MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. EF-2014-0346, Kansas City Power & Light Company

FROM: David Murray, Financial Analysis

/s/ David Murray 07/15/14 — Project Coordinator / Date
/s/ Steven Dottheim 07/15/2014 — Staff Counsel's Office / Date

SUBJECT: Staff's Recommendation for Approval with Conditions of the Application of Kansas City Power & Light Company (Company, Applicant, or KCPL), for Authority to issue up to $350,000,000 principal amount of debt securities through June 30, 2016. 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: July 15, 2014

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. The debt may also take the form of "fall-away" mortgage debt in which it is initially secured, but then converts to unsecured.

   (b) **Amount:** Up to $350,000,000.

   (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:** Any time after the date of Commission authorization and until June 30, 2016.

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 2014-15 Financing Plan Summary illustrates that of the $350,000,000 proposed debt financing, ** ___________ ** will be used for refinancing of tax-exempt Environmental Bonds, **___________ ** will be used for new capital expenditure funding, ** ____________ ** will be used to refinance outstanding commercial paper 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, with conditions imposed by the Missouri Public Service Commission (Commission) as set out below.

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

Such instruments have not been executed, but a statement of the general terms and conditions were included in the Application.

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

Yes

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

Yes

7. **Capital expenditure schedule reviewed:**

Yes

8. **Journal entries required to be filed by the Company to allow for the Fee Schedule to be applied:**

Yes

9. **Recommendation of the Staff:**

Conditional Approval granted pending receipt of definite terms of issuance (see Comments and Recommended Conditions below)

COMMENTS:

KCPL is a wholly owned subsidiary of Great Plains Energy (GPE), and is headquartered in Kansas City, Missouri. KCPL is an integrated, regulated electric utility that engages in the generation, transmission, distribution and sale of electricity at retail and wholesale in Missouri and Kansas.

On May 14, 2014, KCPL filed an Application requesting that the Commission authorize KCPL to issue debt securities in an aggregate principal amount of $350,000,000 as either unsecured or secured indebtedness under indentures previously filed with the Commission. KCPL 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, KCPL 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 $350 million principal amount of debt securities through June 30, 2016, 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 4.05% City of La Cygne, Kansas, Environmental Bonds due to mature on March 1, 2015, ** __________ ** will be used for debt issuance expenses, ** ___________ ** will be used to refinance outstanding commercial paper, and ** ___________ ** will be used for new capital expenditures. KCPL's response to Staff Data Request No. 5 indicates that although the proposed long-term debt will not directly finance capital expenditures, the funds will be used to refinance commercial paper used to initially fund large capital projects, such as the environmental upgrades at the La Cygne generating station, which KCPL has already spent $377 million of a projected amount of $615 million. In addition, KCPL's Exhibit 5 identifies projected capital expenditures by general asset type, but not by specific projects. KCPL's projected total capital expenditures over the period of the requested Commission Authority is approximately ** _______ **

Considering KCPL's projected amount of capital expenditures, Staff considers the amount of KCPL's requested financing to be reasonable. However, because GPE and/or KCPL may invest in non-regulated entities or activities during the period of KCPL's financing authority, to the extent that these investments impact KCPL's credit quality and resulting credit ratings, Staff is recommending that KCPL be ordered by the Commission to notify Staff of such circumstances 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.

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Financial Ratio Analysis

Staff's assessment of financing Applications typically involves evaluating the anticipated impact of the proposed financing on the subject company's credit quality. Staff does so by analyzing the relative impact the proposed financing may have on the company's financial risk. A basic definition of financial risk is the amount of leverage a company has in its capital structure. However, because the amount and consistency of cash flows generated by a company ultimately determine the ability of a company to service its debt, rating agencies' assessment of financial risk is measured primarily by comparing a company's cash flow as it relates to the amount of debt and the coverage of the fixed obligations arising from that debt.

Staff's assessment of the impact of the proposed financing on KCPL's financial risk is based on Staff's analysis of the pro forma impact of the proposed financing on KCPL's and GPE's financial statements for the twelve months ended, March 31, 2014. Because these pro forma financial statements do not reflect the additional cash flow the Company may receive during the period of the financing authority, to the extent this analysis shows a dramatic increase in financial risk, it may be necessary to also analyze projected financial statements as well as the pro form impact on actual financial statements.

For purposes of assessing the relative impact of the proposed issuance of $350 million of debt on KCPL's financial risk, Staff relied on the Company's representations made in the financial statements it provided to Staff. The pro forma financial statements anticipate the issuance of a maximum of $350 million in debt, whether secured or unsecured, through 2016. Staff evaluated the impact of the proposed financing on a variety of financial ratios Standard and Poor's (S&P) and Moody's use when evaluating an entity's credit profile. S&P's assessment of a company's financial risk profile centers on two primary ratios: funds from operations to total debt (FFO/total debt); and total debt to earnings before interest, taxes, depreciation and amortization (total debt/EBITDA). Moody's assessment of a company's financial risk focuses on four ratios: (1) Cash Flow from Operations Pre-Working Capital (WC) to Debt (CFO Pre-WC/debt), (2) CFO pre-WC minus dividends to debt , (3) CFO pre-WC plus interest to interest, and (4) Debt to Capitalization. Moody's assigns the following weight, respectively, to these ratios: (1) 37.5%, (2) 25.0%, (3)18.75%, and (4) 18.75%.[1] Both Moody's and S&P consider cash flow as percentage of debt outstanding to be the most important ratio for purposes of assessing the financial risk of at least an investment grade entity.

Schedule 1 attached to this recommendation shows the pro forma impact on KCPL's key credit metrics assessed by both Moody's and S&P. Schedule 2 attached to this recommendation shows the pro forma impact on GPE's key credit metrics assessed by both Moody's and S&P. Although the

[1] Moody's provides these financial ratios 40% weight to the overall rating of the debt or the entity. Moody's assigns 60% to a variety of qualitative factors, which includes the regulatory environment and other factors. Staff did not attempt to perform the qualitative analysis because these factors change fairly slowly with changes in regulatory climate and/or legislative changes.

ratios show an increase in financial risk due to the proposed financing, the incremental increase in financial risk is not high enough, assuming all else is held constant, to jeopardize KCPL's current credit standing.

Recommendation

Staff believes that to the extent KCPL determines it is favorable to pledge the assets of the KCPL system to secure debt, the Commission should limit the use of secured debt to amounts that can be tied directly to KCPL'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 KCPL 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 financial analysis, it does not appear that KCPL's proposed financing will affect its current credit ratings.

RECOMMENDED CONDITIONS:

Staff recommends that the Commission approve KCPL's Application 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 in EFIS in this case 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 in EFIS under “Resources” - “Non-Case Related Query” - “Ordered Submission” any credit rating agency reports published on KCPL’s or GPE’s corporate credit quality or the credit quality of its securities;

6. That the amount of secured debt KCPL 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.

7. That to the extent that any non-regulated investments made by KCPL or GPE and affiliated companies may potentially impact KCPL’s credit quality and resulting credit ratings, KCPL 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.	)))	Case No. EF-2014-0346

AFFIDAVIT OF DAVID MURRAY

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

David Murray, of lawful age, on his oath states: that he 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 him; that he has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of his knowledge and belief.

David Murray

David Murray

Subscribed and sworn to before me this 15th day of July, 2014

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 12, 2016
Commission Number: 12412070

D Suzie Mankin

Notary Public

Kansas City Power & Light Company
EF-2104-0346

Moody's Ratios

KCPL (Adjusted Ratios)	3/31/2014	Pro Forma		3/31/2014 Indicative Rating[1]	Pro Forma Indicative Rating[1]	Weight Assigned Ratio[1]
(CFO Pre-W/C + Interest) / Interest Expense	4.52	3.86		A	Baa	18.75%
CFO Pre-W/C / Debt	18.69%	17.08%		Baa	Baa	37.50%
(CFO Pre-W/C - Dividends) / Debt	13.93%	12.59%		Baa	Baa	25.00%
Debt / Capitalization	48.30%	49.36%		Baa	Baa	18.75%
			Average	**Baa**	**Baa**	

S&P's Ratios

KCPL (Adjusted Ratios)	3/31/2014	Pro Forma	3/31/2014 Indicative Rating[2]	Pro Forma Indicative Rating[2]
FFO / debt (%)	17.80%	16.30%	A-	A-
Debt/EBITDA	4.38	4.63		

Notes: 1. Page 23 of Moody's September 23, 2013, "Proposed Refinements to the Regulated Utilities Rating Methodology and our Evolving View of US Utility Regulation."
2. Table 3 on page 8 of S&P's November 19, 2013, "Corporate Methodology."

Kansas City Power & Light Company
EF-2014-0346

Moody's Ratios

Great Plains Energy (Adjusted Ratios)	3/31/2014	Pro Forma	3/31/2014 Indicative Rating[1]	Pro Forma Indicative Rating[1]	Weight Assigned Ratio[1]
(CFO Pre-W/C + Interest) / Interest Expense	4.12	3.71	Baa	Baa	18.75%
CFO Pre-W/C / Debt	16.88%	15.86%	Baa	Baa	37.50%
(CFO Pre-W/C - Dividends) / Debt	13.76%	12.85%	Baa	Baa	25.00%
Debt / Capitalization	49.22%	50.28%	Baa	Baa	18.75%

S&P's Ratios

Great Plains Energy (Adjusted Ratios)	3/31/2014	Pro Forma	Financial Risk[2]	Indicative Financial Risk[2]
FFO / debt (%)	16.29%	15.32%	Significant	Significant
Debt/EBITDA	4.35	4.51	Significant	Significant

Notes: 1. Page 23 of Moody's September 23, 2013, "Proposed Refinements to the Regulated Utilities Rating Methodology and our Evolving View of US Utility Regulation."
2. Table 18 on page 35 of S&P's November 19, 2013, "Corporate Methodology."

Schedule 2