash income taxes paid. Prior to the TCJA, Evergy
12 Kansas Central was able to utilize more federal tax credits to significantly reduce or
13 eliminate federal income tax payments. Merger bill credits also were a factor.

14 **Q: What do the credit ratings and credit metrics say about the current credit quality of**
15 **Evergy Kansas Central?**

16 A: Evergy Kansas Central is a strong investment grade utility with a stable financial profile
17 and credit metrics consistent with current ratings.

18 **Q: Has the merger between Westar Energy, Inc. and Great Plains Energy, Inc.**
19 **impacted the credit quality of Evergy Kansas Central?**

20 A: Yes, in a positive manner. In fact, both Moody's and S&P have stated the benefits and
21 savings from the merger can help improve the credit quality of Evergy Kansas Central.

1 Moody's notes "We believe that the combined entity will benefit from improved
2 economies of scale and a lower cost structure with the elimination of duplicate functions
3 across the organizations."

4 S&P notes "The outlook also reflects our expectation of a stronger business risk profile
5 and a clear path to realizing proposed synergies that result in operational improvements
6 and cost savings."

7 **Q: What do the credit rating agencies list as factors that could lead to a downgrade or**
8 **as a downside scenario?**

9 A: Moody's notes "A rating downgrade could be considered if there was a significant
10 deterioration in the credit supportiveness of the Kansas regulatory environment resulting
11 in higher risks or lower returns. Moreover, a downgrade could be considered if Kansas
12 Central's CFO pre-WC to debt remains below 18% on a sustained basis."

13 S&P notes "We could lower the rating if the combined company's financial risk profile
14 post-merger weakens such that adjusted FFO to debt is consistently below 15% after
15 2018."

16 **Q: Have you provided projected credit metrics to the credit rating agencies for Evergy**
17 **Kansas Central prior to considering the impacts of HB No. 2585?**

18 A: Yes. The following confidential table was provided to Moody's and S&P in March, 2020
19 showing projected 2020-2023 credit metrics prior to passage of HB No. 2585.

20 

1 A: No.

2 Q: Does a specific component of the CFO Pre-WC / Debt metric have more of an
3 impact on the calculation?

4 A: Yes. The CFO Pre-WC component has a much more profound impact on the calculation
5 than the amount of debt. For example, a \$20 million reduction in CFO Pre-WC for the
6 twelve months ending December 31, 2019, would reduce the Evergy Kansas Central CFO
7 Pre-WC / Debt metric by 40 basis points from 18.1% to 17.7% whereas a \$20 million
8 increase in Debt would only reduce the metric by 10 basis points from 18.1% to 18.0%.
9 The combined impact of decreasing CFO Pre-WC \$20 million AND increasing Debt \$20
10 million would reduce the metric by 50 basis points from 18.1% to 17.6%.

11 Q: What is the pro forma impact on the Evergy Kansas Central CFO Pre-WC / Debt
12 credit metric as if the change in retail rates was effective January 1, 2019 (a) without
13 a two-year implementation and (b) with a two-year implementation assuming a 25%
14 credit for the annual retail rate impact beginning January 1, 2019 (with the
15 remainder deferred to a regulatory liability)?

16 A: See the following confidential table.

17 [illegible]

18 [REDACTED]

Q: What is the projected pro forma impact on the Evergy Kansas Central CFO Pre-WC / Debt credit metric based on a change in retail rates effective January 1, 2021 (a) without a two-year implementation and (b) with a two-year implementation using a three-step phase-in that assumes a 25% credit for the annual rate impact beginning January 1, 2021, an additional 25% credit beginning January 1, 2022, and the remaining 50% credit beginning on January 1, 2023 (with the remainder for each year deferred to a regulatory liability)?

A: See the following confidential table.

[illegible]

1 [REDACTED]
2 **Q: What conclusions might be drawn from the Evergy Kansas Central CFO Pre-WC /**
3 **Debt pro forma impact analysis?**

4 A: If HB No. 2585 had been in effect on January 1, 2019 and retail rates adjusted on that
5 date without a two-year implementation plan, the CFO Pre-WC / Debt credit metric for
6 Evergy Kansas Central would have [REDACTED] Moody's 18% level
7 for downgrade consideration. Likewise, if retail rates are adjusted on January 1, 2021
8 without a two-year implementation, the CFO Pre-WC / Debt credit metric is projected to
9 [REDACTED] the Moody's 18% downgrade consideration. Although
10 the CFO Pre-WC / Debt credit metric [REDACTED]
11 18% downgrade consideration for LTM Dec-22, even without a two-year
12 implementation, the metric [REDACTED]
13 [REDACTED] than with the proposed
14 phase-in.

15 In other words, a two-year implementation of the rate change in this docket would
16 mitigate the immediate negative cash flow impact caused by the tax law change and,
17 independent of other factors, cause the CFO Pre-WC / Debt metric to be higher than it
18 otherwise would be, minimizing the risk that Evergy Kansas Central would suffer a
19 downgrade in credit quality as a result of the rate change.

20 **Q: Have you evaluated the potential impacts of COVID-19 on the projected CFO Pre-**
21 **WC to Debt credit metric of Evergy Kansas Central, Inc.?**

22 A: We are closely monitoring COVID-19 and evaluating the potential impacts to earnings,
23 cash flows and credit metrics starting with a 1% sensitivity to retail sales. For example,

1 we estimate a 1% decline in retail sales volume could reduce the cash flows of Evergy
2 Kansas Central by approximately \$0.9 to \$1.3 million per month depending on the month
3 and customer mix. For April through June 2020, Evergy Kansas Central saw a 8.1%
4 decline from normal in weather-normalized retail sales. Should that trend continue, cash
5 flows will decline even more and would have a significant and material impact on the
6 CFO Pre-WC to Debt credit metric of Evergy Kansas Central, Inc.

7 **Q: How would a downgrade in credit quality impact customers?**

8 A: In general, lower credit ratings would likely result in higher borrowing costs for Evergy
9 Kansas Central, which would further reduce cash flow until reflected in rates. Once the
10 higher borrowing costs were reflected in rates, it would cause customer rates to increase.
11 As a result, it is in customers' best interests, as well as Evergy Kansas Central's, to
12 implement this rate decrease in a way that minimizes the risk of a credit downgrade.

13 **Q: Can Evergy Kansas Central "ensure" the use of a two-year implementation of**
14 **current period rate changes will prevent a decline in its credit rating?**

15 A: No. Credit rating agencies are independent entities that assign credit ratings based upon
16 multiple criteria. However, specific credit metrics calculated by the rating agencies are a
17 very important factor in their determination of a rating. A two-year implementation of
18 current rate period changes would have the effect of improving cash flow measures
19 calculated by the rating agencies over the implementation period, thereby reducing the
20 possibility of a rating downgrade due to such metrics.

21 **Q: What other factors might impact the projected credit ratings of Evergy Kansas**
22 **Central?**

1 A: There are many risks, uncertainties and other factors that could cause actual results to
2 differ from the forward-looking information. Examples include, but are not limited to,
3 economic and weather conditions and any impact on sales, prices and costs; the impact of
4 federal, state and local political, legislative, judicial and regulatory actions or
5 developments; the impact of the Coronavirus (COVID-19) pandemic on, among other
6 things, sales, results of operations, financial condition, liquidity and cash flows, and also
7 on operational issues, such as the availability and ability of our employees and suppliers
8 to perform the functions that are necessary to operate the Evergy Companies; and
9 financial market conditions and performance. Risks and uncertainties are discussed in
10 quarterly reports on Form 10-Q and annual reports on Form 10-K filed by the Evergy
11 Companies with the Securities and Exchange Commission.

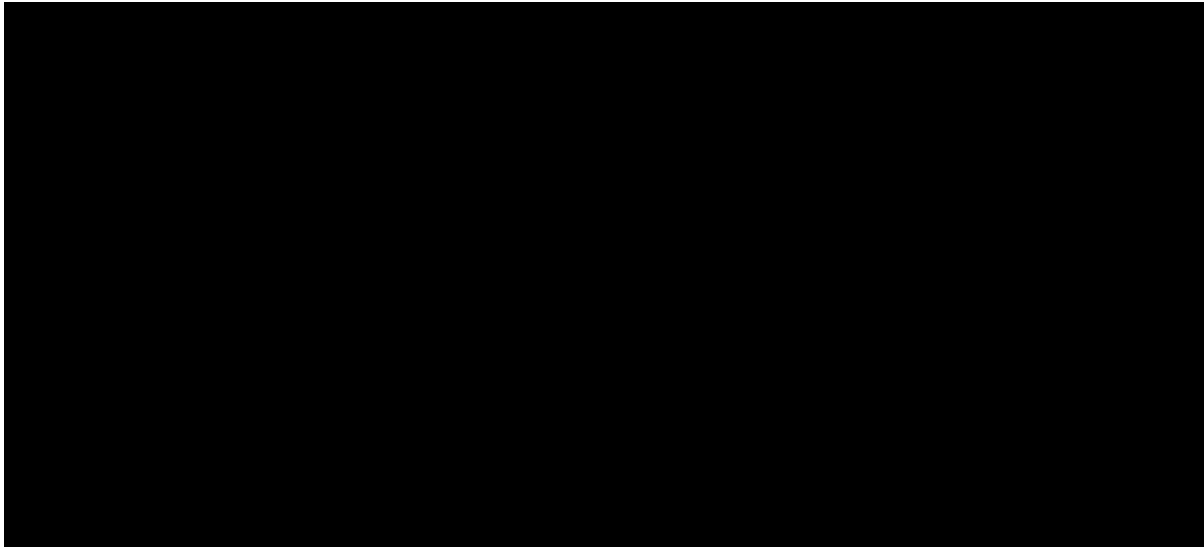
12 **Q: Why is Evergy Kansas Metro not seeking the use of a two-year implementation of**
13 **current period rate changes to maintain its credit quality?**

14 A: Unlike Evergy Kansas Central, Evergy Metro does not have any Kansas tax credits from
15 prior years that, under normal circumstances, could have helped to reduce the Evergy
16 Metro Kansas state income tax payments. Under HB No. 2585, Evergy Metro will no
17 longer be subject to Kansas state income tax payments which is projected to be offset by
18 an almost equal amount of change in retail rates.

19 **Q: What conclusions can be drawn from requesting a two-year implementation for**
20 **Evergy Kansas Central but not requesting a two-year implementation for Evergy**
21 **Kansas Metro?**

22 A: There are two primary differences between Evergy Kansas Central and Evergy Kansas
23 Metro. First, Evergy Kansas Central was [REDACTED]

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

10 **A:** Yes, it does.

**BEFORE THE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

**In The Matter of the Application of Evergy)
Metro, Inc. d/b/a Evergy Kansas Metro,)
Evergy Kansas Central, Inc. d/b/a Evergy) Docket No. 20-EKME-____-TAR
Kansas Central, and Evergy Kansas South,)
Inc. d/b/a Evergy Kansas South to Make)
Certain Tariff Changes Required by Kansas)
House Bill 2585)**

AFFIDAVIT OF LORI A. WRIGHT

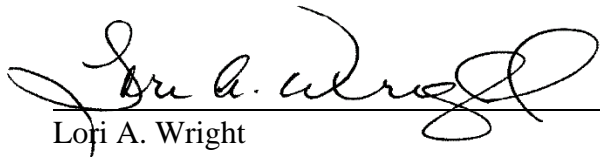
STATE OF MISSOURI)

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COUNTY OF JACKSON)

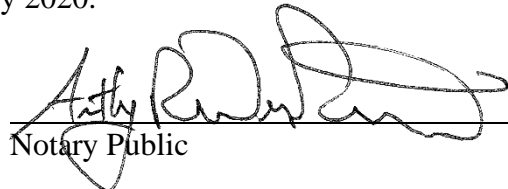
Lori A. Wright, being first duly sworn on his oath, states:

1. My name is Lori A. Wright. I work in Kansas City, Missouri, and I am employed by Evergy Metro, Inc. and serve as Vice President, Corporate Planning, Investor Relations, and Treasurer for Evergy Metro, Inc. d/b/a Evergy Kansas Metro (“Evergy Kansas Metro”), Evergy Kansas Central, Inc., Evergy Kansas South, Inc. (collectively referred to herein as “Evergy Kansas Central”).
2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Evergy Kansas Metro and Evergy Kansas Central consisting of 15 pages, having been prepared in written form for introduction into evidence in the above-captioned docket.
3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.



Lori A. Wright

Subscribed and sworn before me this 31st day of July 2020.



Notary Public

My commission expires: 4/26/2021

