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Research:

Research Update: Great Plains Energy And Unit Ratings Affirmed; Outlook Stable

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Primary Credit Analyst(s): Leo Carrillo, San Francisco (1) 415-371-5077; leo_carrillo@standardandpoors.com

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Credit Rating: BBB/Stable/--

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Rationale

On April 1, 2005, Standard & Poor's Ratings Services affirmed its 'BBB' corporate credit ratings on Great Plains Energy and its unit, Kansas City Power & Light Co. (KCPL). The outlook is stable.

As of Dec. 31, 2004, the Kansas City, Mo.-based company had $1.2 billion of debt and $164 million in mandatory convertible securities outstanding.

The rating affirmation follows KCPL's announcement of its stipulated agreement with the staff of the Missouri Public Service Commission (MPSC), the Missouri Office of Public Counsel, and other signatories that supports the regulated utility's $1.3 billion five-year capital investment program. The agreement is subject to the MPSC's review and approval.

Standard & Poor's considers the proposed regulatory plan as providing an adequate framework for rate relief both during and after the construction period. Although the agreement would freeze rates through 2006, it also incorporates an option to implement an interim power cost adjustment clause and the ability to file for annual rate cases for 2007 through 2009 without the risk of intervention by signatories to the agreement. Also noteworthy is the plan's explicit use of Standard & Poor's credit ratios as guidelines for awarding rate relief. Specifically, the plan calls for adjustments to the amortization of KCPL's regulatory assets to support funds from operations (FFO) interest coverage and FFO to total debt of 3.8x and 25%, respectively.

KCPL's ambitious capital plan includes a 500 MW investment in a proposed 800 to 900 MW Iatan 2 coal plant to be built by 2010, as well as 100 MW of wind generation by 2006, with an option for an additional 100 MW by 2008. The plan also requires installation of air quality control equipment on two existing coal facilities, Iatan 1 and LaCygne 1. These investments represent a 15% increase in total generating capacity for KCPL.

The proposed Iatan 2 coal plant poses both challenges and opportunities for KCPL. The company has consistently demonstrated the strategic value of maintaining a well-performing fleet of coal plants, which has allowed it to offer below average retail rates and earn significant margins from sales into the wholesale power market. However, the project also poses significant challenges for the utility, including execution risk inherent in the construction of a major baseload resource and counterparty risk related to other investors in the plant. Potential investors include Empire District Electric Co. (BBB/Stable/A-2), Aquila Inc. (B-/Negative/--), and the Missouri Joint Municipal Electric Utility Commission.

KCPL is pursuing a similar agreement with the staff of the Kansas Corporation Commission, the Citizens' Utility Ratepayer Board, and other signatories in relation to the company's Kansas service territory.

The ratings on Great Plains are based on the consolidated financial and business risk profiles of its family of companies. Great Plains is involved in vertically integrated electric operations through its main subsidiary, regulated electric utility KCPL, and in energy marketing and power supply coordination through nonregulated subsidiary Strategic Energy.

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Great Plains' consolidated financial profile is supported by strong cash flow coverage and adequate liquidity, offset by above average, but declining debt leverage. The company's 2004 adjusted FFO interest coverage was strong at 4.3x, and its adjusted FFO as a percentage of debt was adequate at 23.1%. Debt leverage improved to an above average 57%, versus 61% as of June 30, 2004, following the company's June 2004 issuance of $150 million of common stock and $164 million in mandatory convertible securities in order to retire outstanding trust preferred securities and to reduce debt at both the parent and KCPL. The company's financial flexibility is adequate, with a 12-month dividend payout ratio of 69%, a market to book ratio of 2x, and $171 million in unissued debt and preferred securities (under a universal shelf registration filed in April 2004) as of Dec. 31, 2004.

Liquidity

As of Dec. 31, 2004, Great Plains had about $522 million in unused capacity on its committed bank lines at the parent level, with an additional $106 million in cash and cash equivalents at the consolidated entity level, net of $21 million cash held in trust at Strategic Energy. Great Plains maintains a $550 million five-year revolving credit facility through December 2009. Great Plains' liquidity is sufficient to support the company's requirements, including those of its nonregulated subsidiary, Strategic Energy, whose liquidity requirements are significantly mitigated by its utilization of a lock-box arrangement for a high proportion of its long-term purchases from wholesale suppliers.

As of Dec. 31, 2004, Strategic Energy had $56 million in unused capacity under its $125 million three-year revolving credit facility, of which Great Plains has guaranteed $25 million. Great Plains' regulated utility, KCPL, has ample liquidity of its own, which includes a $250 million five-year revolving credit facility to support its undrawn commercial paper program through December 2009. As of Dec. 31, 2004, KCPL had $51 million in cash and cash equivalents, representing 48% of the $106 million in unrestricted cash at Great Plains.

Outlook

The stable outlook for Great Plains and its subsidiaries reflects the expectation of strong cash flow coverage, near-term reduction in debt leverage to more moderate levels, and a healthy economic outlook for the Kansas City area. The outlook also assumes implementation of both a fuel cost recovery mechanism and a regulatory framework in both Missouri and Kansas that are substantially similar to those under the current stipulated agreement to be approved by the MPSC. While adoption of the agreement alone does not ensure rating stability, it does provide KCPL with access to rate relief during implementation of the company's large capital program, which Standard & Poor's assumes will be prudently structured, funded, and executed in a manner that limits execution risk and maintains debt leverage at a moderate level. Standard & Poor's expects Great Plains to continue its debt reduction in anticipation of KCPL's large capital program, which will rely heavily on external funding..

Strategic Energy, while still secondary to KCPL in importance, remains a significant component of Great Plains' credit profile. The outlook also assumes that Strategic Energy will continue to deliver steady returns and operating cash flow, while conservatively managing operating, credit, and market risks as it expands sales volumes to counter pressure on gross margins due to high gas and power prices and heavy competition with both incumbent utilities and retail energy marketers. Standard & Poor's expects Strategic Energy's market environment to remain challenging for the near future.

Rate relief, timely equity offerings, and sound project execution at KCPL will be the primary drivers of Great Plains' consolidated financial performance and credit quality, assuming steady performance at Strategic

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Energy. Exceptionally strong regulatory support, project execution, and debt reduction could lead to an improved outlook for KCPL and Great Plains. In contrast, failure to secure adequate rate relief or a fuel cost recovery mechanism by 2007 could have negative credit implications. Rising fuel and purchased-power costs at KCPL could contribute to financial pressure through 2007, although the utility has taken proactive steps to hedge its exposure.

Ratings List

Great Plains Energy Inc.	
Corporate credit rating	BBB/Stable/--
Preferred stock	BB+
Kansas City Power & Light Co.	
Corporate credit rating	BBB/Stable/A-2
Senior secured debt	BBB
Senior unsecured debt	BBB
Preferred stock	BB+
Commercial paper	A-2

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