MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. EF-2012-0187, Kansas City Power & Light Company

FROM: Shana Atkinson, Financial Analysis Department

Shana Atkinson 02/16/2012 — Project Coordinator / Date

Steven Dottheim 02/16/2012 — Staff Counsel's Department / Date

SUBJECT: Staff's Recommendation for Approval with Conditions of the Application of Kansas City Power & Light Company (Company, Applicant, or KCP&L), for Authority to issue up to $300,000,000 principal amount of debt securities through December 31, 2013. Applicant also requests authority to enter into interest rate hedging instruments in conjunction with the debt securities to be issued under the requested authorization.

DATE: February 16, 2012

1. (a) **Type of Issue:** Senior or subordinated debt and either unsecured or secured debt. If secured debt, this debt will be issued under the Applicant's existing general mortgage indentures. See Paragraph 13 in the Application for additional details.

   (b) **Amount:** Up to $300,000,000.

   (c) **Rate:** Interest rates on the debt securities, represented by either (i) the coupon on fixed rate debt securities or (ii) the initial rate on any variable debt securities, will not exceed nine percent (9%).

   (d) **Other Provisions:** The terms of maturity for the various series of indebtedness will range from one (1) year to forty (40) years.

2. **Proposed Date of Transaction:** Anytime after the date of Commission authorization and until December 31, 2013.

3. (a) **Statement of Purpose of the Issue:** The Application states the funds will be used to meet the new financing and refinancing requirements outlined in Exhibit 6. The Anticipated 2012-13 Financing Plan Summary illustrates that of the $300,000,000 proposed debt financing, ** __________ ** will be used for refinancing of tax-exempt Environmental Improvement Revenue Refunding (EIRR) Bonds, ** ____________ ** will be used for new capital expenditure funding and ** _________ ** will be used for issuance expenses.

** **Denotes Highly Confidential Information** **

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(b) **From a financial perspective, does Staff deem this Statement of Purpose of the Issue reasonable?**

Yes _X_ No

4. **Copies of executed instruments defining terms of the proposed securities:**

___ (a) If such instruments have been previously filed with the Commission, a reference to the Case Number in which the instruments were furnished.

_X_ (b) If such instruments have not been executed at the time of filing, a statement of the general terms and conditions to be contained in the instruments, which are proposed to be executed.

___ (c) If no such instruments are either executed or to be executed, a statement of how the securities are to be sold.

5. **Certified copy of resolution of the directors of applicant, or other legal documents authorizing the issuance of the securities reviewed:**

Yes _X_ No ___

6. **Pro-forma Balance Sheet and Income Statement reviewed:**

Yes _X_ No ___

7. **Capital expenditure schedule reviewed:**

Yes _X_ No ___

8. **Journal entries are required to be filed by the Company when issuing financing for capital expenditures:**

Yes _X_ No ___

9. **Recommendation of the Staff:**

_____ Grant by session order (see Comments)

_X_ Conditional approval granted pending receipt of definite terms of issuance (see Comments)

___ Require additional and/or revised data before approval can be granted (see Comments)

___ Formal hearing required (see Comments)

___ Recommend dismissal (see Comments)

COMMENTS:

KCP&L is a wholly owned subsidiary of Great Plains Energy (GPE), and is headquartered in Kansas City, Missouri. KCP&L is an integrated, regulated electric utility that engages in the generation, transmission, distribution and sale of electricity. KCP&L serves approximately 510,000 customers located in western Missouri and eastern Kansas. Customers include approximately 450,000 residences, 58,000 commercial firms, and 2,000 industrials, municipalities and other electric utilities.[1]

On December 16, 2011, KCP&L filed an Application requesting that the Missouri Public Service Commission (Commission) authorize KCP&L to issue debt securities in an aggregate principal amount of $300,000,000 as either unsecured or secured indebtedness under indentures previously filed with the Commission. KCP&L states in Paragraph 12 of its Application:

> The debt securities will have maturities of one year to 40 years and will be issued by the Applicant or through agents or underwriters for the Applicant in multiple offerings of differing amounts with different interest rates (including variable interest rates) and other negotiated terms and conditions. Interest rates on the debt securities, represented by either (i) the coupon on fixed rate debt securities or (ii) the initial rate on any variable debt securities, will not exceed nine percent (9%).

Regarding the use of requested funds raised through the requested debt authority, KCP&L further states the following in Paragraph 11 of its Application:

> To meet the new financing and refinancing requirements outlined in Exhibit 6, Applicant seeks authority to issue up to $300 million principal amount of debt securities through December 31, 2013, and to enter into interest rate hedging instruments in connection with such debt securities. . . .

Use of Funds:

According to Exhibit 4 attached to the Application, ** __________ ** of the proposed debt securities will be used to refinance tax exempt 4.00% EIRR Bonds due to mature in 2012, ** _________ ** will be used for debt issuance expenses and ** ___________ ** will be

1 Great Plains Energy 2010 SEC Form 10-K Filing.

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used to "repay other indebtedness, including outstanding commercial paper", issued to fund new capital expenditure funding, as specified in KCP&L's response to Staff Data Request No. 0007. KCP&L's Projected Capital Expenditure Summary, provided as Exhibit 5 attached to the Application, identifies ** ____________________ **, as a project that may be funded by the ** _____________ **. ** _______ ** accounts for ** ___________ ** of the Projected Capital Expenditure Summary for years 2012 and 2013. Other potential uses listed in the Expenditure Summary are ** ____ ___________________________ **. KCP&L's projected capital expenditures for 2012 through 2013 are approximately ** ____________ **.

In KCP&L's previous finance case, File No. EF-2010-0178, Staff estimated the amount of internal capital KCP&L had available for its anticipated and potential capital expenditures in order to assess the reasonableness of the Company's amount of requested financing. However, Staff did not do this analysis in this case because the Report and Order of the most recent Laclede Gas Company finance case, File No. GF-2009-0450, dismissed this type of approach. Regardless, Staff believes it is still important to at least evaluate the general reasonableness of the amount of financing authority requested in any utility company's financing application. In this case, considering KCP&L's sizeable estimated amount of capital expenditures and the fact that KCP&L's only other affiliate is another Missouri regulated electric utility, Staff considers the amount of KCP&L's requested financing to be reasonable. However, because it is possible that GPE may invest in non-regulated operations during the period of KCP&L's financing authority, to the extent that such non-regulated investments may potentially impact KCP&L's credit quality and resulting credit ratings, Staff is recommending that KCP&L be ordered by the Commission to notify Staff of such intent and provide a status report to the Commission regarding the amount of financing used under this authority and the intended use of any remaining authorized but unissued funds.

Financial Ratio Analysis

Staff reviewed the actual and pro forma financial statements for both KCP&L and GPE that KCP&L provided. Staff relied on the Company's representations made in those financial statements when analyzing the effect of the $300 million in proposed debt financing. The pro forma financial statements anticipate the issuance of a maximum of $300 million in debt, whether secured or unsecured, through 2013. Staff evaluated the impact of the proposed financing on three financial ratios in which benchmarks were published in the May 27, 2009 Standard and Poor's (S&P) article, "Criteria Methodology: Business Risk/Financial Risk Matrix Expanded" (see Attachment 1). These three ratios are the Funds From Operations (FFO) to Total Debt ratio, the Total Debt to Total Capital ratio and the Total Debt to EBITDA (earnings before interest, taxes, depreciation, and amortization) ratio. GPE's current S&P credit rating of "BBB" is based on S&P's current classification of GPE's Business Risk Profile ("BRP") as "Excellent" and its Financial Risk Profile ("FRP") as "Aggressive".

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Before evaluating the pro-forma impact of the proposed financing, it is important to assess the current actual financial ratios as of the date of the financial statements KCP&L provided with its Application (see the first column of Schedules 1 and 2). According to S&P's benchmarks for the ratios FFO to Total Debt, Total Debt to Total Capital and Total Debt/EBITDA, all of KCP&L's ratios are within the FRP range of "Aggressive". Based on these same benchmarks, two out of the three of GPE's ratios are within the FRP range of "Aggressive". GPE's Total Debt/EBITDA is just above the high end of the FRP range of "Aggressive" and is in the FRP range of "Highly Leveraged" (more financial risk than "Aggressive"). Considering GPE has a BRP of "Excellent", KCP&L's ratios are consistent with the benchmark for a "BBB" credit rating under S&P's matrix.

The second column of Schedules 1 and 2 illustrate that, after the pro forma adjustments, the FFO to Total Debt and Total Debt to Total Capital ratios for KCP&L and GPE are within the FRP range of "Aggressive" and the Debt/EBITDA ratio is within the FRP range of "Highly Leveraged". According to Exhibit 4 of the Application, these proforma adjustments are assuming the Company issues the debt immediately after receiving the Commission's authority. However, the Company's Financing Plan in Exhibit 6 projects the proposed financing to be issued in 2013. Staff found all three of these ratios to be within the FRP range of "Aggressive" for the projected 2012 and 2013 financials of both KCP&L and GPE. Assuming, GPE will continue to have an "Excellent" BRP in 2012 and 2013, this would be consistent with a "BBB" credit rating under S&P's matrix.

Staff submitted a data request to KCP&L inquiring whether KCP&L anticipated if this financing would be subject to the fees associated with Section 386.300 RSMo 2000. KCP&L responded: "KCP&L does not anticipate it will be required to pay fees pursuant to Section 386.300 RSMo because our intentions are to use the proceeds from the issuance of long term debt to repay other indebtedness including outstanding commercial paper."

Recommendation

Staff believes that to the extent KCP&L determines it is favorable to pledge the assets of the KCP&L system to secure debt, the Commission should limit the use of secured debt to amounts that can be tied directly to KCP&L's capital improvement projects or KCPL's refinancing of existing long-term debt. Therefore, Staff recommends that the Commission limit the amount of secured debt KCP&L can issue to an amount not to exceed net additions to plant in service; construction work in progress to the extent this is intended to be added to plant in service; and refinancing of existing long-term debt.

Based on Staff's analysis, it appears that KCP&L's proposed financing will not jeopardize its investment grade credit rating.

RECOMMENDED CONDITIONS:

Staff recommends that the Commission approve the Application submitted by KCP&L in this case subject to the following conditions:

1. That nothing in the Commission's order shall be considered a finding by the Commission of the value of this transaction for rate making purposes, and that the Commission reserves the right to consider the rate making treatment to be afforded the financing transaction and its impact on cost of capital, in any future proceeding;

2. That the Company shall file with the Commission within ten (10) days of the issuance of any financing authorized pursuant to a Commission order in this proceeding, a report including the amount of secured indebtedness issued, date of issuance, interest rate (initial rate if variable), maturity date, redemption schedules or special terms, if any, use of proceeds, estimated expenses, and loan or indenture agreement concerning each issuance;

3. That the interest rate for any debt issuance covered by the Application is not to exceed the greater of (i) nine percent (9%) or (ii) a rate that is consistent with similar securities of comparable credit quality and maturities issued by other issuers;

4. That the Company shall file with the Commission any information concerning communication with credit rating agencies concerning this issuance;

5. That the Company shall file with the Commission as a non-case related submission any credit rating agency reports published on KCP&L's or GPE's corporate credit quality or the credit quality of its securities;

6. That the amount of secured debt KCP&L can issue be limited to an amount not to exceed net additions to plant in service; construction work in progress to the extent this is intended to be added to plant in service; and refinancing of existing long-term debt; and,

7. That to the extent that any non-regulated investments made by KCP&L or GPE and affiliated companies may potentially impact KCP&L's credit quality and resulting credit ratings, KCP&L shall notify Staff of such possibility and provide a status report to the Commission regarding the amount of financing used under this authority and the intended use of any remaining authorized but unissued funds.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power & Light Company For Authority to Issue Debt Securities	)))	File No. EF-2012-0187

AFFIDAVIT OF SHANA ATKINSON

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Shana Atkinson, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was developed by her; that she has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of her knowledge and belief.

Shana Atkinson

Shana Atkinson

Subscribed and sworn to before me this 16th day of February, 2012.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 08, 2012
Commission Number: 08412071

D Suzie Mankin

Notary Public

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Criteria | Corporates | General:

Criteria Methodology: Business Risk/Financial Risk Matrix Expanded

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*(**Editor's Note:** We are republishing this criteria following our periodic review completed on Dec. 8, 2010. In the original version of this article published on May 26, 2009, certain rating outcomes in the table 1 matrix were missated. A corrected version follows.*

Table 1 supersedes tables 1, 2, and 3 in the following articles:

-- "Business And Financial Risks In The Global Telecommunication, Cable, And Satellite Broadcast Industry," published Jan. 27, 2009;

-- "Key Credit Factors: Business And Financial Risks In The U.S. For-Profit Health Care Facilities Industry," published Jan. 21, 2009;

-- "Key Credit Factors: Methodology And Assumptions On Risks In The Packaging Industry," published Dec. 4, 2008;

-- "Business And Financial Risks In The Investor-Owned Utilities Industry," published Nov. 26, 2008;

-- "Business And Financial Risks In The Global Building Products And Materials Industry," published Nov. 19, 2008;

-- "Business And Financial Risks In The Commodity And Specialty Chemical Industry," published Nov. 20, 2008;

-- "Business And Financial Risks In The Oil And Gas Exploration And Production Industry," published Nov. 10, 2008;

-- "Key Credit Factors: Business And Financial Risks In The U.S. Trucking Industry," published Nov. 4, 2008;

-- "Business And Financial Risks In The U.S. Gaming Industry," published Sept. 25, 2008;

-- "Key Credit Factors: Business And Financial Risks In The Retail Industry," published Sept. 18, 2008; and

-- "Business And Financial Risks In The Restaurant Industry," published Dec. 4, 2008.

Table 1 also supersedes only table 1 in "Business And Financial Risks In The Global High Technology Industry," published Sept. 18, 2008.)

Standard & Poor's Ratings Services is refining its methodology for corporate ratings related to its business risk/financial risk matrix, which we published as part of "2008 Corporate Ratings Criteria" on April 15, 2008, on RatingsDirect at www.ratingsdirect.com and Standard & Poor's Web site at www.standardandpoors.com.

This article amends and supersedes the criteria as published in Corporate Ratings Criteria, page 21, and the articles listed in the "Related Articles" section at the end of this report.

This article is part of a broad series of measures announced last year to enhance our governance, analytics, dissemination of information, and investor education initiatives. These initiatives are aimed at augmenting our independence, strengthening the rating process, and increasing our transparency to better serve the global markets.

We introduced the business risk/financial risk matrix four years ago. The relationships depicted in the matrix represent an essential element of our corporate analytical methodology.

We are now expanding the matrix, by adding one category to both business and financial risks (see table 1). As a result, the matrix allows for greater differentiation regarding companies rated lower than investment grade (i.e., 'BB' and below).

Table 1

Business And Financial Risk Profile Matrix

Business Risk Profile	--Financial Risk Profile--					
	Minimal	**Modest**	**Intermediate**	**Significant**	**Aggressive**	**Highly Leveraged**
Excellent	AAA	AA	A	A-	BBB	--
Strong	AA	A	A-	BBB	BB	BB-
Satisfactory	A-	BBB+	BBB	BB+	BB-	B+
Fair	--	BBB-	BB+	BB	BB-	B
Weak	--	--	BB	BB-	B+	B-
Vulnerable	--	--	--	B+	B	CCC+

These rating outcomes are shown for guidance purposes only. Actual rating should be within one notch of indicated rating outcomes.

The rating outcomes refer to issuer credit ratings. The ratings indicated in each cell of the matrix are the midpoints of a range of likely rating possibilities. This range would ordinarily span one notch above and below the indicated rating.

Business Risk/Financial Risk Framework

Our corporate analytical methodology organizes the analytical process according to a common framework, and it divides the task into several categories so that all salient issues are considered. The first categories involve fundamental business analysis; the financial analysis categories follow.

Our ratings analysis starts with the assessment of the business and competitive profile of the company. Two companies with identical financial metrics can be rated very differently, to the extent that their business challenges and prospects differ. The categories underlying our business and financial risk assessments are:

Business risk

- Country risk
- Industry risk
- Competitive position
- Profitability/Peer group comparisons

Financial risk

- Accounting
- Financial governance and policies/risk tolerance
- Cash flow adequacy

- Capital structure/asset protection
- Liquidity/short-term factors

We do not have any predetermined weights for these categories. The significance of specific factors varies from situation to situation.

Updated Matrix

We developed the matrix to make explicit the rating outcomes that are typical for various business risk/financial risk combinations. It illustrates the relationship of business and financial risk profiles to the issuer credit rating.

We tend to weight business risk slightly more than financial risk when differentiating among investment-grade ratings. Conversely, we place slightly more weight on financial risk for speculative-grade issuers (see table 1, again). There also is a subtle compounding effect when both business risk and financial risk are aligned at extremes (i.e., excellent/minimal and vulnerable/highly leveraged.)

The new, more granular version of the matrix represents a refinement--not any change in rating criteria or standards--and, consequently, holds no implications for any changes to existing ratings. However, the expanded matrix should enhance the transparency of the analytical process.

Financial Benchmarks

Table 2

Financial Risk Indicative Ratios (Corporates)

	FFO/Debt (%)	Debt/EBITDA (x)	Debt/Capital (%)
Minimal	greater than 60	less than 1.5	less than 25
Modest	45-60	1.5-2	25-35
Intermediate	30-45	2-3	35-45
Significant	20-30	3-4	45-50
Aggressive	12-20	4-5	50-60
Highly Leveraged	less than 12	greater than 5	greater than 60

How To Use The Matrix--And Its Limitations

The rating matrix indicative outcomes are what we typically observe--but are not meant to be precise indications or guarantees of future rating opinions. Positive and negative nuances in our analysis may lead to a notch higher or lower than the outcomes indicated in the various cells of the matrix.

In certain situations there may be specific, overarching risks that are outside the standard framework, e.g., a liquidity crisis, major litigation, or large acquisition. This often is the case regarding credits at the lowest end of the credit spectrum--i.e., the 'CCC' category and lower. These ratings, by definition, reflect some impending crisis or acute vulnerability, and the balanced approach that underlies the matrix framework just does not lend itself to such situations.

Similarly, some matrix cells are blank because the underlying combinations are highly unusual--and presumably would involve complicated factors and analysis.

The following hypothetical example illustrates how the tables can be used to better understand our rating process (see tables 1 and 2).

We believe that Company ABC has a satisfactory business risk profile, typical of a low investment-grade industrial issuer. If we believed its financial risk were intermediate, the expected rating outcome should be within one notch of 'BBB'. ABC's ratios of cash flow to debt (35%) and debt leverage (total debt to EBITDA of 2.5x) are indeed characteristic of intermediate financial risk.

It might be possible for Company ABC to be upgraded to the 'A' category by, for example, reducing its debt burden to the point that financial risk is viewed as minimal. Funds from operations (FFO) to debt of more than 60% and debt to EBITDA of only 1.5x would, in most cases, indicate minimal.

Conversely, ABC may choose to become more financially aggressive--perhaps it decides to reward shareholders by borrowing to repurchase its stock. It is possible that the company may fall into the 'BB' category if we view its financial risk as significant. FFO to debt of 20% and debt to EBITDA 4x would, in our view, typify the significant financial risk category.

Still, it is essential to realize that the financial benchmarks are guidelines, neither gospel nor guarantees. They can vary in nonstandard cases: For example, if a company's financial measures exhibit very little volatility, benchmarks may be somewhat more relaxed.

Moreover, our assessment of financial risk is not as simplistic as looking at a few ratios. It encompasses:

- a view of accounting and disclosure practices;
- a view of corporate governance, financial policies, and risk tolerance;
- the degree of capital intensity, flexibility regarding capital expenditures and other cash needs, including acquisitions and shareholder distributions; and
- various aspects of liquidity--including the risk of refinancing near-term maturities.

The matrix addresses a company's standalone credit profile, and does not take account of external influences, which would pertain in the case of government-related entities or subsidiaries that in our view may benefit or suffer from affiliation with a stronger or weaker group. The matrix refers only to local-currency ratings, rather than foreign-currency ratings, which incorporate additional transfer and convertibility risks. Finally, the matrix does not apply to project finance or corporate securitizations.

Related Articles

Industrials' Business Risk/Financial Risk Matrix--A Fundamental Perspective On Corporate Ratings, April 7, 2005

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SCHEDULE 1

HAS BEEN DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY

SCHEDULE 2

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