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RESEARCH

Great Plains Energy Inc.

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Corporate Credit Rating

BBB/Stable/--

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Missouri Public Service Commission

Business risk profile

1 2 3 4 5 6 $\boxed{7}$ 8 9 10

Debt maturities:
As of Dec. 31, 2005 ($ mil.)
Year Amount Due
2006 1.7
2007 226.0
2008 0.3
2009 163.6
2010 --

Collateralization:
As of Dec. 31, 2005, regulated subsidiary Kansas City Power & Light (KCPL) had $159.3 million in first mortgage bonds outstanding, versus $1.0 billion in total debt at KCPL and $1.2 billion in consolidated debt at Great Plains Energy Inc. Substantially all of KCPL's $2.8 billion in net utility plant is subject to the lien established by its general mortgage bond indenture.

Total rated debt:
As of Dec. 31, 2005, Great Plains Energy had $1.2 billion in outstanding debt.

Outstanding Rating(s)	
Great Plains Energy Inc.	
Sr unsecd debt	
Local currency	BBB-
Pfd stk	
Local currency	BB+
Kansas City Power & Light Co.	
Corporate Credit Rating	BBB/Stable/A-2
Sr unsecd debt	
Local currency	BBB
Sr secd debt	
Local currency	BBB
CP	
Local currency	A-2
Pfd stk	
Local currency	BB+
KCPL Financing II	
KCPL Financing III	

STAFF Exhibit No. 147
Case No(s). ER-2006-0314
Date 10/23/06 Rptr PF

Corporate Credit Rating History	
Mar. 1, 2002	BBB

Major Rating Factors

Strengths:

- The satisfactory business risk profile of main subsidiary KCPL, which benefits from competitive production costs and solid operating performance, offset by heavy capital requirements and

moderate nuclear asset concentration
- Strong cash flow coverage, with funds from operations (FFO) to interest coverage at 4.5x and FFO equal to 24% of debt for the 12-month period ending March 31, 2006; and
- Significant reductions in debt leverage from 58% in 2004 to a more moderate level of 52%, following the issuance of approximately $121 million in common stock in May 2006.

Weaknesses:
- High capital requirements related to the $1.3 billion capital investment initiative at KCPL that includes the construction of a 850 MW coal plant (of which KCPL's share will be 465 MW) and 100.5 MW of wind generation as well as the installation of emission control equipment at two existing plants; and
- The relatively much weaker business risk profile of Strategic Energy, Great Plains Energy's largest unregulated subsidiary, relative to KCPL.

Rationale

The ratings on diversified energy company Great Plains Energy Inc. reflect a consolidated business risk profile of '7' (based on Standard & Poor's Ratings Services' 10-point scale, where '1' is excellent and '10' is vulnerable) and a financial risk profile that is characterized by strong cash flow metrics and moderate debt leverage.

As of March 31, 2006, Kansas City, Mo.-based Great Plains Energy had approximately $1.2 billion in total debt, including $164 million in mandatory convertible securities outstanding.

Great Plains Energy is involved in vertically integrated electric operations through its regulated subsidiary, Kansas City Power & Light (KCPL), and in competitive power supply marketing and coordination through its unregulated subsidiary, Strategic Energy. Although both subsidiaries are considered to be core businesses, KCPL remains the primary business line from an earnings and cash flow perspective, representing more than 80% of Great Plains Energy's consolidated cash flow in 2005. KCPL serves about 500,000 retail customers, primarily in the greater Kansas City metropolitan area, while Strategic Energy serves about 8,900 commercial and industrial customers in nine states.

KCPL's satisfactory business profile ('6') is supported by an economically healthy service territory centered on a single metropolitan area with little industrial concentration, solid nuclear operations, very low fuel costs, and competitive electric rates. These attributes are partially offset by nuclear risks associated with the 47%-owned Wolf Creek station; a somewhat challenging, albeit improving, regulatory environment; and high capital requirements associated with the construction of the 850-MW Iatan 2 coal plant (of which KCPL's share will be 465 MW), a 100.5-MW wind project; and installation of plant equipment to comply with increasingly stringent emissions standards.

The company has entered into stipulated agreements with both the Missouri Public Service Commission (MPSC) and the Kansas Corporation Commission (KCC) that provide a framework for rate relief during the construction period, including the ability to file annual rate cases beginning in 2006 and the implementation of interim energy charges for the recovery of increasing power supply costs. Under the agreements, KCPL is subject to a rate freeze until Jan. 1, 2007. On Feb. 1, 2006, KCPL filed its first retail rate increase requests in 20 years: a $55.8 million, or 11.5% increase, in electric revenues in its Missouri service territory; and $42.3 million, or 10.5%, in its Kansas service territory. KCPL's rate relief requirement is driven by several factors, primarily increased operating costs, including higher pension, fuel, and fuel transportation expenses. The remainder is driven by capital cost recovery for the initial phase of the company's large $1.3 billion capital program.

The company's seasonal surplus capacity and relatively low production costs have enabled it to achieve strong levels of offsystem sales over the past several years, although surplus sales volumes are expected to decline as the company's load requirements grow. KCPL has hedged most of its coal price exposure for 2006 and 2007, but coal inventories are expected to remain below the company's targeted levels into 2007, although stockpiles have been sufficiently replenished to enable KCPL to discontinue in June 2006 the coal conservation measures put in place following disruptions of Powder River Basin (PRB) coal deliveries in 2005.

Strategic Energy's business position, which is significantly weaker compared to KCPL, is characterized by the high degree of competition in the competitive supply industry, high supplier concentration, and moderate exposure to speculative-grade counterparties, although positions with these companies are adequately collateralized overall. Strategic Energy's cash flow and earnings declined in 2005 due to difficult market price conditions and heavy competition, but the retail marketer has adhered to conservative operating and risk management practices, including the innovative use of receivable lock boxes to reduce supplier collateral requirements.

Adjusted funds from operations (FFO) to interest coverage at Great Plains Energy was strong at 4.5x for the 12-month period ended March 31, 2006. Adjusted FFO as a percentage of debt was adequate at 24% for the same period. Financial flexibility is adequate, with a market-to-book ratio of about 1.75x as of March 31, 2006.

Debt leverage remained elevated at 55% as of March 31, 2006, but decreased to about 52% following the issuance of approximately $121 million in common stock in May 2006. The company may also generate up to $47 million in proceeds under a forward equity sale agreement with Merrill Lynch Financial Markets Inc. that expires in May 2007. The stock offering and forward equity sale followed the company's filing on May 8, 2006, of a mixed shelf registration for an undisclosed amount under the SEC's "Well-Known Seasoned Issuers."

Financing requirements are high, driven almost entirely by financing needs at KCPL. The company expects to finance a portion of its $1.3 billion, five-year capital program with debt, although the company expects to fund a larger share through common stock offerings by the parent and free operating cash flows. In November 2005, KCPL received authorization from the MPSC to issue up to $635.0 million of long-term debt and to enter into interest rate hedging instruments in connection with such debt through Dec. 31, 2009. Following KCPL's $250 million senior note issue in November 2005, the amount remaining under this authorization is $385 million.

Liquidity

As of March 31, 2006, Great Plains Energy had about $503 million in unused capacity on its $550 million committed revolving credit facility at the parent level. In addition, the company had $69.2 million in cash and cash equivalents at the consolidated entity level, net of cash held in trust at Strategic Energy. Great Plains Energy's liquidity is sufficient to support the company's requirements, including those of Strategic Energy, whose liquidity requirements are partially mitigated by its utilization of a lock-box arrangement for a number of its long-term purchases from wholesale suppliers. As of March 31, 2006, Strategic Energy had $72.9 million in unused bank line capacity under a $135 million revolving credit facility, which expires in 2009 and of which Great Plains Energy has guaranteed $25 million.

KCPL manages its own liquidity resources, which, as of March 31, 2006, included about $176.2 million in undrawn capacity on a $250 million revolving credit facility that expires in 2009. KCPL uses its credit facility primarily to support its CP program, which had $73.8 million outstanding as of March 31, 2006.

In May 2006, Great Plains increased its revolving credit facility capacity to $600 million and extended the maturity to May 2011. Simultaneously, KCPL increased its revolving credit facility capacity to $400 million also expiring in May 2011. Up to $200 million of the Great Plains facility is able to be allocated to KCPL at the company's discretion. Neither facility contains a material adverse change (MAC) clause.

Outlook

The stable outlook reflects Standard & Poor's expectation of strong cash flow coverage, near-term reduction in debt leverage, a healthy Kansas City economy, and prudent measures by KCPL to limit execution risks in implementing its $1.3 billion capital program. The outlook also reflects the expectation that both the MPSC and the KCC will grant adequate rate relief with respect to both pending and future rate case filings by KCPL.

Exceptionally strong regulatory support, project execution, and debt reduction could lead to an improved outlook. In contrast, failure to obtain adequate rate relief or a fuel cost recovery mechanism by 2007 or rapid growth or poor risk management at Strategic Energy could have negative credit implications.

Accounting

Great Plains Energy reports its financial statements in accordance with U.S. GAAP. These statements received an unqualified opinion by its independent auditor, Deloitte & Touche LLP, in 2005, the most recent annual audited period. Importantly, there was no material weakness identified by management in its internal control over financial reporting as of Dec. 31, 2005, in accordance with Section 404 of the Sarbanes-Oxley Act.

Great Plains Energy, through its subsidiaries, enters into derivative contracts to manage its exposure to commodity price fluctuations and interest rate risk and records those transactions according to SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities." KCPL has entered into fair value (an interest rate swap in 2002) and cash flow hedges (two treasury locks in 2005) with respect to either outstanding or anticipated debt issues, but none of its interest rate hedges were ineffective as of Dec. 31, 2005. Strategic Energy enters into both cash flow and economic hedges to manage its commodity price risk. With respect to commodity price hedges, ineffectiveness of cash flow hedges or changes in fair value of economic hedges are recognized as a component of purchased power expense. As of Dec. 31, 2005, Strategic Energy's purchased power expense included gains of $3.3 million due to the ineffectiveness of cash flow hedges and a $0.8 million loss due to changes in fair value of economic hedges.

In compliance with FASB Interpretation (FIN) No. 46 "Consolidation of Variable Interest Entities," KCPL in 2003 consolidated a lease trust and deconsolidated KCPL Financing I, resulting in a $143.8 million increase to long-term debt but no effect on 2003 cash flows. Great Plains Energy's and consolidated KCPL's depreciation expense increased by $5 million or less for each year from 2003 to 2005, with an identical offsetting recognition of minority interest in each year. The lease trust was established to finance through a synthetic lease arrangement the acquisition of five combustion turbines for a total of 385 MW of peaking capacity. In 2005, KCPL exercised its option to terminate the lease, purchasing the leased property for $154 million.

KCPL prepares its financial statements according to SFAS No. 71 "Accounting for Effects of Certain Types of Regulation." Subject to SFAS No. 71, KCPL had recorded certain regulatory assets and liabilities at Dec. 31, 2005, in the amount of $179.9 million and $69.6 million, respectively.

Financial Ratio Adjustments

Standard & Poor's has made certain analytical adjustments to Great Plains Energy's reported financial information to reflect off-balance-sheet obligations (OBS) when calculating its adjusted financial ratios.

The adjustment to KCPL includes purchased power commitments and operating leases. With respect to operating leases, Standard & Poor's calculates an OBS amount for debt, interest expense, and depreciation and includes these amounts when calculating its adjusted ratios. The present value of the company's operating leases is treated as a debt equivalent and determined using a 6.1% discount rate, which is Standard & Poor's estimate of the company's average cost of debt in 2005. Operating lease interest expense and depreciation expense are also computed. The amounts relating to operating leases that were included in KCPL's adjusted ratios as of Dec. 31, 2005, were $101.0 million for OBS debt, $6.4 million for imputed interest, and $12.7 million for depreciation.

Standard & Poor's also calculates a purchased power debt equivalent by taking the net present value of future annual capacity payments (discounted at the companies' average cost of debt). Standard & Poor's will add to the balance sheet only a portion of this amount, recognizing that such contractual arrangements are not entirely the equivalent of debt. The percentage that is added is a function of Standard & Poor's qualitative analysis of the specific contracts and the extent to which market, operating, and regulatory risks are borne by the utility. As of Jan. 1, 2006, Standard & Poor's had assigned a risk factor of 50% to KCPL's take-and-pay contracts, which translates into a debt equivalent of $24.7 million. Risk factors are subject to change, which could affect the level of debt imputation ascribed to purchased power obligations.

Accounts receivable sold are treated as an OBS, secured debt obligation. At Dec. 31, 2005, KCPL had sold $70 million in accounts receivable through its wholly owned subsidiary, Kansas City Power & Light Receivables Co., to an independent outside investor. In 2005, the company and the outside investor entered into a three-year revolving agreement to sell up to $100 million in accounts receivable for each contract year.

Standard & Poor's also makes an analytical adjustment for the allowance for funds used during construction (AFUDC) charges capitalized by the company and treats the charges as a part of operating expenses. The AFUDC charge is backed out to arrive at cash flows from operations. Adjustments for AFUDC debt and equity in 2005 were nominal at about $1.6 million and $1.8 million, respectively.

With respect to Strategic Energy, Standard & Poor's makes an analytical adjustment to the retail marketing subsidiary's balance sheet in the form of a $45 million capital adequacy requirement, calculated as the sum of its credit risk, market risk, and operating risk components. In addition, in analyzing this business, Standard & Poor's assumes a conservative estimate of projected cash flows and net income.

Table 1

Great Plains Energy Inc. Peer Comparison*

	Average of past three fiscal years			
($ in millions)	Great Plains Energy	Northeast	Sempra	Constellation Energy

	Inc.	Utilities	Energy	Group Inc.
Rating as of April 27, 2006	BBB/Stable/--	BBB/Stable/NR	BBB+/Stable/A-2	BBB+/Watch Dev/A-2
Business Risk Profile	7	5	7	7
Total revenues	2,406.1	6,454.7	9,667.4	13,128.2
Net income from continuing operations	163.1	2.8	830.9	557.1
Funds from operations (FFO)	399.6	585.1	1,484.0	1,381.3
Capital expenditures	225.0	705.7	1,245.4	914.4
Cash and investments	114.9	45.4	550.0	746.9
Total debt	1,647.3	3,273.3	5,571.8	6,098.2
Preferred stock	39.0	116.2	179.0	190.0
Common equity	990.0	2,306.1	5,593.1	4,297.1
Total capital	2,676.4	5,695.6	11,343.9	10,660.8
Adjusted ratios				
EBIT interest coverage (x)	3.4	2.3	3.7	3.2
FFO interest coverage (X)	4.9	4.2	4.5	4.6
FFO/total debt (%)	24.3	17.9	26.6	22.7
Discretionary cash flow/total debt (%)	4.9	(7.21)	(10.34)	(1.86)
Net Cash Flow/Capex (%)	123.8	71.0	101.2	129.6
Total debt/total capital (%)	61.6	57.5	49.1	57.2
Return on common equity (%)	16.1	4.8	17.1	12.3
Common dividend payout ratio (unadjusted) (%)	73.1	(148.95)	25.5	35.0

Table 2

Great Plains Energy Inc. Financial Summary*

Industry Sector: INTEGRATED

	Fiscal year ended Dec. 31				
($ in millions)	**2005**	**2004**	**2003**	**2002**	**2001**
Rating history	BBB/Stable/--	BBB/Stable/--	BBB/Stable/--	BBB/Stable/--	(A-)/(Negative)/--
Total revenues	2,604.9	2,464.0	2,149.5	1,861.9	1,461.9
Net income continuing	162.3	173.5	153.6	129.2	(40.04)
Funds from operations (FFO)	358.5	420.6	419.5	365.8	325.1
Capital expenditures	332.0	194.3	148.7	168.1	276.2
Cash and investments	103.1	127.1	114.4	65.3	29.0
Total debt	1,492.7	1,660.2	1,789.1	1,789.8	1,865.6
Preferred stock	39.0	39.0	39.0	39.0	39.0
Common equity	1,092.2	1,019.5	858.4	864.3	768.9
Total capital	2,623.9	2,718.7	2,686.5	2,693.2	2,673.5
Adjusted ratios					
EBIT interest coverage (x)	3.7	3.4	3.1	2.6	1.5
FFO interest coverage (x)	4.9	4.9	4.9	4.1	3.2
FFO/total debt (%)	24.0	25.3	23.4	20.4	17.4
Discretionary cash flow/total debt (%)	(1.01)	6.9	7.8	4.4	(5.13)
Net Cash Flow/Capex (%)	70.2	154.3	203.8	153.7	79.9
Total debt/total capital (%)	56.9	61.1	66.6	66.5	69.8
Return on average equity (%)	13.4	16.2	16.0	14.9	(6.21)
Common dividend payout ratio (unadjusted) (%)	N.M.	77.1	69.3	75.8	83.2

*Fully adjusted (including post-retirement obligations). N.M.--Not Meaningful.

process.

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