MOODY'S
INVESTORS SERVICE

CREDIT OPINION
23 June 2021

Rate this Research

Contacts

Camila Yochikawa +1.212.553.6085
Associate Lead Analyst
camila.yochikawa@moodys.com

Kurt Krummenacker +1.212.553.7207
Associate Managing Director
kurt.krummenacker@moodys.com

» *Contacts continued on last page*

Kansas Power Pool

Update to credit analysis following new issuance, outlook changed to stable

Summary

Kansas Power Pool's (KPP; A3 stable) credit profile primarily reflects the weighted average credit quality of the 24 KPP participants whose credit quality generally approximates the low-A and high-Baa or equivalent credit profile which benefits from the long-dated nature of the all-requirements, take-and-pay contracts which have unlimited step-up provision should a defaulting member stop paying and leave the pool. Importantly, KPP's willingness to implement rate increases when necessary, including its prompt response to the recent weather-related event and their historical financial performance, which sets rates to target a 1.3x fixed charge coverage ratio supports KPP's credit quality.

The credit profile also considers KPP's adequate resource risk management, with a balanced fuel mix and capacity consisting of ownership in a large combined cycle unit, use of many of its members' small generating units and several power purchase agreements with wind power generators. KPP-owned generation was key to mitigating extraordinary costs caused by Winter Storm Uri. The credit quality also reflects the expectation that KPP will be able to restore its liquidity position to historical levels by year-end 2021 after obtaining $18 million from the Kansas State Treasurer City Utility Interest Loan Program. In February 2021, the agency's liquidity profile was negatively affected owing to material unexpected costs associated with the Winter Storm Uri.

Credit strengths

» Weighted average credit quality of KPP's 24 member participants approximates the low-A and high-Baa or equivalent credit profile

» 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

» Robust financial performance supported by management's willingness to implement rate increases when necessary

» 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
- Rates have been above the state's average

Rating outlook

The stable outlook reflects Moody's view that KPP will maintain robust liquidity position and coverage levels well-above KPP's internal target of 1.3x, coupled with the expectation that participant's weighted average credit quality will remain at the low-A and high-Baa or equivalent credit profile.

Factors that could lead to an upgrade

- Participants' weighted average quality materially improves
- Fixed charge coverage ratio averages above 2.0x and liquidity averages well above 200 days cash on hand on a sustainable basis

Factors that could lead to a downgrade

- Material additional unforeseen costs associated with the February winter storm that further reduces the agency's liquidity position
- Participants' weighted average credit quality materially deteriorates
- Significant revenue reduction or increased operating expenses such that fixed charge coverage ratio declines below 1.2x
- Liquidity position materially drops to below 60 days cash on hand on a sustained basis

Key indicators

Exhibit 1
Kansas Power Pool

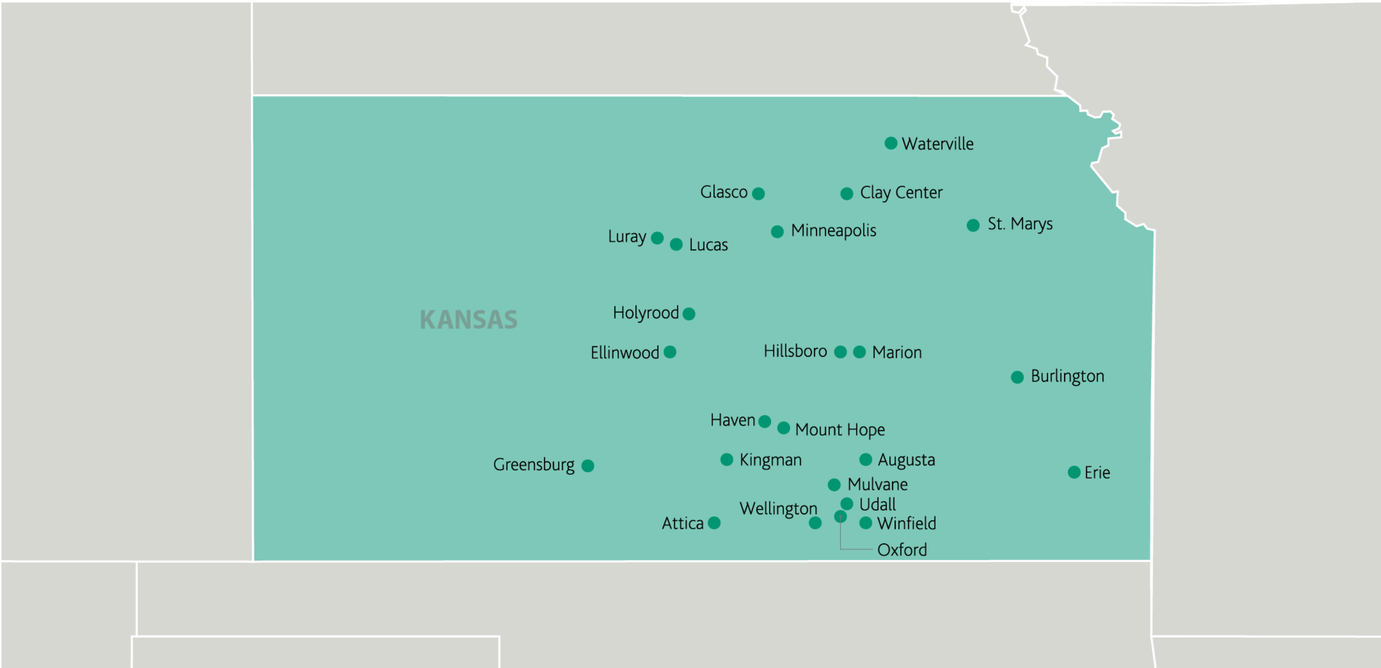
	2015	2016	2017	2018	2019	2020
Total Sales (mWh)	857,940	868,826	872,057	899,544	861,374	839,799
Debt Outstanding ($'000)	52,000	48,670	47,485	44,955	42,315	40,075
Adjusted Debt Ratio (%)	93	81	78	70	65	62
Days Cash on Hand	104	122	132	152	176	167
Fixed Obligation Charge Coverage (if applicable)(x)	1.19	1.78	1.60	1.85	1.76	1.62

Source: Kansas Power Pool Audited Financial Statements, Moody's Investors Service

Profile

The Kansas Power Pool is a take-and-pay joint action agency supplying energy needs to 24 city utility participants spread throughout central and eastern Kansas. The 24 member participants have entered into joint agreements dedicating current and future electric resources to the pool in order to facilitate planning, scheduling, dispatching, power purchase, and acquisition ownership interests in generating facilities. The members are obligated to maintain adequate customer rates and energy resources to meet their commitments to the pool. Each of the 24 members receiving services signed twenty-year power purchase contracts with the KPP for all of their wholesale energy needs.

Exhibit 2
KPP participants are distributed throughout Central and Eastern Kansas



Source: Kansas Power Pool

Detailed credit considerations

Revenue generating base: All-requirements, take-and-pay contracts with 24 members whose credit quality generally approximates the low-A and high-Baa range

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 KPPs 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 to range between an A3 and Baa1 or equivalent credit profile, 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. In fiscal 2020 (ended December 31) there were five members that each have represented more than 5% of KPP peak demand: Winfield (30.6%), Wellington (14%), Augusta (10.9%), Mulvane (5.3%) and Clay Center (5.7%). Combined, they represent about two-thirds of demand. All but Clay Center are located in the Wichita metro area.

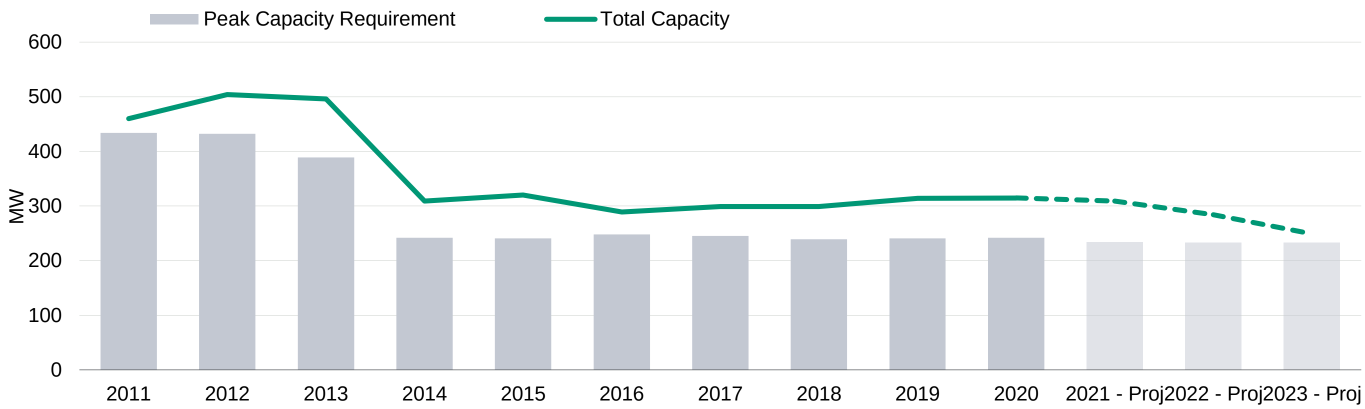
According to Moody's Analytics, Wichita's economic recovery is lagging behind the overall state because of its exposure to a beleaguered aerospace industry, while the rest of Kansas has navigated the economic fallout from the pandemic much more gracefully. Defense and manufacturing industries, particularly the aerospace industry, are Wichita's core sectors. With unprecedented disruption in air travel demand in 2020, Spirit AeroSystem (B2 stable), the city's largest employer and one of Boeing's (Baa2 negative) major suppliers announced several layoffs throughout last year as a result of the worsened outlook for the airspace industry. The loss of high-paying aerospace jobs will reverberate across the broader economy as income and spending decline. A return to steady growth is expected at the end of 2021, once vaccines have been widely distributed and air travel rebounds. Wichita's large military presence, however, will partially offset coronavirus-related disruptions. The recent expansion of McConnell Air Force Base coupled with higher military pay will provide near-term stability.

The agency has prudently managed reliable energy supply to its members, and its well-balanced fuel mix was key to mitigating extraordinary costs caused by the severe winter storm from 13 February to 19 February 2021 (Winter Storm Uri). During the extreme weather event, KPP managed to run its members' peaker generating units to meet electricity demand. The Dogwood facility, however, did not run the entire period because of elevated natural gas prices coupled with the uncertainty on market power prices. Overall, management estimates that extraordinary expenses could have been more than double the incurred amount if KPP did not run its generating assets.

KPP has a diverse capacity resource mix, totaling 316 MW of capacity coming from minority ownership shares in the Dogwood facility, long-term PPAs with wind power facilities and one coal-fired power plant, 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 157.5 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.

Exhibit 3

Historical energy reserve margins of 30% will tighten in 2023 following coal PPA expiration in January 2023



Source: Kansas Power Pool

Exhibit 4

KPP owned generating capacity

PPAs	Fuel Type	MW contracted	Termination date
Jeffrey Energy Center	Coal	59	Jan-23
Greensburg Wind Farm	Wind	12.5	2030
Marshall Wind Farm Project	Wind	25	Mar-36
Members Capacity	**Fuel Type**	**Capacity (MW)**	
Augusta (4 generators)	dual fuel	20.8	
Burlington (2 generators)	dual fuel, diesel	8.4	
Clay Center (4 generators)	dual fuel	21.8	
Ellinwood (2 generators)	dual fuel	3.2	
Kingman (2 generators)	dual fuel	16.4	
Minneapolis (1 generator)	dual fuel	6	
Mulvane (2 generators)	dual fuel	7.6	
Oxford (2 generators)	diesel	0	
Wellington (4 generators)	dual fuel, diesel, gas	36.9	
Winfield (4 generators)	dual fuel, diesel, gas	36.4	
		157.5	
KPP-owned assets			
Dogwood Facility (10%)	Natural Gas	62	
Total		316	

Source: Kansas Power Pool

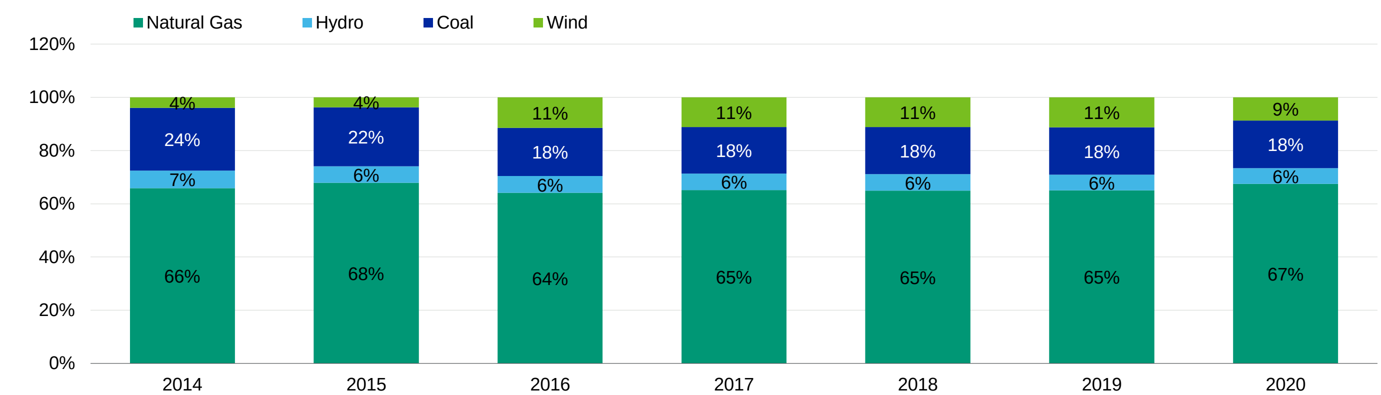
KPP is exposed to carbon transition risk owing to its power purchase agreement with Westar Energy for 59 MW of baseload power from the coal-fired generating facility Jeffrey Energy Center (JEC). Though this resource represents only 18% of KPP's total capacity, JEC is responsible for nearly 40% of KPP's energy needs.

However, the risk will materially reduce upon JEC PPA termination date in January 2023. Management plans to replace the lost capacity with KPP-owned generation. KPP is currently assessing the construction of a new gas-fired plant facility with quick-start technology that can ramp up and ramp down on very short notice. The project is under study by SPP Generation Interconnection and if approved, the agency expects it will be completed by 2025, which is three years after JEC PPA expiration date. In the meantime, KPP plans to manage its participants energy requirements with a combination of KPP-owned generation and short-term power procurement in SPP, which we believe is reasonable given the agency's track record of prudent resource risk management. Also, 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 power purchase cost savings from the capacity change. The shift away from coal and shedding of related fixed payments will benefit KPP's credit profile.

Exhibit 5

KPP has maintained a balanced fuel mix over

KPP historical total energy capacity by fuel type



Source: Kansas Power Pool

Financial operations and position: Significant cash outflow due to Winter Storm Uri-related cost was mostly covered by funds from the Kansas State Treasurer City Utility Loan Program; Extraordinary costs will be recovered over the next two years with a storm surcharge;

KPP incurred significant extraordinary costs as a result of the elevated natural gas costs and power costs incurred caused by the February polar vortex that hit Texas and other central US states, including Kansas. During that period, KPP incurred approximately $20 million costs in natural gas expenses and SPP market purchases, which is equivalent to almost half of the agency's total annual expenses in 2020. As a result, in February KPP's average energy costs more than quadrupled to $318 per MWh, while the budget for the month was $73.32 per MWh. If all extraordinary costs were passed through on the ECA, it would cause a significant increase to members, who are already dealing with negative effects of the pandemic downturn. To smooth out the financial impact to participants, the board approved in March 2021 a storm surcharge of .01 per kWh effective with the February billing, sent out in March to spread the cost of collection over a period of approximately two years, time frame which KPP expects to recover all extraordinary costs. The board also approved the creation of a regulatory asset, allowing KPP to smooth out those extraordinary expenses in the income statement, and match them to revenues as they are collected with the storm surcharge.

Up to June, the agency paid out approximately $18 million to cover those one-off costs, which materially deteriorated KPP's liquidity position. Positively, on May 28 KPP was able to obtain almost the same amount disbursed from the Kansas State Treasurer City Utility Interest Loan Program, a state program created to protect cities and municipal energy agencies from price surge in electricity bills caused by extremely cold temperatures in February. The state loan granted to KPP is subordinate to the proposed Series A 2021 issuance as well as to the other outstanding bonds under the master finance resolution, and will bear interest at a variable rate that is 2% less than the market rate determined by the Kansas Director of Investments with a floor of 0.25%. Principal and interest payments will be payable monthly, commencing July 1, 2021, for a term of five years. KPP aims to amortize this debt with additional revenue generated by the storm surcharge. Proceeds from this loan were used to pay off $5.52 million of the $6 million of the line of credit that was fully drawn down in the Winter Storm Uri aftermath and to restore its emergency stabilization fund and cash position, a credit positive.

Owing to KPP's conservative financial policy, the agency has reported robust credit metrics over the last three years, with debt service coverage ratios well above the Board's target of 1.30x. Fiscal 2020 ended with a net revenue debt service coverage ratio (DSCR) of 1.62x which is slightly lower than the 1.78x reported in 2019. Member's lower energy demand driven by the pandemic downturn reduced KPP's operating revenues by 7% from 2019 levels. Going forward, we expect KPP will be able to maintain DSCRs at historical levels, with DSCRs ranging from 1.5x to 1.7x, which already includes higher annual debt service levels as it issues new debt for capital investment requirements. Power purchase costs savings following JEC PPA termination are expected to mitigate the potential increased debt service going forward.

LIQUIDITY

Following the $18 million received from the state loan program, Moody's now expects that KPP's liquidity position will recover to historical levels, versus our previous expectation of 50% unrestricted cash and equivalent balance reduction by year-end 2021. In terms of Days Cash on Hand (DCOH), which does not include the credit facility, liquidity will recover to 158 days (assuming operating expenses at 2020 levels) from the approximately 69 days position in May after paying $17.6 million of extraordinary costs. Our calculation assumes that remaining cost related to Winter Storm Uri will be fully paid by year-end 2021 and approximately $2.5 million from the Series A, 2021 proceeds that will be used to refund past capital projects.

KPP also has a line of credit facility with Bank of the West (A2 stable), which expires in March 2022. As of June 2021, KPP had approximately $5.52 million of the $6 million LOC available to use. The board is committed to meet its cash reserve policy with a goal of maintaining a minimum of 90-day daily operating expense minimum.

Debt and other liabilities: Leverage position will increase following the new issuance and state loan, though still at adequate levels; Future debt plans potentially up to $80 million

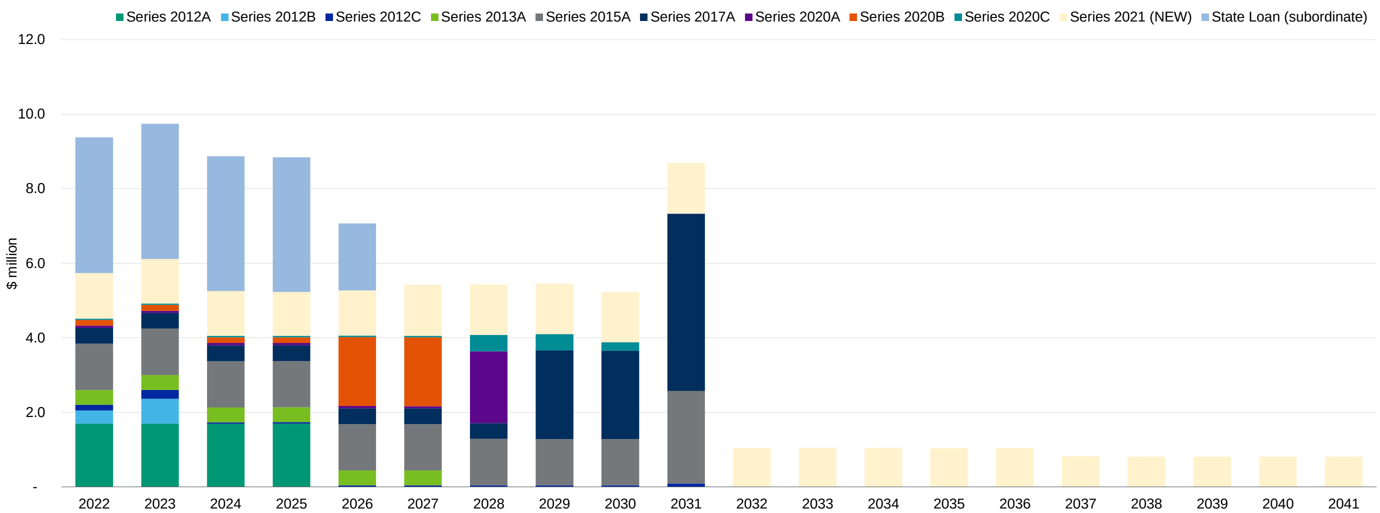
KPP had $40 million of debt outstanding as of fiscal 2020 and an adjusted debt ratio of 62%. Considering the $18 million subordinate state loan and the proposed Electric Utility Revenue Bonds, Series A, 2021 of approximately $15 million, the agency's adjusted debt ratio will increase to over 100% by year-end 2021, but still scoring between A-Baa credit quality. Proceeds of the Series A, 2021 will be used to fund capital spending, debt service reserve account and to pay bond issuance costs.

In the long run, KPP plans to issue tax-exempt bonds to finance the new gas-fired generation facility, which management estimates an additional issuance of up to $80 million. The project is still in its early stages. KPP filed a General Interconnection study request for this project in April 2020, thus a transmission interconnection agreement would only be signed in 2024 as per SPP time frame, if approved. Despite the potential significant leverage increase, management expects debt service coverage ratios will remain at historical levels since KPP will benefit from power purchase costs savings following JEC PPA termination.

DEBT STRUCTURE

All of KPP's debt consists of long-term, fixed rate bonds. Senior debt service is projected to range from $5.2 million to $6.1 million through 2030, stepping up to $8.7 million in 2031 and stepping down to $1 million through the final maturity of Series A, 2021.

Exhibit 6
KPP pro-forma debt service schedule following Series A, 2021 issuance and state loan program



Source: Kansas Power Pool, Moody's Investors Service

LEGAL STRUCTURE

The senior bonds are a limited obligation of KPP payable solely out of the system's net revenues derived from the full requirements Power Purchase Contracts with each of the 24 signatory participants. These contracts obligate the participant to source all their power needs from KPP and to pay a proportionate share of KPP's operating expenses, including debt service costs. Participants are not able to terminate the contract and their obligations to pay their respective share of KPP's costs continues even if KPP terminates the contract due to the Participant's default. KPP Participants under the Power Purchase Contracts have an unlimited step-up obligation to cover any defaulting member's share of costs should the defaulting member stop paying and leave the pool. Bondholders benefit from a cash funded debt service reserve fund requirement that is sized at the lesser of the standard three prong test. KPP has a 1.10 times net revenue rate covenant and additional bonds test.

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 $3.1 million in fiscal 2020. The reported unadjusted net pension liability was $843,665 in fiscal 2020. The adjusted debt ratio, including the ANPL as debt, was 62%.

ESG considerations

Environmental

KPP is exposed to carbon transition risk as coal-fired generation capacity currently represents nearly 18% of KPP's energy needs. However, we note KPP does have the ability to pass through carbon costs or additional environmental capex via rates established to share all costs. By year-end 2022, the power purchase contract with Westar Energy (Evergy Kansas Central, Baa1 stable) for 59 MW coal fired generating facility (Jeffrey Energy Center) will expire, thus KPP's exposure to carbon is expected to decrease significantly. Regarding physical risks, with its mid-continent location far from large bodies of water, Kansas has hot summers, frigid winters, and occasional severe weather, including tornados.

The unprecedented Winter Storm Uri is viewed as an environmental risk under the ESG framework, since KPP was substantially impacted by the storm and the frigid temperatures. However, KPP's willingness to increase rates evidenced by the recent storm surcharge approved by the board in March 2021 and the $18 million low interest cost loan obtained from the state loan program were key in mitigating the sudden deterioration of KPP's liquidity position.

Social

While certain specific social risks may be considered high, the extent of the risk and its impact on the credit profile is mitigated through extensive internal and external controls, regulations and legislation. The safety and reliability of essential utility services are extremely important to customers and is a key focus of the sector.

The ongoing spread of the coronavirus is viewed as a social risk for KPP, since its members' service territory have been negatively affected by pandemic downturn, including the deteriorated outlook for the airspace industry. Despite the lower demand, KPP and its members have not seen a significant increase in overdue payments or disconnects that materially affects credit quality.

Governance

From a governance perspective, KPP's management has several policies to ensure good liquidity and stable financial metrics coupled with the agency's willingness to increase rates to maintain comfortable debt service coverage metrics. KPP is governed by a nine-member board elected by the membership as a whole, serving staggered terms. Also, the Southwest Power Pool has a 10-year budgeting process for its members, including KPP, which helps set annual budgets.

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.

Rating methodology and scorecard factors

The scorecard indicated outcome is A3, in line with the assigned rating on the electric utility revenue bonds.

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.

Exhibit 7

Methodology Scorecard: US Municipal Joint Action Agencies Methodology

FY 2018-2020

Factor	Subfactor	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.	Baa1	
2. Resource Risk Management	a) Resource Diversity. Asset quality and complexity. Resource supply contract terms and counterparty credit quality. Wholesale market purchase exposure	Baa	
3. Competitiveness	a) Cost competitiveness relative to regional peers	Baa	
4. Financial Strength and Liquidity	a) Adjusted days liquidity on hand (days)	Aa	165
	b) Adjusted Debt ratio (3-year avg) (%)	Aa	66%
	c) Fixed obligation charge coverage ratio (3-year avg) (x)	Aa	1.74x
5. Willingness to Recover Costs with Sound Financial Metrics	a) Rate Setting Record. Timeliness of rate recovery. Stability and strength of financial metrics	A	
Notching Factors		**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:		**A3**	

Source: Moody's Investors Service

REPORT NUMBER 1291100

Contacts

Ethan Dugboe
Associate Analyst
ethan.dugboe@moodys.com

CLIENT SERVICES

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

Moody's
INVESTORS SERVICE