

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

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| In the Matter of the Application of Kansas City |) | |
| Power & Light Company for Authority to Enter into |) | |
| Interest Rate Management Products. |) | Case No. EF-2005-0388 |

STAFF RECOMMENDATION

Comes now the Staff of the Missouri Public Service Commission (Staff) and files the following Staff Recommendation (Attachment 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) enter into interest rate management products for a period of three additional years, and (2) 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.

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.

Wherefore the Staff submits the following 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

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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 28th day of June 2005.

/s/ Steven Dottheim

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. EF-2005-0388, Kansas City Power & Light Company

FROM: Matt Barnes, Financial Analysis Department
Dan Redel, Internal Accounting

/s/ Matt Barnes 06/28/05
Project Coordinator / Date

/s/ Steven Dottheim 06/28/05
General Counsel's Office / Date

SUBJECT: Staff's Recommendation for Approval of the Application of Kansas City Power & Light Company for Authority to enter into Interest Rate Management Products

DATE: June 28, 2005

Kansas City Power & Light Company

By Order dated April 1, 1988 in Case No. EF-88-213, the Commission authorized Kansas City Power & Light Company (KCPL or Applicant) 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 and on June 19, 1991, in Case No. EF-91-383, the Commission extended KCPL's authority to enter into interest rate management products for an additional twenty-four months at an effective interest rate of eleven percent (11%) or less per transaction. On June 10, 1993, in Case No. EF-93-328, the Commission extended KCPL's authority to enter into interest rate management products for an additional thirty-six months at an effective interest rate of ten percent (10%) or less per transaction. On June 30, 1995, in Case No. EF-95-397, and on August 1, 1999, in Case No. EF-2000-8, the Commission extended KCPL's authority to enter into interest rate management products for an additional thirty-six months at an effective cost of 10% or less per transaction for up to \$250 million of its variable rate debt. On July 22, 2002, the Commission extended KCPL's authority to enter into interest rate management products for an additional thirty-six months at an effective cost of 10% or less on fixed rate transactions, and an initial rate of not more than 10% on variable rate transactions.

On April 28, 2005 KCPL filed an Application with the Commission seeking authority to enter into interest rate management products "[f]or a period of three additional years, ...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." This request includes the authority to enter into all documents necessary for the above-described transactions.

The Application states that:

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% - 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%.

Due to the transitory nature of interest rate management products, KCPL must be able to execute a transaction when the opportunity arises to obtain the most competitive pricing. If KCPL were required to seek regulatory approval of each transaction, the opportunity would likely be lost due to time constraints inherent in the approval process. KCPL proposes to continue to account for all payments or receipts and administrative costs incurred due to these transactions as an increase or decrease in interest expense for book purposes. The Applicant will also "... continue to notify the Commission's Office of Financial Analysis [currently referred to as the Financial Analysis Department] of terms and conditions of interest rate management products entered into and will continue to submit quarterly reports regarding the performance of such interest rate management products." The Staff deems this acceptable.

KCPL has successfully used interest rate management products over the last seventeen years. If KCPL were not allowed to use interest rate management products to hedge the risk of possible rising variable interest rates, then it may not be able to take advantage of lower variable interest rates without subjecting itself to increased credit risk. KCPL's Application states, "it is in the public interest to manage the interest on its debt through the use of interest rate management instruments." Staff concurs with this statement, and therefore recommends that the Commission approve Kansas City Power & Light Company's Application in Case No. EF-2005-0387.

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.