MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. EF-2004-0265, Kansas City Power and Light Company

FROM: Ron Bible, Financial Analysis Department
Lena Mantle, Energy Department
Dan Redel, Budget and Fiscal Services Department

/s/ Ron Bible 03/31/04	/s/ Steven Dottheim 03/31/04
Project Coordinator / Date	General Counsel's Office / Date

SUBJECT: Staff Recommendation for Approval Concerning the Application of Kansas City Power & Light Company, a Missouri Corporation, for Authority to Issue Debt Securities

DATE: March 31, 2004

Kansas City Power & Light Company

1. (a) **Type of Issue:** Senior or subordinated issued as unsecured or secured.

(b) **Amount:** Up to $600,000,000 principal amount.

(c) **Rate:** Fixed or variable rate not to exceed 9 percent on (i) fixed rate debt securities or (ii) the initial rate on any variable or remarketed debt securities.

(d) **Other Provisions:** The debt securities will have maturities of one year to 40 years and will be issued by the Applicant in multiple offerings of differing amounts with different interest rates (including variable interest rates) and other negotiated terms and conditions. The debt securities may take the form of "fall-away" mortgage debt in which it is initially secured debt but converts to unsecured debt based on certain conditions.

The debt securities may include subordinated debt securities to be sold to a special purpose financing entity that, in turn, would issue preferred securities. Applicant currently has ** ** of such securities outstanding under the acronym "TOPrS" (Trust Originated Preferred Securities); the structure is generically referred to as a "Trust Preferred" but is known by a variety of other acronyms as well, depending on the underwriter. Applicant requests authority to guarantee the distributions, redemption price and liquidation payments respecting a trust preferred issuance.

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Applicant is also requesting the authority to enter into interest rate hedging instruments in conjunction with debt securities to be issued under this authorization. By having the flexibility to use hedging instruments to alter the interest rate from that on the debt securities issued to the market, Applicant will be able to optimize the cost of the debt. While Applicant has authority from the Commission provided in Case Nos. EF-2002-8 and EF-2004-1094 to enter into interest rate hedging instruments, the purpose of that authority in Case No. EF-2000-8 is to manage the portfolio of variable rate debt, particularly pollution control bonds that the Applicant currently has outstanding. The authority granted in Case No. EF-2004-1094 is limited to using interest rate hedging instruments solely in conjunction with the debt securities approved in that case. The authority requested in this application would be limited to using interest rate hedging instruments solely in conjunction with the debt securities approved herein.

2. **Proposed Date of Transaction:** During the period ending March 31, 2004.

3. (a) **Statement of Purpose of the Issue:** The application states: "Proceeds of the securities will be used by Applicant for general corporate purposes, which may include capital expenditures, acquisitions, refinancing or repurchase of outstanding long-term debt and preferred securities, purchasing currently leased assets, repayment of short-term debt and other business opportunities."

(b) **From a financial perspective, does Staff deem this purpose 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 to allow for the Fee Schedule to be applied:**

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), but only for refinancing of existing securities.

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

___ Formal hearing required (see Comments).

___ Recommend dismissal (see Comments).

COMMENTS:

Kansas City Power & Light Company (KCPL or Company) provides energy and related products and services for homes and businesses in the Kansas City metropolitan area and nationwide. KCPL generates and distributes electricity to over 467,000 retail customers, cities and electric utilities in Missouri and Kansas. Because of recent restructuring, KCPL is now a wholly owned subsidiary of Great Plains Energy. The major portion of KCPL's revenues is derived from operations in the City of Kansas City, Missouri, and certain adjacent areas.

On December 19, 2003, KCPL filed an Application with the Missouri Public Service Commission (Commission) requesting approval for authority to issue debt securities in an amount up to $600 million. In its Application the Company stated that on August 29, 2003, it had filed a registration agreement with the Securities and Exchange Commission for up to ** ** of debt and trust preferred securities. After issuance of such registered securities, the Company will file another registration statement for the remainder of the $600 million in requested authority. Applicant's registration statement will permit the Applicant to issue debt up to the authorized amount through one or a number of offerings. By providing flexibility and ability to take advantage of rapidly changing market conditions, such an approach allows the Applicant to obtain the most advantageous terms and conditions at the time of issuance, thereby enabling the Applicant to maintain its low cost debt structure.

The Applicant also stated in its Application that "the proceeds of the securities will be used by Applicant for general corporate purposes, which may include capital expenditures, acquisitions, refinancing or repurchase of outstanding long-term debt and preferred securities, purchasing currently leased assets, repayment of short-term debt, and other business opportunities." Specifically, the Company intends to use ** ** of the $600 million authorization to refinance existing securities.

If the Company were to use the funds for purposes other than refinancing, then this would render the pro forma financial statements submitted with the Application inaccurate. The recommendation for approval of this Application is based upon the use of the funds as stated. If the Company uses the funds for purposes other than as stated, it may place the Company in violation of Condition 6.d. in Case No. EM-2001-464. This condition states the following:

> GPE agrees to maintain consolidated common equity of no less than ** ** of total consolidated capitalization. GPE and KCPL agree to maintain KCPL's common equity at no less than ** **. Total capitalization is defined as common equity, preferred stock, long-term debt and short-term debt in excess of CWIP. Common equity is defined as par value of common stock, plus additional paid-in capital, plus retained earnings, minus treasury stock.

Therefore, the recommendation for approval of this Application is based on the use of the funds as stated, with at least ** ** used to refinance existing securities. If the Company wishes to use any amount of the funds for any other purpose than as stated, then it should be required to submit an Application for approval of this different use.

The Applicant is also requesting the authority to enter into interest rate hedging instruments in conjunction with the debt securities that the Company requests to be issued under this authorization.

The Commission has authorized the use of interest rate hedging instruments in Case Nos. EF-2002-8 and EF-2004-1094. By having the flexibility to use hedging instruments to alter the interest rate from that on the debt securities issued to the market, KCPL will be able to optimize the cost of the debt. KCPL notes that the authority requested in this application will be "limited to using interest rate hedging instruments solely in conjunction with the debt securities approved herein."

The Company did not file its proforma financial statements for review by the Staff until January 20, 2004. The Staff noted a number of discrepancies during its review of the Company's complete Application:

1. The Application indicated that as of September 30, 2003, the Company had ** ** long-term debt. The Company also provided a breakdown of debt components, that when totaled, equaled ** ** long-term debt for the same period. In the Company's proforma financial statements, the Company's long-term debt, there was a third figure, either ** ** without current maturities, or ** ** with current maturities for the same time period. With so many different figures for the Company's long-term debt, the Staff could not determine the appropriate figure to use in its analysis.

2. In the Application, the Company requested authority to issue the new securities at an interest rate not to exceed 10 percent. However, in its proforma financial statements the Company only reflected the financial impact of issuing the new securities at an interest rate of ** **. Therefore, the accuracy of the Company's proforma financial statements and the financial impact on the Company, along with the Staff's assessment of that impact, would not be accurate using the interest rate filed in the Company's proforma financial statements. Furthermore, 10 percent is not an appropriate interest rate given that interest rates have declined and recent filings with this Commission by other companies has been capped at 9 percent.

3. In the Application, the Company requested authority to use interest rate hedging instruments for the debt securities issued in this authorization. However, the Company did not include in its proforma financial statements the costs, and therefore, did not reflect the financial impact of these hedging instruments.

The Staff contacted the Company and explained the above discrepancies in its Application. The Staff also met with the Company, at its request, on March 19, 2004. During that meeting, in addition to discussing the Company's financing needs, the Staff reiterated the above discrepancies in the Company's Application and the need to correct by amendment.

On March 23, 2004, the Company filed an amendment to its Application addressing the Staff's concerns stated above. Specifically the Company corrected its Application. However, the amended

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Application still shows a total debt figure that is different than the figure the company included with its amended balance sheet. The Company also corrected its proforma financial statements to reflect the correct debt figures and a maximum 9 percent interest on newly issued securities. Also, the Company stated that it will experience no out of pocket expenses for the requested interest hedging instruments. The Staff's analysis is based upon what it believes to be is the correct proforma financial statements, in spite of the Application contradicting it.

The Company's Total Debt to Total Capital Ratio ** ** (see Attachment A). The Common Equity Ratio ** **. The Pre-Tax Interest Coverage and Funds Flow Interest Coverage Ratios are ** **, respectively as of September 30, 2003, and on a pro forma basis would be ** **, respectively (see Attachment B). The ratios calculated for the period ending September 30, 2003, and on a proforma basis are consistent with the ranges set by the industry average and defined by Standard & Poor's Corporation for an investment grade (BBB or better) rated electric utility company.

KCPL's current credit rating should not be affected by this transaction assuming the use of the funds is only as stated in its Application. However, in order to provide some background on KCPL's current financial condition as viewed by Standard & Poor's in its Industry Report Card: U. S. Electric/Water/Gas, December 24, 2003, Standard & Poor's Rationale concerning KCPL's and its parent Great Plains Energy's credit rating follows:

> Great Plains Energy Inc. BBB/Stable/--
>
> Great Plains Energy remains highly leveraged, but cash flow and earnings have improved. Strategic Energy, the company's retail energy marketing and supply management subsidiary, continues to expand and deliver strong earnings growth, increasing the importance to Great Plains creditworthiness of the subsidiary's fundamentally riskier business profile. Ratings stability depends on continued improvement of currently weak financial parameters; and tight controls on costs, capital requirements, and counterparty and commodity risk exposure.

Standard & Poor's went on to provide the following review for KCPL:

> Kansas City Power & Light Co. BBB/Stable/A-2
>
> The stable outlook for Kansas City Power & Light mirrors that of parent Great Plains Energy.

Although Standard & Poor's has concerns about KCPL's financial profile, the proposed transaction, assuming the funds are used only as stated in its Application, should not have an impact on the credit ratings of KCPL, and therefore, its ability to attract capital. However, it is important to note that Standard & Poor's is concerned about KCPL's current amount of debt leverage. If this application were approved without conditioning that the debt be used for refinancing, then it is possible that KCPL could increase its debt leverage, causing additional credit rating agencies' concerns.

KCPL has historically displayed a strong commitment to managing its portfolio of variable rate debt as well as maintaining its low cost of debt. Therefore, Staff believes this financing would not be detrimental as long as KCPL uses the proposed funds only as stated in its Application. Staff believes certain conditions should be placed on KCPL to ensure the funds are used in a manner that does not sacrifice its financial integrity and protect the ratepayers of Missouri from any adverse impact of its proposal.

The Staff has verified that the Company has filed its annual report and is not delinquent on any assessment. The Commission's Energy Department Staff has reviewed this filing and is unaware of any issue currently pending before the Commission that affects or is affected by this filing. The following open cases involving this Company before the Commission at this time are: Case Nos. EF-93-352, EC-99-553, EO-2001-210 and EM-2001-464.

RECOMMENDATIONS

Staff recommends that the Commission approve the Application submitted by Kansas City Power & Light Company in this case subject to the following conditions:

1. That the Company shall be required to file with the Commission all final terms and conditions on this financing including, but not limited to, the aggregate principal amount to be sold or borrowed, price information, estimated expenses, portion subject to the fee schedule and loan or indenture agreement concerning each issuance.

2. That the Company shall not be authorized to use any portion of the $600 million amount in debt securities for any purpose other than as stated in its Application. If the Company wishes to use any portion of this financing for any purpose other than as stated in its Application, then it must file a separate application with the Commission for approval to do so.

3. That the interest rate for this debt issuance is not to exceed 9 percent.

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

5. At no time will the Company's total borrowings, including all instruments, exceed its regulated rate base.

6. That the Company shall be required to submit to the Financial Analysis Department of the Commission key financial ratios for Total Company on a quarterly basis as calculated and defined by Standard & Poor's Credit Rating Service:

   a. Pre-tax Interest Coverage;
   b. After-tax Coverage of Interest and Preferred Dividends;
   c. Funds Flow Interest Coverage;
   d. Funds from Operations to Total Debt; and
   e. Total Debt to Total Capital (including Preferred).

7. 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 these financing transactions and their results in cost of capital, in any later proceeding.

8. That the Company shall file with the Commission any information concerning use of the funds from the issuance(s) with regard to redemption of any outstanding long-term debt, including Net Present Value calculations indicating the amount of interest cost savings.

9. The Company shall submit a written description of its interest rate management plan to the Commission's Financial Analysis Department, notify the Financial Analysis Department in writing of terms and conditions of interest rate management products entered into and submit quarterly reports regarding the performance of the interest rate management program and of the interest rate management products when such products are utilized. The quarterly reports shall indicate the nature of any activity or inactivity for that quarter.

10. That nothing in the Commission's order authorizing these financing transactions shall be deemed to supersede or limit the conditions agreed to by KCPL in any prior KCPL case, such as Case No. EM-2001-464.

11. That the Company file with the Commission any information concerning deviations from their stated use of the funds from the Bond issuances that would materially change the pro forma capitalization and financial ratios; and

12. That all future funds acquired through issuance of securities under this application shall be used exclusively for the benefit of KCPL's regulated operations, and not for the other operations of KCPL or any of its affiliates or non-regulated activities.

13. That the amount of any and all other benefits that accrue to the funds acquired through issuance of securities under this application shall be used exclusively for the benefit of KCPL's regulated operations, and not for the other operations of KCPL or any of its affiliates or non-regulated activities.

14. That KCPL shall make available to the Staff sufficient documentation to ensure that the funds, and the amount of any and all other benefits that accrue to the funds, acquired through issuance of securities under this application shall be used exclusively for the benefit of KCPL's regulated operations, and not for the other operations of KCPL or any of its affiliates or non-regulated activities.

15. That KCPL will engage in dialogue with the Staff to develop a procedure to facilitate the processing of future financing requests. The objective of the new procedure is to provide the Staff adequate time to acquire needed information and make a recommendation to the Commission, while satisfying the Company's needs. A joint report will be filed with the Commission no later than 120 days after the effective date of the Commission's order in this case describing the progress that has been made towards this objective.

Attachments: A Pro Forma Capitalization
B Pro Forma Financial Ratios

Pro Forma Capitalization as of September 30, 2003
for Kansas City Power & Light
(thousands of dollars)

Capital Component		Percentage of Capital	Capital Dollars as of 9/30/03	Pro Forma Adjustments	Pro Forma Capital Dollars	Pro Forma Percentage of Capital	
Common Equity	**						**
Preferred Stock	**						**
Long-Term Debt	**						**
Short-Term Debt	**						**
Total	**						**

Financial Ratio Benchmarks
Total Debt / Total Capital

		AA	A	BBB
Standard & Poor's Corporation's				
Utilities Rating Service				
Financial Statistics	Range(%)	45-51%	48-58%	54-64%
Electric Companies	Median(%)			
July 7, 2000				

Attachment: A **NP**

Selected Pro Forma Financial Ratios
for Kansas City Power & Light Company

RATIO ANALYSIS		Ratios as of 9-30-03	Pro-Forma Ratios		S&P Guidelines "AA" Rating (1)	S&P Guidelines "A" Rating (1)	S&P Guidelines "BBB" Rating (1)
Pre-Tax Interest Coverage:	**			**	3.55-4.62 x	2.95-4.13 x	1.97-3.15 x
Funds From Operations Interest Coverage:	**			**	4.14-5.58 x	3.18-4.94 x	2.62-3.76 x
Funds from Operations to Total Debt:	**			**	22-34 %	17-28 %	12-19 %
Total Debt to Total Capital:	**			**	46-51 %	48-58 %	54-64 %

Notes:

(1) Standard & Poor's Utilities Rating Service, Financial Statistics, July 7, 2000

Attachment: B NP