

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

At a session of the Public Service
Commission held at its office
in Jefferson City on the 4th
day of February, 1994

In the matter of the Application of KANSAS)
CITY POWER & LIGHT COMPANY, a Missouri)
corporation, for authority to issue) CASE NO. EF-94-200
pollution control refunding bonds)

ORDER APPROVING FINANCING

On December 28, 1993, Kansas City Power & Light Company (Company or KCPL) filed an Application with the Public Service Commission (Commission) for an order authorizing a refinancing arrangement between KCPL and the City of LaCygne, Kansas (City). KCPL is an electric utility subject to the jurisdiction of the Commission and the order is requested pursuant to Sections 393.180 and 393.200 RSMo (1986). KCPL has provided the documentation required by 4 CSR 240-2.060(6); the requirement to furnish the pro-forma balance sheet and income statement has been waived because the proposed transaction will have little or no impact on KCPL's financial statements. On December 28, 1993, Company also filed its Motion for Expedited Consideration, requesting that authority to proceed be issued no later than February 7, 1994. On January 19, 1994, Company filed its Amended Application modifying the proposed maturity dates for the refunding bond issue.

In 1973, in order to finance certain pollution control facilities at its LaCygne Units 1 and 2, Company entered into an arrangement with City and Kansas Gas and Electric (now Western Resources) whereby the City issued \$30,000,000 aggregate principal amount of Pollution Control Revenue Bonds (1973 Bonds); the proceeds of \$15,000,00 of this issue were used to finance a portion

of Company's pollution control project. The remaining \$15,000,000 of the issue apparently went to a project of Kansas Gas and Electric. In 1977 City issued \$21,940,000 aggregate principal amount of Pollution Control Revenue Bonds (1977 Bonds), the proceeds of which were also used for financing of the pollution control facilities at Units 1 and 2. The 1973 Bonds are further described as Series 1973, maturing in 2003, approved by the Commission in Case No. 17,657; the 1977 Bonds are further described as Series 1977, maturing in 2003, approved by the Commission in Case No. EF-78-13. The 1973 Bonds were issued subject to an annual sinking fund requirement which began in 1989; the 1977 Bonds were issued subject to a sinking fund requirement scheduled to begin in 1999. Company's remaining obligation on the 1977 Bonds totals \$13,982,500.

Company proposes to refund both the 1973 Bonds and 1977 Bonds by the issuance of a total of \$35,922,500 City of LaCygne, Kansas Environmental Improvement Revenue Refunding Bonds, Series 1994 (Refunding Bonds). The Refunding Bonds would be structured, marketed, and sold in a public offering as multi-mode bonds providing either daily, weekly, or commercial paper reset periods. The Refunding Bonds would carry a variable interest rate and a fixed rate conversion feature. Applicant stated that the short-term tax-exempt variable rates have averaged 4.85% over the past ten years, and the rate is current 2.20 percent. \$13,982,500 of the Refunding Bonds would reach maturity in 2015; the remaining \$21,940,000 would reach maturity in 2018. The City would issue the Refunding Bonds pursuant to a Trust Indenture. City and Company would enter into an Equipment Lease Agreement and Equipment Sublease Agreement which would obligate Company to make timely payments of the principal, premium, if any, and interest on the Refunding Bonds. The Refunding Bonds would be secured by General Mortgage Bonds, issued under the Ninth Supplemental Indenture to the

General Mortgage Indenture and Deed of Trust between Company and United Missouri Bank, Trustee. The original mortgage indenture was dated December 1, 1986; the Ninth Supplemental Indenture would be dated February 1, 1994. The mortgage bonds would bear the same interest rate and be subject to the same terms and conditions as the Refunding Bonds.

There are several advantages to this refunding arrangement. The Refunding Bonds will not be subject to a sinking fund which would allow Company access to lower cost tax-exempt debt. Current low interest rates make the 1973 and 1977 Bonds less economical; the projected savings from refunding would range from \$7.7 million to \$13.4 million. Refunding these bonds would also enable Company to retire the last series of its First Mortgage Bonds and improve its credit rating per Moody's Investors Corporation.

On February 2, 1994, the Staff of the Public Service Commission (Staff) filed a memorandum recommending that the Commission approve KCPL's application for approval of its refinancing plan. Staff stated that the proposed refinancing would be beneficial by: eliminating the sinking fund requirement to make more funds available for KCPL'S use; extending the maturity date of the obligation; reducing the interest rate on the new bonds for a savings of between \$7.7 and \$13.4 million; and significantly improving KCPL's credit rating per Moody's Investors Corporation. The Staff's audit indicated that this refinancing would make virtually no change in Company's capital structure since the Refunding Bonds would be used to replace existing debt. Staff, therefore, finds that the purpose of the refinancing is reasonable and the method chosen is reasonable as well. Staff acquiesces in Company's Motion for Expedited Consideration and requests that the matter be placed on the Commission's agenda no later than February 7, 1994.

The Commission finds that KCPL is a Missouri corporation and a public utility engaged in the generation, transmission, distribution, and sale of electric energy in the State of Missouri, and is subject to Commission jurisdiction. Sections 393.180 and 393.190 RSMo (1986). KCPL's principal office is at 1201 Walnut, P.O. Box 418679, Kansas City, Missouri 64106.

Upon review of KCPL's application and Staff's recommendation, the Commission finds that the requested refinancing should be authorized. The Commission is of the opinion that the refinancing of existing debt is generally prudent financial management as long as a net present value interest savings exists. The Commission finds that this proposed refinancing would not have a negative effect on Company's capital structure and that the annual interest savings would increase the Company's pre-tax interest coverage and prolong the availability of lower cost tax-exempt debt. The Commission further finds that the funds to be procured by the issuance of the Refunding Bonds are reasonably required for the purposes described above and that such purposes are not reasonably chargeable to operating expenses or to income. Because this debt is incurred for the purpose of refinancing, it is not subject to the fee schedule set out in Section 386.300 RSMo (1986).

IT IS THEREFORE ORDERED:

1. That KCPL is authorized to execute and enter into Equipment Lease Agreement(s), Equipment Sublease Agreement(s), Bond Purchase Agreement(s), and to execute any other documents necessary for the issuance of the Refunding Bonds by the City of LaCygne, Kansas, not to exceed \$35,922,500 principal amount.

2. That KCPL is authorized to issue up to \$35,922,500 principal amount of General Mortgage Bonds to secure the Refunding Bonds, bearing the same interest rates and other terms and conditions as the Refunding Bonds.

3. That KCPL is authorized to execute all the required documents and take all other actions necessary for the issuance and maintenance of the Refunding Bonds and General Mortgage Bonds.

4. That nothing in this order shall be considered a finding by the Commission of the reasonableness of the expenditures involved in these financing transactions, or of the value, for ratemaking purposes, of the properties involved, or as an acquiescence in the value placed upon those properties by the Company, and the Commission reserves the right to consider the ratemaking treatment to be afforded these financing transactions, and their resulting cost of capital, in any later rate proceeding.

5. That this order shall become effective on February 7, 1994.

BY THE COMMISSION



David L. Rauch
Executive Secretary

(S E A L)

Mueller, Chm., McClure, Perkins,
Kincheloe and Crumpton, CC., Concur.