

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

In the Matter of the Application of Kansas City)	
Power & Light Company, a Missouri Corporation)	
for Authority 1) to Guarantee City of LaCygne,)	
Kansas, Revenue Refunding Bonds, Previously)	
Authorized by the Commission in Case No.)	
EF-94-200, with a Municipal Bond Insurance Policy,)	
to Add an Auction Rate Interest Rate Mode and to)	Case No. EF-2005-0387
Extend the Maturity of the Bonds and 2) to)	
guarantee City of Burlington, Kansas, Revenue)	
Refunding Bonds, Previously Authorized by the)	
Commission in Case No. EF-98-578, with a)	
Municipal Bond Insurance Policy and to Extend the)	
Maturity of the Bonds.)	

REVISED STAFF RECOMMENDATION

Comes now the Staff of the Missouri Public Service Commission (Staff) and files the following Revised Staff Recommendation (Appendix A) that the Missouri Public Service Commission (Commission) should approve with conditions the Application of Kansas City Power & Light Company (KCPL) for authority to (1) guarantee City of LaCygne, Kansas Revenue Refunding Bonds, previously authorized by the Commission in Case No. EF-94-200, with a municipal bond insurance policy, add an auction rate interest rate mode and extend the maturity of the bonds, and (2) guarantee City of Burlington, Kansas Revenue Refunding Bonds previously authorized by the Commission in Case No. EF-98-578, with a municipal bond insurance policy and extend the maturity of the bonds.

This Revised Staff Recommendation replaces the Staff Recommendation filed on June 28, 2005. The revisions are to the Staff's narrative description of the transactions and are not substantive in nature as to the recommendation of the Staff. Rather than just identifying the

revisions in a pleading or letter, the Staff believes that the Staff Recommendation is easier to read if the Staff provides a Revised Staff Recommendation. The substantive Staff Recommendation has not changed in any respect. The Staff Recommendation is that the Commission approve the Application submitted by KCPL in this case, subject to the conditions which appear on pages 6-7 of the Revised Staff Recommendation. These are the same conditions proposed by the Staff in its filing on June 28, 2005. The Staff and KCPL have discussed this Revised Staff Recommendation.

The Staff apologizes for any inconvenience that this situation has caused.

The Staff recommends that the Commission approve the Application submitted by KCPL in this case subject to the following conditions:

1. That the Company shall file with the Commission any information concerning communication with credit rating agencies concerning credit rating changes as a result of this transaction.
2. That nothing in the Commission's order shall be considered a finding by the Commission of the value of these transactions for ratemaking purposes, and that the Commission reserves the right to consider the ratemaking treatment to be afforded these financing transactions and their results in cost of capital, in any later proceeding.
3. That the Company shall file annually with the Commission a report of the net interest cost savings achieved as a result of this transaction, with the first report being filed by December 31, 2005. The net interest cost savings shall include the expenses associated with securing the City of LaCygne, Kansas Revenue Refunding Bonds and the City of Burlington, Kansas Revenue Refunding Bonds debt and the insurance purchased to insure such debt.

Wherefore the Staff submits the following Revised Staff Recommendation that the Commission approve with conditions the Application of KCPL in the instant case.

Respectfully submitted,

DANA K. JOYCE
General Counsel

/s/Steven Dottheim

Steven Dottheim

Chief Deputy General Counsel
Missouri Bar No. 29149

Attorney for the Staff of the
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102
(573) 751-7489 (Telephone)
(573) 751-9285 (Fax)
e-mail: steve.dottheim@psc.mo.gov

Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, or transmitted by facsimile or electronic mail to all counsel of record this 13th day of July 2005.

/s/ Steven Dottheim

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. EF-2005-0387, Kansas City Power & Light Company

FROM: Matt Barnes, Financial Analysis Department
Dan Redel, Budget and Fiscal Services

/s/ Matt Barnes 7/13/05

/s/ Steve Dottheim 7/13/05

Project Coordinator / Date

General Counsel's Office / Date

SUBJECT: Revised Staff Recommendation to approve the Application of Kansas City Power & Light Company (KCPL or Company) for authority: 1) to guarantee City of La Cygne, Kansas Revenue Refunding Bonds, previously authorized by the Commission in Case No. EF-94-200, with a municipal bond insurance policy, to add an auction rate interest rate mode and to extend the maturity of the bonds; and 2) to guarantee City of Burlington, Kansas Revenue Refunding Bonds previously authorized by the Commission in Case No. EF-98-578, with a municipal bond insurance policy and to extend the maturity of the bonds. KCPL expects to realize savings as a result of these proposed transactions.

DATE: July 13, 2005

Introduction

This Revised Staff Recommendation replaces the Staff Recommendation filed on June 28, 2005. The revisions are to the Staff's narrative description of the transactions and are not substantive in nature as to the recommendation of the Staff. Rather than just identifying the revisions in a pleading or letter, the Staff believes that the Staff Recommendation is easier to read if the Staff provides a Revised Staff Recommendation. The substantive Staff Recommendation has not changed in any respect. The Staff Recommendation is that the Commission approve the Application submitted by KCPL in this case, subject to the conditions which appear on pages 6-7 below. These are the same conditions proposed by the Staff in its filing on June 28, 2005. The Staff and KCPL have discussed this Revised Staff Recommendation.

Kansas City Power & Light Company

1. (a) **Type of Issue:** Municipal bond insurance policy guaranteeing: 1) the City of La Cygne, Kansas Revenue Bonds Refunding Bonds, an addition of Auction Rate interest rate mode for the Refunding Bonds and to extend the maturity of the bonds; and 2) guaranteeing the City of Burlington, Kansas Revenue Refunding Bonds with a municipal bond insurance policy and to extend the maturity of the bonds.

- (b) **Amount:** \$35,922,000 City of La Cygne, Kansas Environmental Improvement Revenue Refunding Bonds and \$196,500,000 City of Burlington, Kansas Environmental Improvement Revenue Refunding Bonds previously issued.
 - (c) **Rate:** For Auction Rate interest rate mode, variable rates that are determined by an auction agent using a competitive bidding process or “Dutch Auction” procedure.
2. **Proposed Date of Transaction:** July 31, 2005.
3. (a) **Statement of Purpose of the Transaction:** The Applicant wishes to have the ability to enhance the credit quality of its outstanding City of La Cygne and City of Burlington, Kansas Environmental Improvement Revenue Refunding Bonds by securing this debt with municipal bond insurance, to add an Auction Rate interest rate mode, and to extend the maturity of the bonds. The Applicant states that by performing this transaction, it can lower the nominal variable interest rate of the City of La Cygne and the City of Burlington, Kansas Environmental Improvement Revenue Refunding Bonds by 0.87% (87 basis points) by gaining “AAA” bond ratings. The Applicant maintains that this will result in an after-tax net present value (NPV) savings of approximately \$22.025 million over the life of the City of La Cygne and City of Burlington, Kansas Environmental Improvement Revenue Refunding Bonds after deducting all related insurance premiums.
- (b) **From a financial perspective, does Staff deem this purpose reasonable?:**
- Yes X No
4. **Type of Transaction:** Municipal bond insurance policy, addition of Auction Rate interest rate mode, and extend the maturity of the City of La Cygne and City of Burlington, Kansas Environmental Improvement Revenue Refunding Bonds.
5. **Copies of executed instruments defining terms of the proposed transaction:**
- (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.

6. **Certified copy of resolution of the directors of applicant, or other legal documents authorizing the proposed transaction reviewed:**

Yes X No

7. **Capital expenditure schedule reviewed:**

Yes No X

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

Yes No X

9. **Recommendation of the Staff:**

 X Grant by session order (see Comments)

 Conditional Approval granted pending receipt of definite terms of transaction (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:

The Company's Application states:

The La Cygne Refunding Bonds are outstanding and were issued by the City of La Cygne, Kansas (La Cygne Authority). Pursuant to authority granted to KCPL by the Commission *In the matter of the application of KANSAS CITY POWER & LIGHT COMPANY, a Missouri corporation, for the authority to issue pollution control refunding bonds*, Case No. EF-94-200, issued \$35,922,000 million principal amount of its general mortgage bonds to secure the Refunding Bonds and entered into an Equipment Lease Agreement and Equipment Sublease Agreement with the La Cygne Authority as further support for the La Cygne Refunding Bonds. The La Cygne Refunding Bonds are currently outstanding in a one-year long-term interest rate mode where

the bonds are subject to remarketing on September 1, 2005. KCPL seeks authority from the Commission to guarantee the La Cygne Refunding Bonds with a municipal bond insurance policy, if it proves economical to do so, and to add an Auction Rate interest rate mode . . .

The Burlington Refunding Bonds are outstanding and were issued by the City of Burlington, Kansas (Burlington Authority). Pursuant to authority granted to KCPL by the Commission *In the Matter of the Application of Kansas City Power & Light Company, a Missouri Corporation, for the Authority to Issue Environmental Improvement Revenue Refunding Bonds*, Case No. EF-98-578, KCPL issued \$196,500,000 million principal amount of its Series 1998A, B, C and D Burlington Refunding Bonds and entered into a Purchase Agreement, Equipment Lease Agreement and Equipment Sublease Agreement with the Burlington Authority as further support for the Burlington Refunding Bonds. Of the Burlington Refunding Bonds, the Series 1998 A, B, & D bonds are currently outstanding in a five-year long-term interest rate mode where the bonds are subject to remarketing on October 1, 2007. The Series 1998C bonds are currently outstanding in a one-year long-term interest rate mode where the bonds, like the La Cygne Refunding Bonds are subject to remarketing on September 1, 2005. KCPL seeks authority from the Commission to guarantee all or a portion of the Burlington Refunding Bonds with a municipal bond insurance policy, if it proves economical to do so . . .

In the current case, the Company is applying for authority to guarantee the outstanding and previously issued City of La Cygne, Kansas Revenue Refunding Bonds in the aggregate principal amount of \$35.922 million with a municipal bond insurance policy, to add an Auction Rate interest rate mode and extend the maturity of the bonds. The Company secures these bonds through general mortgage bonds and these bonds currently are rated A2/BBB.

The Company is also applying for authority to guarantee the outstanding and previously issued City of Burlington, Kansas Revenue Refunding Bonds in the aggregate principal amount of \$196.5 million with a municipal bond insurance policy and to extend the maturity of the bonds. These bonds are unsecured and are currently rated A3/BBB.

It is expected that the addition of the municipal bond insurance will improve the credit rating on the bonds to Aaa/AAA. The Company has determined that it may be economical to purchase municipal bond insurance to bolster the credit quality of the Refunding Bonds, which should achieve an overall lower interest rate and borrowing cost. The Refunding Bonds were initially issued without municipal bond insurance guaranteeing the bonds.

There are two types of annual savings that the Company anticipates to realize if this application is

approved. The improved credit rating is expected to lower the Company's average interest rate on the bonds by approximately 87 basis points. The 87 basis points was calculated to be the difference between the 3.63% Variable Rate Demand Options (VRDO) rate without insurance less the 2.76% auction rate with insurance. The 87 basis points are expected to result in annual pre-tax interest savings of approximately \$2,022,100.

The Company stated that there would be an additional annual savings of \$813,500 upon conversion to an auction rate mode. The need for a supporting line of credit would be eliminated, and the annual cost savings for this would be 35 basis points. The sum of the annual interest savings and the elimination of the liquidity facility would be approximately \$2,835,600.

There are two up-front costs that the Company will incur. The up-front cost of the insurance is expected to be about \$2,802,000 or an average of 15-16 basis points over the remaining life of the bonds. The up-front legal and other cost is expected to be about \$2,154,000 or an average of 13 basis points over the remaining life of the bonds. These costs include legal counsel fees of \$800,000, dealer conversion fees of \$1,163,000 (0.50% of the principal amount), issuance fees of \$184,000, and an application fee of \$8,000. The sum of these up-front costs is expected to be approximately \$4,956,000.

In the VRDO mode, liquidity for investors of these bonds is provided through a "put" feature that coincides with the timing of the weekly rate reset, giving investors the right to "put" back their bonds on a weekly basis. To ensure that adequate liquidity exists in the event that the bonds are "put" back, the Company must provide liquidity support for the offering through a line of credit that provides backup liquidity in the event that the bonds are actually "put" back to the Company.

When Standard and Poor's (S&P) dropped the Company's credit rating to BBB on March 1, 2002, the Company was forced to convert the majority of these types of bonds to intermediate term "put" bonds since variable rate investors usually require a higher credit rating. Recently created additional insurance capacity at third-party municipal bond insurance companies now makes it possible to issue credit enhancement to increase the credit rating and potentially reduce interest expense for this bond issue.

The Company evaluated several alternatives for refinancing these types of bond issues in early 2004, and found the conversion to an Auction Rate security to be the most cost-effective solution. The Auction Rate mode would allow the bonds to continue to be in a variable rate form with yields set periodically through a Dutch Auction process, in which investors bid on securities through a third-party auction agent. The major difference between this mode and Variable Rate Demand Options (VRDO) structure is that liquidity is determined by the auction itself as opposed to a backup liquidity facility. The Auction Rate mode does not have a "put" feature, thereby eliminating the need for and the associated cost of credit support.

Given the inherent liquidity created by the auction, investors are not provided with the ability to

“put” their bonds back with the broker/dealer. In the event of a failed auction, existing investors would continue to hold their bonds until the next auction. The Dutch Auction process eliminates both the need for any type of additional backup liquidity facilities and the remarketing risk to the Company. The Company believes that it is favorable to add credit enhancement to Auction Rate bonds to optimize financing costs. The improvement of credit spreads under this alternative would be similar to those experienced from the insurance of a VRDO. The Company stated that a widening of credit spreads over the maturity period would improve the economics of this alternative.

The net present value (NPV) of the projected savings is nearly \$22,025,200 over the remaining life of the bonds. According to the Company, the proposed application would increase the current fiscal year’s earnings per share (EPS) by \$0.02. The Company’s balance sheet should not be affected by this transaction, as there is no additional debt issued within the context of this Application. The Company’s cash flow will be adversely affected by the up-front insurance premiums in 2005, which is typical of an up-front payment in order to achieve future cash flow savings. The Company’s cash flow statement should be positively impacted by this transaction beginning in 2006.

This transaction is simply a matter of securing the outstanding bonds with municipal bond insurance and an Auction Rate interest rate mode. KCPL would then attach the bond insurance policies to the secured City of La Cygne, Kansas Revenue Refunding Bonds and the unsecured City of Burlington, Kansas Revenue Refunding Bonds, insuring the timely payment of principal and interest. The already outstanding City of La Cygne, Kansas Revenue Refunding Bonds and the City of Burlington, Kansas Revenue Refunding Bonds would now have less risk associated with them. As a result, the interest rate demanded by investors would be commensurate with the “AAA” credit rating that is assigned to the insurers that sold the bond insurance to KCPL. The lower interest rate that investors would require would be achieved by the next auction date.

The Staff has verified that the Company has filed its 2004 annual report with the Commission, and that the Company is not delinquent on any assessment. The following open cases involving KCPL before the Commission at this time are Case Nos. EF-93-352, EC-99-553, EO-2000-210, EM-2001-464, EF-2004-0265, EF-2004-0352, EO-2044-0577, and EO-2004-0590.

The Staff recommends that the Commission approve the Application submitted by KCPL in this case subject to the following conditions:

1. That the Company shall file with the Commission any information concerning communication with credit rating agencies concerning credit rating changes as a result of this transaction.
2. That nothing in the Commission’s order shall be considered a finding by the Commission of the value of these transactions for ratemaking purposes, and that the Commission reserves the right to consider the ratemaking treatment to be afforded these financing transactions and their results in cost of capital, in any later proceeding.

3. That the Company shall file annually with the Commission a report of the net interest cost savings achieved as a result of this transaction, with the first report being filed by December 31, 2005. The net interest cost savings shall include the expenses associated with securing the City of La Cygne, Kansas Revenue Refunding Bonds and the City of Burlington, Kansas Revenue Refunding Bonds debt and the insurance purchased to insure such debt.