GMO - NP

Exhibit No.:
Issue: Financial implications of Iatan disallowances and appropriateness of certain Iatan disallowances
Witness: Darrin R. Ives
Type of Exhibit: True-Up Rebuttal Testimony
Sponsoring Party: KCP&L Greater Missouri Operations Company
Case No.: ER-2010-0356
Date Testimony Prepared: February 28, 2011

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2010-0356

TRUE-UP REBUTTAL TESTIMONY

OF

DARRIN R. IVES

ON BEHALF OF

KCP&L GREATER MISSOURI OPERATIONS COMPANY

Kansas City, Missouri
February 2011

"[redacted]**" Designates "Highly Confidential" Information Has Been Removed Pursuant To 4 CSR 240-2.135.**

KCPL Exhibit No. GMO 57 NP
Date 3/3/11 Reporter SMB
File No. ER-2010-0356

TRUE-UP REBUTTAL TESTIMONY

OF

DARRIN R. IVES

Case No. ER-2010-0356

Q: Please state your name and business address.

A: My name is Darrin R. Ives. My business address is 1200 Main Street, Kansas City, Missouri, 64105.

Q: Are you the same Darrin R. Ives who prefiled direct, rebuttal and surrebuttal testimony in this matter?

A: Yes.

Q: What is the purpose of your true-up rebuttal testimony?

A: My true-up rebuttal testimony addresses the financial implications to Kansas City Power & Light Company ("KCP&L") and KCP&L Greater Missouri Operations Company ("GMO"), individually and collectively referred to as ("the Company" or "the Companies"), of the Iatan disallowances proposed by Missouri Public Service Commission ("MPSC" or "the Commission") Staff in the current cases as described in the true-up direct testimony of Staff witness Charles R. Hyneman. I describe the specific accounting guidance, Statement of Financial Accounting Standards (SFAS") No. 90, and its requirement to write down plant costs when disallowances are probable and reasonably estimable, including the basis for the guidance. I equate this to the financial integrity of the Companies, if Staff's proposed disallowances are adopted by the Commission. Finally, I provide testimony addressing the category of disallowances titled

"GMO AFUDC Adjustments" as listed on Schedule 1 to the true-up direct testimony of Staff witness Hyneman.

Q: What disallowances have Staff witness Hyneman proposed for the Iatan construction projects?

A: Staff has proposed disallowances on a total project basis for the Iatan 1 environmental retrofit of **[redacted]** million and for the Iatan 2 generating facility of **[redacted]** million. Staff has also recommended disallowances of AFUDC, property taxes and other 100% costs of KCP&L totaling **[redacted]** million for Iatan 1 and **[redacted]** million for Iatan 2. For GMO, Staff proposed AFUDC and other 100% costs disallowances of **[redacted]** million for Iatan 1 and **[redacted]** million for Iatan 2. Additionally, Staff has also recommended reductions to Iatan Common total project costs of **[redacted]** million, which if adopted by the Commission would also result in a write down of plant costs. In evidentiary hearings in this case and in true-up rebuttal testimony in this case, several other Company witnesses are addressing the inappropriateness of the Staff's proposed direct project cost disallowances and Iatan Common total project cost reductions, therefore I will not be addressing the prudency determinations in this testimony. I will provide true-up rebuttal testimony regarding the appropriateness of GMO AFUDC Adjustments proposed by Staff.

Q: What would be the financial statement impact to the Company of recording disallowances as identified by Staff?

A Consistent with accounting guidance, costs disallowed by regulatory agencies of recently constructed plant are required to be written down from the plant accounts and recorded as a current period loss in the companies' financial statements. This writedown is required to be made when disallowances of recently constructed plant are probable and reasonably estimable. If the Commission adopted the recommended Staff disallowances as reflected in Staff witness Hyneman's direct true-up testimony in this case and summarized above, the estimated impact to the companies would be as follows:**

[redacted]

**

As is demonstrated in the table above, adoption by the Commission of the Staff's proposed disallowances would have a material financial impact to the Companies' results of operations (Net Income) and its financial position (Retained Earnings) in the period any such decision would be final. As described by Company witness Curtis Blanc in his rebuttal testimony in this case, such an impact on the companies' results of operations and financial position jeopardizes the companies' financial integrity.

Q: **Are there other potential financial implications to the companies if such write downs were required?**

A: Yes. The companies' business and financial risk profiles could be weakened which could negatively affect Great Plains Energy's ("GPE") corporate credit rating and, by extension, the senior unsecured debt ratings of KCP&L and GMO. Specifically, I reference a Standard & Poor's ("S&P") research report for Great Plains Energy, Inc. that was issued on October 27, 2010. I am including a copy of the S&P report as Schedule DRI2010-2 to this testimony. Specifically in regard to disallowances, S&P stated in its report:

> "In general, we view any unwarranted disallowance as not supportive of credit quality and a material disallowance may set a precedent that could negatively impact our assessment of a regulatory jurisdiction, weaken a company's business and financial risk profiles, and/or the company's corporate credit rating."

In particular, S&P was discussing the disallowance proposed by the Kansas Corporation Commission ("KCC") Staff in its rate case filing. It should be noted that the combined Iatan disallowances proposed by the MPSC Staff in this case are significantly higher than the KCC Staff disallowance being referred to by S&P in its report. Among other things, a downgrade in credit ratings could significantly increase the companies' cost of capital going forward.

Q: Can you please describe the accounting guidance you are referring to that would require a financial book write down of cost disallowances ordered by the Commission?

A: Yes. Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 980-360-35 (historically referred to by the FASB as SFAS No. 90, "Regulated Enterprises – Accounting for Abandonments and Disallowances of Plant Costs", an amendment of FASB Statement No. 71) is the authoritative accounting guidance in this instance. For the remainder of this testimony, I will refer to the guidance as SFAS No. 90. SFAS No. 90 was issued in December 1986 and was effective for fiscal years beginning after December 15, 1987, and interim periods within those fiscal years. Therefore, for KCP&L and GMO it was effective for their quarterly financial statements issued to the Securities and Exchange Commission ("SEC") for the three-months ended March 31, 1988.

Specifically, in paragraph 7 of SFAS No. 90 the FASB states:

> *"When it becomes probable that part of the cost of a recently completed plant will be disallowed for rate-making purposes and a reasonable estimate of the amount of the disallowance can be made, the estimated amount of the probable disallowance shall be deducted from the reported cost of the plant and recognized as a loss."*

The FASB goes on to state in paragraph 7:

> *"If part of the cost is explicitly, but indirectly, disallowed (for example, by an explicit disallowance of return on investment on a portion of the plant), an equivalent amount of cost shall be deducted from the reported cost of the plant and recognized as a loss."*

In reviewing the guidance from SFAS No. 90, it is clear that actions taken by a regulatory agency to disallow costs associated with the construction of a recently completed plant are to be written down by deducting the costs from the reported cost of the plant in a company's financial records and recognizing the write down as a loss in the company's income statement in the period of the write down.

Specifically to KCP&L and GMO, if the Commission were to adopt Staff's proposed disallowances as summarized earlier in my testimony, **[redacted]** million and **[redacted]** million, for KCP&L and GMO, respectively, would be written down from plant-in-service recorded in FERC account 101 and the pre-tax loss would be reflected in FERC account 426.5. Taxes would be recorded on the loss and the estimated impact to the Companies' income statement and balance sheet (retained earnings) would be **[redacted]** million and **[redacted]** million, for KCP&L and GMO, respectively. The estimated earnings per share impact to Great Plains Energy, based on December 31, 2010, weighted average outstanding shares would be a loss of **[redacted]** per share.

Q: In SFAS No. 90, did the FASB provide additional insight into their decision to require write downs for disallowed plant costs?

A: Yes. In Appendix B of SFAS No. 90, in its Basis of Conclusions, in paragraph 38 the FASB stated:

> *"The accounting set forth in Statement 71 requires certain regulated enterprises to recognize probable increases in future revenues due to a regulator's actions as assets by capitalizing incurred costs that would otherwise be charged to expense. The Board believes those regulated enterprises should also recognize probable decreases in future revenues due to a regulator's actions as reductions of assets."*

The FASB goes on to state in paragraph 38:

> *"After reviewing the frequency and magnitude of recent plant abandonments and disallowances of plant costs in the electric utility industry, the Board concluded that it should require the resulting probable decreases in future revenues to be recognized as reductions in assets if financial statements are to be representationally faithful."*

These considerations by the FASB, which were in large part in response to plant disallowances ordered by regulatory agencies across the country as many in the electric utility industry constructed nuclear plants in the 1980's, clearly demonstrate the FASB amended SFAS No. 71 to require a write down of plant balances and recognition of the loss in the event of a regulatory agency disallowance.

Q: Is there a similar write down treatment for assets based on regulatory agency decisions?

A: Yes. If a company has established a regulatory asset for costs that would otherwise be expensed under accounting guidance because it has determined it is probable of future recovery of the amounts and a regulatory agency disallows regulatory recovery of all, or a portion of, the deferred regulatory asset, the company is required to write down the portion of the regulatory asset disallowed and recognize a loss associated with the write down.

Q: Has KCP&L previously applied SFAS No. 90 to disallowed plant costs and recognized a loss?

A: Yes. In response to MPSC and KCC disallowances for rate-making purposes of costs incurred in the construction of the Wolf Creek nuclear plant, KCP&L wrote off on its financial books $145 million of plant costs. The after-tax loss recognized for this write down was $96 million or $3.11 per share. I reiterate Company witness Curtis Blanc's rebuttal testimony in this case that Wolf Creek's cost to complete came in almost $2 billion (181%) over the definitive estimate and over 2 years behind schedule as compared to the estimate for Iatan 2 being approximately $263 million (15.6%) over the definitive estimate and less than three months behind the regulatory plan target date. KCP&L's disclosure in its 1988 Annual Report describing the Wolf Creek write down is provided:

> FASB Statement No. 90 (FASB 90) requires recognition of a loss on the financial statements because part of the cost of Wolf Creek was disallowed for rate-making purposes by the Missouri and Kansas commissions. FASB 90 was retroactively applied in the first quarter of 1988 by restating the fourth quarter 1986 financial statements. The determination to restate 1986 results is based on the Company's conclusion in the fourth quarter of 1986 that recovery of the disallowed costs was remote. This write-off of $145 million before taxes and $96 million after taxes ($3.11 per share) is reflected in the 1986 income statement as a reduction to income and in the balance sheets as of December 31, 1986 and 1987 as a reduction of $142 million to net utility plant, $3 million to materials and supplies, $96 million to retained earnings, $42 million to deferred income taxes and $7 million to deferred investment tax credits.

GMO AFUDC ADJUSTMENTS

Q: Please explain your understanding of Schedule 1 attached to the true-up direct testimony of Staff witness Hyneman.

A: Schedule 1 of Staff witness Hyneman's testimony contains 4 sections detailing the updated results through October 31, 2010 of Staff's Iatan Construction Audit and Prudence Review. This schedule contains the following sections:

- Staff Summary of Adjustments
- Staff's Proposed Construction Cost Disallowances Based on Audit Findings
- KCPL Direct Costs (Property Tax, AFUDC, KCPL Only)
- GMO AFUDC Adjustments

Q: What are you specifically going to address in this section of your true-up rebuttal testimony?

A: I will be addressing Staff's continued support of the adjustments included in the section titled GMO AFUDC Adjustments. These adjustments appear to be sponsored by Staff Witness Keith Majors, as described on page 9 of his true-up direct testimony. The adjustments that I will be addressing include the following:

- GMO AFUDC Adjustment related to Staff Proposed Disallowances
- Additional AFUDC Due to Iatan 1 Turbine Start-Up Failure
- Advanced Coal Tax Credit Availability of Funds

Q: Please explain Staff adjustment titled "GMO AFUDC Adjustment related to Staff Proposed Disallowances".

A: This adjustment is the calculation of the AFUDC value associated with each of the proposed construction cost disallowances detailed in the Staff's "Construction Audit and Prudence Review" report of Iatan Construction Project which was filed on November 3, 2010, as updated on Schedule 1 to Staff witness Hyneman's true-up direct testimony. The AFUDC value adjustments impact both the Iatan 1 and Iatan 2 construction projects.

Staff has quantified the value of each proposed disallowance and this adjustment is dependent on those calculations.

Q: Has the Company provided rebuttal testimony addressing the Staff's proposed construction cost disallowances?

A: Yes. Various company witnesses have provided rebuttal, surrebuttal and true-up rebuttal testimony regarding the proposed disallowance issues raised by Staff.

Q: How does the testimony of the various Company witnesses on the Iatan construction projects proposed Staff disallowances impact the AFUDC value calculation proposed by Staff?

A: The Commission will ultimately decide what level of cost to include for the Iatan 1, Iatan 2 and Iatan Common generation facilities in rate base in the Company's rates. Depending on the outcome of the Commission's decision on these issues, the AFUDC value calculation associated with these facilities should be adjusted to reflect a consistent treatment with the plant construction costs additions and associated AFUDC calculated on the additions. As such, the adjustment titled "GMO AFUDC Adjustment related to Staff's Proposed Disallowances" should be adjusted accordingly to reflect the Commission decision.

Q: Please explain Staff's proposed adjustment titled "Additional AFUDC due to Iatan 1 Turbine Start-Up Failure."

A: This adjustment in Schedule 1 to Staff witness Hyneman's true-up direct testimony is Staff's continued effort to remove the AFUDC costs incurred on the Iatan 1 AQCS construction project during the Iatan 1 turbine trip incident. During the start-up of the Iatan 1 facilities a turbine trip occurred due to a vibration that was outside specified parameters which delayed the start-up of the Iatan 1 facilities. In Staff's "Construction Audit and Prudence Review" report, Staff states that the turbine trip was outside of the scope of their review and should not be included as part of the Iatan 1 AQCS work orders, but instead as part of general work orders. In this rate case proceeding, Staff has not disallowed the costs associated with this turbine trip, yet Staff is still attempting to disallow the AFUDC incurred on the Iatan 1 AQCS project as a result of the outage associated with these costs.

Q: Has there been any rebuttal testimony associated with this issue?

A: Yes. Company witness Brent Davis on pages 60 and 61 of his rebuttal testimony discusses this issue as follows:

> I disagree with Staff's proposed exclusion of these AFUDC costs. The basis for Staff's position is that the turbine work performed during the Unit 1 Outage was not an Iatan Project cost. Staff is wrong because this work was relevant to the Iatan Unit 1 Project. The turbine work was required to support the Unit 1 retrofit project and included installing a new rotor, repacking the low pressure section to increase the unit output and reworking the turbine spindle in order to support the performance of the new AQCS equipment. KCP&L discussed the turbine incident in its Quarterly Reports to Staff as a part of the discussion of the Iatan Project. See KCPL&L Strategic Initiatives – Quarterly Status Updates, 1Q 2009 Report at pp. 6-7, 23-25. Regardless of the accounting of these costs, the turbine work was relevant to the Iatan Unit 1 Project.

Q: Does Staff continue to pursue in its true-up case the disallowance of the AFUDC costs incurred as a result of the outage associated with the turbine trip event even though there has been no disallowance of the actual turbine trip costs?

A: Yes.

Q: Has the Company changed its position regarding this issue?

A: No, we have not. As described in the rebuttal testimony of Brent Davis, the work surrounding the turbine trip event was required in order to support the new AQCS equipment. AFUDC costs were incurred on the Iatan 1 AQCS project during the turbine trip outage and the work from the AQCS project was not able to be placed in service until the supporting work on the turbine was completed. Therefore, the AFUDC costs incurred during the turbine trip outage are appropriately includable as a component of the total Iatan 1 AQCS project. Staff has not proposed any disallowance associated with the turbine trip work, but attempts to penalize the Company for the turbine failure by not allowing the AFUDC costs incurred on the Iatan AQCS project costs during the outage associated with this work. AFUDC costs are a component of the construction projects total costs and should not be disallowed when costs associated with prudent work required to return the unit to service have not been proposed to be disallowed. The Company continues to recommend the Commission not accept this proposed adjustment by Staff.

Q: Please explain Staff's proposed adjustment titled "Advanced Coal Tax Credit Availability of Funds".

A: In its true-up direct testimony, Staff has continued to assert that ratepayers are being harmed in some way by the fact that the Company carried over to future years some of the Section 48A federal advance coal investment tax credits generated in 2008 and 2009. KCP&L received approximately $125 million (subsequently reduced to $107 million after Empire District Electric arbitration decision.) in Section 48A federal advance coal investment tax credits. These tax credits can be utilized over a 20-year period to offset taxable income. In fact, in the 2007 tax year KCP&L was able to utilize approximately $29.2 million of advanced coal tax credits. Yet, in 2008 and 2009 KCP&L did not utilize the advanced coal tax credits generated due to the utilization of net operating losses that were available after the acquisition of Aquila, Inc. The unused advanced coal credits were then allowed to be carried forward to future tax years. Staff has incorrectly made the assertion that since KCP&L was not able to utilize the advance coal credits in 2008 and 2009 that ratepayers are not being allowed to take advantage of an interest free source of cash flow. Based on its assessment of the Empire District Electric arbitration decision, Staff has computed a financing cost of the tax credits not being utilized in 2008 and 2009, with a portion of the funds to KCP&L and GMO based on their share of the Iatan 2 project net of Empire's share of the tax credit.

Q: Does the Company agree with this adjustment that Staff continues to assert?

A: Absolutely not.

Q: Why not?

A: As more fully described in the rebuttal testimony of Company witness Melissa Hardesty, the Company believes that it would be a violation of the Internal Revenue Service normalization rules under Internal Revenue Code Section 46(f) to allocate advanced coal ITC directly or indirectly and an entity that did not claim the credit on its tax return.

Q: Are there other considerations as to why the Company does not believe Staff's Advanced Coal Tax Credit Availability of Funds adjustment is appropriate?

A: The borrowing or financing costs of KCP&L and GPE did not increase as a result of GPE not utilizing the advanced coal investment tax credits in 2008 and 2009. In tax years 2008 and 2009, GPE had $625,342 and $10,808 of total tax liability on its consolidated income tax return. As such, only a small amount of cash was expended for taxes and only a minimal amount of additional sources of cash was needed to fund income tax liabilities. Therefore, the cash available to fund the Iatan construction projects was almost exactly the same whether the advanced coal investment tax credits were utilized in 2008 and 2009 or carried over to future tax years. Staff argues in their "Construction Audit and Prudence Review" report that the advance coal tax credits would have been a free source of cash. As there were only minimal cash payments for the GPE consolidated federal tax liability in 2008 and 2009, the cash available for operations was approximately the same to fund all operations including Iatan 2 with or without the advanced coal tax credits and no incremental borrowings were needed. Staff has attempted to impute a cost savings that simply does not exist.

Q: On a GMO only basis, would GMO have been able to use advanced coal investment tax credits to reduce its tax liability in 2008 or 2009?

A: No. The GMO utilities, combined, had a net taxable loss during tax years 2008 and 2009. As such, had the advanced coal tax credits even been available for GMO to use in 2008 and 2009, they could not have been utilized to reduce cash taxes paid by GMO. Therefore, there was no ability to exercise this "free" source of cash as Staff has asserted. As such, by Staff imputing an adjustment for the GMO utilities regarding the availability of funds is simply incorrect with the fact pattern available during 2008 and 2009.

Q: Please summarize your true-up rebuttal testimony.

A: My testimony describes the financial implications to the Companies if the Commission adopts the level of proposed Iatan disallowances included in the true-up direct testimony of Staff witness Hyneman. The estimated financial statement after-tax loss that would be recognized if the unfounded disallowances proposed by Staff were adopted by the Commission is approximately **[redacted]** million or **[redacted]** per share at Great Plains Energy (KCP&L and GMO combined). This loss would be significant to the Company and could materially impact its financial position and results of operations. It may also have negative implications to the Company's ability to maintain its credit quality and its cost of capital.

Additionally, I addressed the disallowances included in the section GMO AFUDC Adjustments as proposed by Staff witness Hyneman in Schedule 1 to his true-up direct testimony. In particular, I noted AFUDC disallowances that will require adjustment depending upon the Commission's final decision on the related direct project cost disallowances. I reiterate the Companies' position that Staff's proposed disallowances regarding AFUDC costs incurred on the Iatan 1 AQCS project as a result of the outage associated with the Iatan 1 turbine trip event should be disregarded as they are not supported. I summarize the Companies' position that Staff's proposed disallowances titled "Advanced Coal Tax Credit Availability of Funds" are unfounded as there were no additional borrowings by the Companies' due to the carry over of the advanced coal tax credits to future years.

Q: Does that conclude your testimony?

A: Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of KCP&L Greater Missouri Operations Company to Modify Its Electric Tariffs to Effectuate a Rate Increase	)))	Docket No. ER-2010-0356

AFFIDAVIT OF DARRIN R. IVES

STATE OF MISSOURI)
) **ss**
COUNTY OF JACKSON)

Darrin R. Ives, being first duly sworn on his oath, states:

1. My name is Darrin R. Ives. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Assistant Controller.

2. Attached hereto and made a part hereof for all purposes is my True-Up Rebuttal Testimony on behalf of KCP&L Greater Missouri Operations Company consisting of fourteen (14) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.

ANNETTE G. CARTER
Notary Public - Notary Seal
Comm. Number 09779753
STATE OF MISSOURI
Jackson County
My Commission Expires: Oct. 6, 2013

D R Ives
Darrin R. Ives

Subscribed and sworn before me this 28th day of February, 2011.

Annette G Carter
Notary Public

My commission expires: Oct 6, 2013

STANDARD &POOR'S

Standard & Poor's Research

October 27, 2010

Summary:

Great Plains Energy Inc.

Primary Credit Analyst:
Gabe Grosberg, New York (1) 212-438-6043; gabe_grosberg@standardandpoors.com

Secondary Contact:
Todd A Shipman, CFA, New York (1) 212-438-7676; todd_shipman@standardandpoors.com

Table Of Contents

828075 | 300642692

Schedule DRI2010-2

Summary:
Great Plains Energy Inc.

Credit Rating: BBB/Stable/--

Rationale

The rating on Great Plains Energy Inc. reflects its consolidated credit profile. The ratings also reflect Great Plains' excellent business risk profile and aggressive financial risk profile. Great Plains' subsidiaries include Kansas City Power and Light Co. (KCP&L) and KCP&L Greater Missouri Operations Co. (GMO). As of June 30, 2010, the Kansas City-based Great Plains had about $3.9 billion of total debt outstanding.

The consolidated excellent business risk profile reflects the company's electric utility regulated strategy. KCP&L and GMO are integrated rate-regulated electric utilities that serve about 820,000 customers in Missouri and Kansas and operate approximately 6,000 MW of electric generation, of which about 80% of the energy generated is from coal and 17% is from nuclear.

We assess the Missouri and Kansas regulations as in the 'less credit supportive' category and 'credit supportive' categories, respectively (See Standard & Poor's Updates Its U.S. Regulatory Assessments, published March 12, 2010, on RatingsDirect). Great Plains has recently demonstrated more effective management of its regulatory risk. This includes the cumulative 2009 rate case increases of $217 million and the approved regulatory mechanisms such as a fuel adjustment clause and the allowance of additional accelerated deprecation that we view as credit supportive.

Currently, Great Plains' has multiple pending rate cases, totaling $245 million, associated with the completion of Iatan 2, increased coal transportation costs, and upgrades to the transmission and distribution system. Of particular concern is KCP&L's Kansas $55.2 million rate case where the Staff recommended a $9.1 million revenue decrease, predicated on a disallowance of $231 million, or 12%, of Iatan 2's total cost. In general, we view any unwarranted disallowance as not supportive of credit quality and a material disallowance may set a precedent that could negatively impact our assessment of a regulatory jurisdiction, weaken a company's business and financial risk profiles, and/or the company's corporate credit rating. The order from the Kansas Corporation Commission is expected in late November.

Great Plains' local economy has shown signs of a slow improvement. As of June 30, 2010, year-to-date industrial sales were up 5.9% over the same period in 2009 and the unemployment rates in Kansas and Missouri were 6.6% and 9.3%, respectively, both below the national average of 9.6%.

Great Plains' financial risk profile is 'aggressive' and it has gradually improved its financial measures over the past year. For the 12 months ended June 30, 2010, adjusted funds from operations (FFO) to total debt increased to 12.9% from 9.4% at the end of 2009 and adjusted Debt/EBITDA improved to 5.2x from 5.8x. Adjusted debt to total capital rose slightly to 57.4% compared to 56.7%.

We generally expect that the cash flow measures will continue to improve in the near term following the recent completion of Iatan 2's in-service testing in August and as the rate case increases continue to take hold. However, the possibility of a large disallowance from the company's current rate cases and the company's planned capital expenditures of $1.3 billion over the next two years could negatively affect the financial measures over the intermediate term.

Short-term credit factors

The short-term rating on KCP&L is 'A-2'. We view liquidity as 'adequate' under Standard & Poor's corporate liquidity methodology, which categorizes liquidity in five standard descriptors (exceptional, strong, adequate, less than adequate, and weak). Adequate liquidity supports Great Plains' 'BBB' corporate credit rating. Projected sources of liquidity, mainly operating cash flow and available bank lines, exceed projected uses, necessary capital expenditures, debt maturities, and common dividends by about 1.2x. Great Plain's ability to absorb high-impact, low-probability events with limited need for refinancing, its flexibility to lower capital spending, its well established bank relationships, its general high standing in the credit markets, and prudent risk management further support our assessment of liquidity as adequate.

Great Plains and its subsidiaries recently renewed their credit facilities. Currently, $909 million of the aggregate $1.3 billion is available, after reducing for outstanding borrowings, commercial paper, and letters of credit. The facilities, which expire in 2013, are subject to maintaining a consolidated capitalization ratio of not greater than 65% and as of June 30, 2010, the company was in compliance with this financial covenant.

Great Plains is expected to have negative discretionary cash flow over the near and intermediate term primarily because of its large capital expenditures. The company's long-term debt maturities are considerable in 2011 and 2012 with $486 million and $514 million maturing, respectively. Overall, we fundamentally expect that Great Plains will continue to fund its investments in a manner that preserves its credit quality.

Outlook

Great Plains' stable outlook reflects Standard & Poor's baseline forecast that adjusted FFO to debt and adjusted debt to total capital will approximate 17% and 55%, respectively over the near to intermediate term. Fundamental to the forecast is continued slow economic growth at about 1% annually and constructive rate case outcomes. A downgrade could occur if the improved financial measures do not materialize or there is a weakening of the business risk profile, which would most likely occur if the company is unable to effectively manage its regulatory risk. A ratings upgrade is less likely and would be predicated on improved cash flow measures, whereby FFO to debt is consistently 200-300 basis points above Standard & Poor's baseline forecast.

Related Criteria And Research

- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, published May 27, 2009.
- 2008 Corporate Criteria: Analytical Methodology, published April 15, 2008.