



Rating Action: Moody's Ratings downgrades Evergy Missouri West to Baa3; outlook stable

29 Apr 2025

Approximately \$850 million of rated debt securities affected

New York, April 29, 2025 -- Moody's Ratings (Moody's) downgraded the ratings of Evergy Missouri West, Inc. (MO West) including its Issuer rating to Baa3 from Baa2, senior secured first mortgage bond rating to Baa1 from A3, and short-term commercial paper rating to Prime-3 from Prime-2. MO West's rating outlook was changed to stable from negative. A complete list of rating actions is provided towards the end of this press release.

RATINGS RATIONALE

"The downgrade of MO West's ratings reflects persistently weak credit metrics that are not likely to improve due to elevated capital expenditures, higher debt issuance, and the lack of timely cost recovery mechanisms to improve cash flow generation," said Jillian Cardona, Moody's Ratings AVP-Analyst. We expect MO West's ratio of cash flow from operations before changes in working capital (CFO pre-WC) to debt to stabilize in the 12%-13% range, which is more in line with Baa3 rated regulated utility peers.

MO West's financial profile initially deteriorated in 2021 from the effects of higher fuel and purchased power costs due to Winter Storm Uri, which was then compounded by a combination of higher capital expenditures and lagging growth of its cash flow generation over the past few years. In February 2024, MO West securitized the costs associated with the storm, which allowed the company to immediately recover the large deferred fuel balances and associated carrying costs. MO West's ratio of CFO pre-WC to debt was around 12% in 2024, excluding the impact of securitization debt. This compares to the company's three-year average CFO pre-WC to debt ratio of around 20% from 2019 through 2021, excluding the impact of approximately \$260 million related to extraordinary fuel and purchased power costs driven by Uri. Over the next 2-3 years, we expect MO West's CFO pre-WC to debt ratio to stabilize in the 12%-13% range as the company continues to execute on its large capital expenditure plan.

MO West is faced with increased load demand in its service territory, driven by economic development initiatives and projected data center growth. As a result, the utility's capital expenditures will materially increase over the next few years based on identified infrastructure expansion and reliability projects. MO West expects to invest an average of roughly \$950 million annually through 2029, which is considerably higher than the company's capital investments annual average of around \$425 million during 2022-2024. We expect MO West's capital investments to be funded by incremental debt, internally generated cash flow, and equity contributions from the parent company. MO West has not paid dividends to its parent, Evergy, Inc. (Baa2 stable), in recent years, a policy that we expect to continue throughout the elevated investment cycle.

MO West's vertically integrated utility operations are located fully in Missouri, under the purview of the Missouri Public Service Commission (MPSC), a regulatory environment that is showing signs of improvement after a sometimes unpredictable history. We view the passage of the state's Senate Bill 4 (SB4) in April 2025 as a positive development. Among other things, the bill permits forward test years for gas and water utilities' rate case filings and an inclusion of construction

work-in-progress (CWIP) in rate base for the construction of new natural gas plants, which will improve the timeliness of the utility's cash flow generation. The establishment of new riders and cost trackers is mostly legislatively driven and are implemented on a case by case basis.

Although SB4 is a positive sign for the potential for more timely cost recovery in the state, we expect electric utilities will continue to use historical test years in future rate case proceedings since the use of forward test years are not available for them. As a result, Missouri's electric utilities have historically experienced substantial regulatory lag particularly during elevated investment periods. MO West's growth in its cash flow generation is constrained by the cost recovery lag associated with its growing capital expenditures. Due to the lack of timely and automatic investment and operating cost recovery mechanisms seen in other states, MO West's financial profile has been weaker than Baa2 rated peers.

RATING OUTLOOK

The stable outlook reflects our expectation that MO West's regulatory environment will remain relatively consistent and that its financial metrics will stabilize including a ratio of CFO pre-WC to debt in the 12%-13% range.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Factors that could lead to an upgrade

The rating of MO West could be upgraded if the supportiveness of the regulatory environment in Missouri continues to improve, resulting in shorter regulatory lag or higher returns. Moreover, if MO West's CFO pre-WC to debt ratio is sustained above 15%, an upgrade could be considered.

Factors that could lead to a downgrade

A downgrade could be considered if there are adverse regulatory or legislative developments in Missouri resulting in increased regulatory lag or lower returns. Moreover, a downgrade could be considered if MO West's CFO pre-WC to debt ratio is sustained below 11%.

LIST OF AFFECTED RATINGS

Issuer: Evergy Missouri West, Inc.

..Downgrades:

.... LT Issuer Rating, Downgraded to Baa3 from Baa2

.... Senior Secured First Mortgage Bonds, Downgraded to Baa1 from A3

.... Commercial Paper, Downgraded to P-3 from P-2

..Outlook Actions:

....Outlook, Changed To Stable From Negative

COMPANY PROFILE

Headquartered in Kansas City, Missouri, Evergy Missouri West is a regulated vertically integrated utility serving electric customers in western Missouri. MO West is a subsidiary of Evergy, Inc. and the smaller affiliated utility of Evergy Metro, Inc. (Baa1 stable), which manages Missouri West's operations. As part of the Missouri Public Service Commission's (MPSC) final order in MO West's 2024 rate case, MO West will participate in a review of potential consolidation with Evergy Metro; the review will begin in the second quarter of 2025.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Regulated Electric and Gas Utilities published in August 2024 and available at <https://ratings.moodys.com/rmc-documents/426183>.

Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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