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MEMORANDUM

TO: Bryan Kidney

FROM: Dave MacGillivray and Tom Kaleko

DATE: October 12, 2018

SUBJECT: Potential Policy Announcement: Rate Moratorium for Independence Power and Light

We understand the City is considering the policy question of announcing a multi-year customer rate moratorium for Independence Power and Light (the "Utility"). We are rapidly moving towards completion of a financial review of the Utility to determine its financial position and its capacity to make further capital infrastructure investments, which in part would be funded by its revenue debt. As we have not completed our work we cannot now comment on the relative merits of a rate moratorium.

We can comment on the potential response from the credit rating agencies of adopting a rate moratorium. First to confirm your understanding, it is important to the City and the Utility to consider the credit rating agencies' potential response. The Utility has outstanding bonds with credit ratings and contractual requirements to set customer rates at certain levels given financial performance. If the Utility's financial performance is such that these customer rates must be increased, and they are not raised under a moratorium, legal and financial consequences will immediately occur. At minimum the negative credit rating impacts leading would result in measurably higher borrowing costs and less advantageous terms for any future Utility bond issuance. Whether or not a lack of Utility rate adjustment would cause the rating agencies to transfer this condition to the City's general obligation credit rating is an unanswerable question at this time.

On another level, upon the announcement of a moratorium, there is a high likelihood that the rating agencies would quickly move to review the Utility's financial standing to determine the potential credit rating impacts.

Where a utility is sufficiently strong, situations exist where moratoriums can have no or minimal negative financial and credit rating impacts. Generally, moratoriums are not viewed positively from a financial management perspective because they remove the entity's flexibility to respond to ongoing and unanticipated conditions. Where a case can be made for a short-term moratorium without notable negative responses, it should be based on a thorough understanding of the utility's financial position and capital infrastructure investment requirements. As we are moving towards completion of our work to help define the Utility's financial position, the City and Utility may wish to consider the timing of any decision on a moratorium until after our study is presented to the City and Utility management team, which we anticipate will occur by October 26th.

We are here to assist the City and Utility in any way possible in its consideration of this and any other policy decisions.