

CREDIT OPINION

20 August 2019

✓ Rate this Research

Contacts

Julie E Meyer +1.214.979.6855
Analyst
julie.meyer@moodys.com

Rodney Cannon +1.212.553.9442
Associate Analyst
rodney.cannon@moodys.com

Kurt Krumpfenacker +1.212.553.7207
Senior Vice President/Manager
kurt.krumpfenacker@moodys.com

CLIENT SERVICES

Americas 1-212-553-1653
Asia Pacific 852-3551-3077
Japan 81-3-5408-4100
EMEA 44-20-7772-5454

Kansas Power Pool

Update to credit analysis

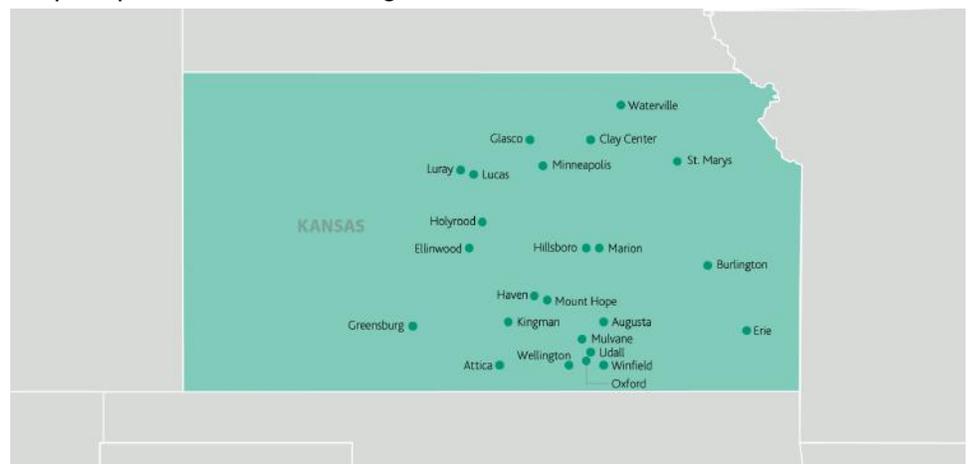
Summary

Kansas Power Pool's (KPP; A3 stable) credit profile primarily reflects the A3 weighted average credit quality of its participants and the long-dated nature of the all-requirements, take-and-pay contracts. KPP serves 24 relatively small and rural cities that own and operate retail electric utility systems. In 2017, KPP members signed 20-year extensions to the power purchase contracts. The contracts are not subject to cancellation or termination prior to the end of the contract term or final maturity on the bonds, whichever is later.

The credit is additionally supported by KPP's trend of improving liquidity, reaching 152 days cash on hand in fiscal 2018 and significantly ahead of the original 2012 goal of 90 days by fiscal 2020. By policy, cash flow in excess of 1.30x coverage of debt service is diverted to a rate stabilization fund, and coverage is averaging over 1.7x. KPP's fuel mix is balanced and capacity consists of ownership in a large combined cycle unit and use of many of its members' small generating units. KPP's coal exposure will be materially reduced when the agency replaces its imminently terminating contracted coal capacity with gas-fired reciprocating engines. Lastly, while KPP's rates historically were under the jurisdiction of the Kansas Corporation Commission, recent legislation and a member election in 2018 allowed KPP to achieve unregulated rate setting authority.

Exhibit 1

KPP participants are distributed throughout Central and Eastern Kansas



Source: Kansas Power Pool

Credit strengths

- » Weighted average credit quality of A3 of 24 member participants
- » Participant power purchase contracts extend past the final maturity of the bonds
- » Inability of participants to terminate the power contracts while KPP debt is outstanding
- » Demonstrated ability by management to improve liquidity and financial metrics
- » KPP maintains 10 year financial and operating projections, a requirement for SPP transmission owners

Credit challenges

- » All of KPP's members are unrated by Moody's
- » KPP serves smaller communities with below average socioeconomic indicators and susceptibility to economic pressures

Rating outlook

The stable outlook reflects our expectation that KPP will maintain DSCRs well-above KPP's internal target of 1.3x on a net revenue basis and liquidity around 150 days cash on hand over the next 12 - 18 months.

Factors that could lead to an upgrade

- » The rating could face upward pressure after several years if the average credit quality of the all-requirements participants improves to at least A2
- » The rating could also face upward pressure if projected coverage from net revenues averages above 1.4x and liquidity above 160 days cash on hand inclusive of new money issuance plans

Factors that could lead to a downgrade

- » A material drop in liquidity from current levels to below 60 days cash on hand
- » Revenue growth fails to materialize or operating expenses arise such that financial metrics decline below 1.2 times on a sustained basis
- » A decline in the weighted average credit quality of participant members below A3 could result in downward rating pressure

Key indicators

Exhibit 2

Kansas Power Pool

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|---------|---------|---------|---------|---------|
| Total Sales (mWh) | 892,985 | 857,940 | 868,826 | 872,057 | 899,544 |
| Debt Outstanding (\$'000) | 38,805 | 52,000 | 48,670 | 47,485 | 44,955 |
| Debt Ratio (%) | 83.2 | 90.3 | 78.0 | 74.3 | 66.7 |
| Days Cash on Hand | 67 | 67 | 67 | 67 | 67 |
| Adjusted Days Liquidity on Hand (incl. Bank Lines)(days) | 92 | 147 | 165 | 173 | 192 |
| Fixed Obligation Charge Coverage (if applicable)(x) | 1.72 | 1.19 | 1.78 | 1.60 | 1.85 |

Source: KPP Audited Financial Statements, Moody's Investors Service

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Profile

KPP is a municipal energy agency created under the laws of the State of Kansas. The KPP was created by an agreement executed by the original members in October and November of 2004. KPP provides electric power services under its operating agreement and a power purchase contract for wholesale electric energy, both of which are adopted by each member city.

KPP's 2018 membership includes 23 cities that are considered long-term members in that each has signed an exclusive 20-year power purchase contract with KPP, the term of which is the later of 20 years from the first supplemental power purchase contract date or the date upon which the principal, premium and interest on all bonds are paid in full and the bonds are retired. An additional member city has signed a 20-year power purchase contract with KPP; the term is from the first supplemental power purchase contract date.

Detailed credit considerations

Revenue generating base: A3 weighted average participant credit quality

KPP's 24 city and utility participants are billed under their all-requirements "take-and-pay" power purchase contracts which is designed to cover their proportionate shares of KPP's operating, capital and debt service costs, including KPP's share in other projects such as the Dogwood combined cycle generating facility in Pleasant Hill, MO and environmental upgrades made to its members' small Reciprocating Internal Combustion Engine (RICE) units. The overall weighted average credit quality of the 24 participants is internally estimated at an A3 and is expected to remain relatively stable at this level for several years.

The power purchase contracts are long-dated. All but one member are bound with a term for the later of twenty years from the First Supplemental Power Purchase Contract date or the date upon which KPP bonds are paid in full. The remaining member is still bound to the terms of the 2012 contract that will terminate in 2032.

KPP's service territory is spread throughout the eastern two-thirds of the state. There are six members that each represent more than 5% of KPP peak demand: Winfield (29.7%), Wellington (14.1%), Augusta (10.8%), Clay Center (6.0%), and Mulvane (6.0%). Combined, they represent about two-thirds of demand. All but Clay Center are located in the Wichita metro area.

According to Moody's Analytics, the Wichita economy has relatively low employment diversity and above-average volatility. Defense and manufacturing are primary economic drivers. About one-fifth of manufacturing jobs are in fabricated metal and industrial machinery which may suffer from weaker overseas demand. Another one-fifth of factory workers are employed at Spirit AeroSystems and mostly work on the fuselages of Boeing 737 aircraft. The 737 MAX grounding has not affected Boeing's plans to ramp up production, but prolonged legal investigations could also be a downside risk. Overall, the Wichita economy is expected to maintain a slight lead over the state and Midwest this year.

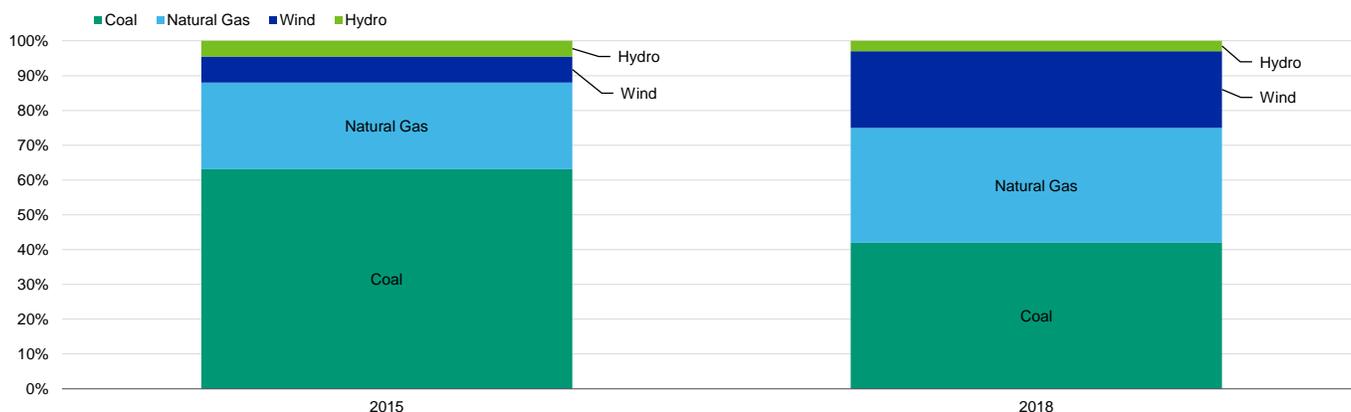
KPP has a diverse capacity resource mix with ownership shares in multiple generation assets, including 95 MWs procured through long-term contracts; undivided ownership interests in the Dogwood facility as well as energy received through the SPP integrated market. Additionally, five members have a power purchase agreement with the Western Area Power Administration for hydro capacity that is not allowed to be pooled. KPP's power supply also includes 154.9 MWs of member owned capacity. When a member joins KPP and signs the operating agreement, it agrees to pool its generation resources to serve the entire membership. The only exceptions are members that have power purchase agreements with the Western Area Power Administration which does not allow its energy contracts to be pooled.

While still somewhat concentrated in coal, the fuel diversity has improved in recent years. Coal previously represented over half of generation, but the share dropped to 42% in fiscal 2018.

Exhibit 3

KPP has a balanced fuel mix

Coal dependency will drop significantly after the Jeffrey Energy Center contract expires in 2023



Source: Kansas Power Pool

KPP's contract with Westar Energy for 59 MW of baseload power from the Jeffrey Energy Center (JEC) will expire in 2023. Management plans to replace the lost capacity with KPP-owned generation. KPP will finance and build a new facility with gas-fired reciprocating engines that can ramp up and ramp down on very short notice. Currently, JEC has to run overnight which, due to rising wind capacity in the SPP market, results in a loss. The fast-start units, by contrast, would run when there is a premium on the intra-hour market. Preliminary KPP forecasts indicate a cost savings, inclusive of new debt and personnel, from the capacity change. The shift away from coal and shedding of related fixed payments will benefit KPP's credit profile.

Financial operations and position: Coverage and liquidity continue to improve

We expect KPP will maintain debt service coverage ratios well-above the Board's target of 1.30x. Fiscal 2018 ended with a net revenue debt service coverage ratio (DSCR) of 1.85x. We expect fiscal 2019 will end with coverage over 2.0x. Preliminary forecasts indicate that KPP will be able to maintain DSCRs at these levels over the next five years as it issues new debt for capacity requirements.

Rates are established annually and are finalized by a vote of the Membership Committee. KPP also imposes a monthly Energy Cost Adjustment charge to recover differences between actual and budgeted revenues. Financial policies and annual budgets are approved by the Board of Directors, which consists of nine members elected by the KPP Membership Committee. Each member city receiving wholesale electric service from KPP is represented by a voting delegate on the Membership Committee.

Historically, wholesale rates, including those of municipal energy agencies like KPP, were under the jurisdiction of the Kansas Corporate Commission (KCC). However, recent legislation clarified KCC jurisdiction and allowed KPP to become exempt from rate regulation provided that they have an election where members can vote on deregulation, which took place in 2018.

LIQUIDITY

KPP's liquidity profile has substantially improved after the Board implemented more favorable financial policies. KPP targets annual DSCR of at least 1.30x and diverts the excess cash flow to the rate stabilization fund. KPP transferred \$2.4 million to the fund in fiscal 2018, which had a balance of \$3.6 million by year end. Unrestricted liquidity and discretionary reserves totaled \$23 million in fiscal 2018, or 152 days cash on hand.

KPP also has a \$6 million bank line that provides supplemental liquidity. The bilateral credit line is with the Bank of the West (A2 stable). We do not include the credit facility in KPP's adjusted days cash on hand metric because of its short tenor. The bank line expires in March 2020. If we include the bank line, KPP's adjusted days cash on hand as of fiscal 2018 would be 192.

Debt and other liabilities: New debt plans potentially up to \$97 million

KPP had \$45 million of debt outstanding as of fiscal 2018 and a debt ratio of 66.7%. The debt was issued for the purpose of installing environmental upgrades for member owned RICE generating units, securing low cost generating capacity provided by KPP members, and generation ownership in the Dogwood generating facility.

KPP will issue debt to finance two projects over the next five years. The first will be about \$5 million for a transmission project. The timing is uncertain due to ongoing litigation related to the project plans. For the new generation project, management estimates an additional issuance of up to \$92 million.

DEBT STRUCTURE

All of KPP's debt consists of long-term, fixed rate bonds. Debt service is projected to be approximately \$4.6 million through 2023 and then steps down to \$4.1 million through maturity of the 2015 bonds in 2031.

DEBT-RELATED DERIVATIVES

None.

PENSIONS AND OPEB

KPP's full-time employees participate in Kansas Public Employee Retirement System Plan (KPERS), a cost-sharing multi-employer defined benefit pension plan. KPP's adjusted net pension liability (ANPL), under our methodology for adjusting reported pension information, totaled a modest \$2 million in fiscal 2018. The reported unadjusted net pension liability was \$711,822 in fiscal 2018. The adjusted debt ratio, including the ANPL as debt, was 70.1%.

Management and governance

KPP's management operates conservatively by financing with only traditional fixed rate, amortizing debt. KPP's management has several policies to ensure good liquidity and stable financial metrics. Also, the Southwest Power Pool has a 10-year budgeting process for its members, including KPP, which helps set annual budgets.

KPP is governed by a nine-member board elected by the membership as a whole, serving staggered terms.

Rating methodology and scorecard factors

The grid is a reference tool that can be used to approximate credit profiles in the public power electric utility sector in most cases. However, the grid is a summary that does not include every rating consideration. Please see Methodology on US Municipal Joint Action Agencies for more information about the limitations inherent to grids.

The assigned rating of A3 is below the grid indicated outcome of A2. The differential considers KPP's capital plan which has a significant new money debt component.

Exhibit 4

Kansas Power Pool Scorecard

| Factor | Subfactor/Description | Score | Metric |
|--|---|--------------|--------|
| 1. Participant Credit Quality and Cost Recovery Framework | a) Weighted Average participant credit quality. Unregulated rate setting including participants. Cost recovery structure and governance. | A3 | |
| 2. Resource Risk Management | a) Resource Diversity. Asset quality and complexity. Resource supply contract terms and counterparty credit quality. Wholesale market purchase exposure | A | |
| 3. Competitiveness | a) Cost competitiveness relative to regional peers | Baa | |
| 4. Financial Strength and Liquidity | a) Adjusted days liquidity on hand (3-year avg) (days) | Aa | 177 |
| | b) Debt ratio (3-year avg) (%) | A | 73.0 |
| | c) Fixed obligation charge coverage ratio (3-year avg) (x) | Aa | 1.74 |
| 5. Willingness to Recover Costs with Sound Financial Metrics | a) Rate Setting Record. Timeliness of rate recovery. Stability and strength of financial metrics | A | |
| Scorecard Indicated Outcome Before Notching: | | A2 | |
| Notching Conventions | | Notch | |
| | 1 - Contractual Structure and Legal Environment | 0 | |
| | 2- Participant Diversity and Concentration | 0 | |
| | 3 - Construction Risk | 0 | |
| | 4 - Debt Service Reserve, Debt Structure and Financial Engineering | 0 | |
| | 5 - Unmitigated Exposure to Wholesale Power Markets | 0 | |
| Scorecard Indicated Outcome: | | A2 | |

Source: Moody's Investors Service

© 2019 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$2,700,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

Contacts

| | | | |
|--|-----------------|---|-----------------|
| Julie E Meyer <i>Analyst</i> julie.meyer@moodys.com | +1.214.979.6855 | Rodney Cannon <i>Associate Analyst</i> rodney.cannon@moodys.com | +1.212.553.9442 |
| Kurt Krumpfenacker <i>Senior Vice President/ Manager</i> kurt.krumpfenacker@moodys.com | +1.212.553.7207 | | |

CLIENT SERVICES

| | |
|--------------|-----------------|
| Americas | 1-212-553-1653 |
| Asia Pacific | 852-3551-3077 |
| Japan | 81-3-5408-4100 |
| EMEA | 44-20-7772-5454 |