

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

In the Matter of Application of Kansas City	)	
Power & Light Company For Authority to	)	
Enter Into Interest Rate Management	)	Case No.
Products.	)	

**APPLICATION**

COMES NOW Kansas City Power & Light Company ("KCPL" or "Applicant"), and respectfully requests the Order of the Missouri Public Service Commission (the "Commission"), for the extension of authority to enter into interest rate management instruments. In support thereof, KCPL states as follows.

1. KCPL is a corporation duly organized and existing under the laws of the State of Missouri, with its principal office and place of business located at 1201 Walnut, Kansas City, Missouri 64106. KCPL is an electrical corporation and public utility as defined in Section 386.020 RSMo. 2000. KCPL's Certificate of Good Standing was provided in Case No. EF-2004-0265 and is incorporated herein by reference.

2. KCPL holds Certificates of Convenience and Necessity from the Commission to transact business as an electric public utility in certain areas of the State of Missouri and is principally engaged in the generation, transmission, distribution and sale of electric power and energy.

3. Communications in regard to this matter should be addressed to:

Lois Liechti  
Regulatory Affairs  
Kansas City Power & Light Company  
1201 Walnut Street, 13<sup>th</sup> Floor  
P.O. Box 418679  
Kansas City, Missouri 64141-9679  
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4. KCPL has heretofore filed with this Commission a certified copy of the Articles of Consolidation under which it was organized and of all amendments thereto.

5. KCPL has no pending action or final unsatisfied judgments or decisions against it from any state or federal agency or court which involve customer service or rates which has occurred within three (3) years of the date of this Application, except as identified in Exhibit 1 attached hereto and incorporated herein. No annual report or assessment fees are overdue.

6. On April 1, 1988, the Commission entered an Order in Case No. EF-88-213 granting authority to KCPL to fix the interest rate on up to \$150 million of its variable rate debt by entering into interest rate "swap" and/or interest rate "cap" and/or interest rate "collar" agreements ("interest rate management products"). On June 20, 1989, in Case No. EF-89-229, on June 19, 1991, in Case No. EF-91-383, and on June 10, 1993, in Case No. EF-93-328, the Commission extended its authority to enter into such interest rate management products. On June 30, 1995, in Case No. EF-95-397, on August 1, 1999, in Case No. EF-2000-8, and on July 30, 2002, in Case No. EF-2002-1094, the Commission authorized the Applicant to fix the interest rate on up to \$250 million of its variable rate debt through the use of interest rate management products and extended its authority to enter into such products.

7. Applicant has the following interest rate swap agreements currently in effect, and

has notified the Commission of the respective terms and conditions as each transaction has transpired:

<u>Transaction</u>	<u>Amount</u>	<u>Effective Dates</u>
Interest Rate Swap	\$56,500,000	08/30/02 to 10/01/07
Interest Rate Swap	50,000,000	08/30/02 to 10/01/07
Interest Rate Swap	40,000,000	08/30/02 to 10/01/07

Applicant has also provided quarterly reports to the Commission's Office of Financial Analysis regarding the performance of the interest rate management products compared to the rates of the underlying debt. The report submitted for the year ending December 31, 2004, showed that Applicant has been able to hedge the interest rate risk on \$741.5 million of debt at a weighted average benefit of 48.1 basis points since the program was started in 1988.

8. The Applicant's objective is to use interest rate management products to maintain a low cost of debt. Applicant's goal is to have approximately 20% to 40% of its debt in a variable interest rate mode, depending on market conditions. Generally, the Applicant manages this percentage via the amounts of fixed and floating-rate debt it issues; however, interest rate management instruments provide another effective tool for the Applicant to economically manage its percentage of variable rate debt within this range. With \$146.5 million of interest rate management products in place, the percent of variable rate debt to total debt is about 35.7%.

9. The macroeconomic environment in the U.S. supports the need for companies to have ample flexibility to manage interest rate risk. U.S. interest rates have seen their cyclical lows as evidenced by the 10-year Treasury yield that hit a low of 3.11% in June 2003, but has rebounded to a level of approximately 4.50% today. Short-term rates have also recovered as Fed Funds stands at 2.75% today versus a low of 1.00% during the first quarter of 2004. Both short-

term and long-term interest rates are poised to increase as the economy continues to recover. The relatively steep positive slope of the yield curve is an indication of expected higher interest rates in the future. Based on the future view of rates implied by the shape of the current curve, the expected increase in Fed Funds by year-end 2005 is approximately 50-75 basis points. Most economists also predict additional rate increases in 2006.

10. In order to maintain its relatively low cost of debt position, Applicant seeks an extension of its authority to manage its interest rate risk by utilizing a combination of \$250 million of interest rate management products.

11. The Applicant is requesting to continue to have authority for up to \$250 million of interest rate management products outstanding at any one time. This amount is appropriate given the Applicant's \$355.3 million of outstanding Environmental Revenue Refunding Bonds (with final maturities in 2012 – 2023), which afford the applicant substantial flexibility in setting a fixed or floating-rate interest rate basis for the securities as part of the remarketing process. Approximately \$343 million of outstanding EIRR debt will be subject to remarketing during the requested three-year term of this authorization. As such, this authorization would enable the Applicant to optimize its remarketing efforts by offering securities which have the interest rate basis (fixed or variable) most attractive to the market at the time while, at the same time, managing the overall level of variable rate debt in the 20-40% range referenced earlier.

12. This authorization is intended to only cover Environmental Revenue Refunding Bonds previously issued by the Applicant and outstanding as of the filing date of this Application. To the extent that the Applicant may seek to use interest rate management products in conjunction with other debt previously issued or future debt issuances, the Applicant will seek separate Commission approval and authority for the use of such interest rate management products.

13. Since market opportunities for these interest rate management alternatives are transitory, the Applicant must be able to execute a transaction when the opportunity arises to obtain the most competitive pricing.

14. The Applicant proposes to account for all payments or receipts, including administrative costs, involving this transaction for book purposes as a decrease or increase in interest expense. For ratemaking purposes, the Applicant contemplates reflecting the net interest effect of the transaction in the embedded debt cost.

15. Applicant submits that it is in the public interest to manage the interest on its debt through the use of interest rate management instruments.

16. Applicant believes that this verified Application will provide the Commission with sufficient facts and information to make a proper disposition of this Application without a hearing.

17. The Applicant will continue to notify the Commission's Office of Financial Analysis of terms and conditions of interest rate management products entered into and will submit quarterly reports regarding the performance of such interest rate management products.

18. Applicant has not filed as exhibits financial statements since these transaction will have little effect on such statements.

WHEREFORE, Applicant requests that the Commission issue its Order on or before July 31, 2005, certifying that:

1. For a period of three additional years, the Applicant is granted authority to have outstanding at any one time \$250 million of interest rate management products with an effective interest rate of 10% or less on fixed rate transactions and an initial interest rate of not more than 10% on variable rate transactions.

2. Applicant may enter into all documents necessary for the above-described

transactions.

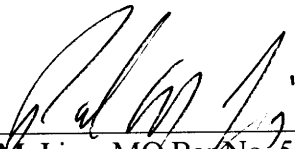
DATED at Kansas City, Missouri, this 28<sup>th</sup> day of April 2005.

KANSAS CITY POWER & LIGHT COMPANY

Respectfully submitted,

By: Michael W. Cline

Michael W. Cline  
Assistant Treasurer  
Kansas City Power & Light Company  
1201 Walnut Street, 20<sup>th</sup> Floor  
P.O. Box 418679  
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ATTORNEY FOR  
KANSAS CITY POWER & LIGHT COMPANY

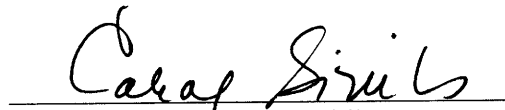
VERIFICATION

State of Missouri                    )  
  )       ss  
County of Jackson                )

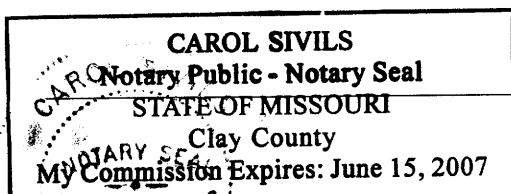
Michael W. Cline, being first duly sworn upon his oath, deposes and states that he is Assistant Treasurer of Kansas City Power & Light Company, that he is authorized to act on its behalf, that he has read and is familiar with the foregoing Application, and that the statements therein are true and correct to the best of his knowledge, information and belief.

  
\_\_\_\_\_  
Michael W. Cline

Subscribed and sworn to before me this 28th day of April 2005.

  
\_\_\_\_\_  
Notary Public

My Commission Expires:



## CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing application was served via first class mail, postage prepaid, on this 28<sup>th</sup> day of April 2005, upon:

Dana K. Joyce  
Missouri Public Service Commission  
P.O. Box 360  
200 Madison St., Suite 800  
Jefferson City, MO 65102

John B. Coffman  
Office of the Public Counsel  
P.O. Box 2230  
200 Madison St., Suite 650  
Jefferson City, MO 65102

By: \_\_\_\_\_

  
Paul M. Ling

ATTORNEY FOR  
KANSAS CITY POWER & LIGHT  
COMPANY



## **EXHIBIT 1**

### **Pending Actions or Final Unsatisfied Judgments or Decisions**

The following is a listing of Applicant's pending actions or final unsatisfied judgments or decisions against it from any state or federal agency or court which involve customer service or rates, which action, judgment or decision has occurred within three (3) years of the date of this application:

1. Rhonda Wesley v. KCP&L; Case No. EC-2005-0245. Formal Complaint filed by Rhonda Wesley concerning her residential electric service.