

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

At a Session of the Public Service
Commission held at its office
in Jefferson City on the 27th
day of October, 1981.

CASE NO. EF-82-72

In the matter of the application of Missouri Public Service Company, a Missouri corporation, for authority to finance its costs of certain pollution control facilities at the Jeffrey Energy Center located in Pottawatomie County, Kansas, through tax exempt municipal revenue bonds and to execute certain documents and instruments pertaining thereto.

O R D E R

By verified application filed with the Commission on September 22, 1981, and as amended by a "First Amended Application" filed on October 16, 1981, Missouri Public Service Company (Applicant) seeks authority from this Commission to enter into certain agreements associated with the proposed issuance of pollution control revenue bonds by the City of Wamego, Kansas, in the amount of \$7,000,000, for the purpose of financing the construction of certain pollution control facilities at Unit No. 3 of the Jeffrey Energy Center generating station.

The Commission, upon consideration of the verified application and attached exhibits, and the review made of same by the Staff of the Missouri Public Service Commission (Staff), concludes that a hearing is not necessary to resolve the issues presented, and finds as follows:

Missouri Public Service Company (Applicant) is a Missouri corporation with its principal office and place of business located at 10700 East Highway 350, Kansas City, Missouri 64138, and as relevant herein, is engaged in the business of providing electric service to certain customers located in western and north central Missouri, including a portion of Metropolitan Kansas City, Missouri. Thus, Applicant is subject to the jurisdiction of the Commission pursuant to Chapters 386 and 393, RSMo 1978.

Applicant, the Kansas Power & Light Company (KP&L), Kansas Gas and Electric Company (KG&E) and Central Telephone and Utilities Corporation (CTU) have made and are making substantial expenditures for pollution control facilities in connection with Unit No. 3 of the Jeffrey Energy Center generating station, which is owned by said utilities as tenants in common with the following percentages of ownership: KP&L - 64 percent, KG&E - 20 percent, CTU - 8 percent and Applicant - 8 percent. Through the financing proposed by the instant

application, Applicant seeks to finance approximately \$7,000,000 representing its 8 percent undivided share of the cost of such pollution control facilities.

The City of Wamego, Kansas, has committed to issue pollution control revenue bonds (bonds) in an amount up to \$200,000,000 for the pollution control facilities of all units to be located at the Jeffrey Energy Center, and is expected to pass an ordinance, or on about October 22, 1981, allowing the issuance of \$7,000,000 of bonds for the Applicant's share of Jeffrey Energy Center Unit No. 3 pollution control facilities.

The City of Wamego, Kansas, is authorized to issue the bonds by the Kansas Industrial Revenue Bond Act, Section 12-1740, et seq., of the Kansas Statutes Annotated, as amended, and the city will issue the bonds pursuant to an Indenture of Trust ("Indenture"), to be entered into between the City of Wamego and the First National Bank of Kansas City, as Trustee, ("Jeffrey Energy Center Pollution Control Bond Trustee"). Interest payable on the bonds will be exempt from federal income taxes under the provisions of Section 103 of the Internal Revenue Code of 1954, as amended, (except for interest on any bond during the period in which it is held by a person who is a substantial user of the facilities or a related person). Although the city will be the issuer of the bonds, as required for purposes of exemption of the interest on the bonds from federal income taxation, the credit of the city will not be pledged to the payment of the bonds. The bonds will be payable only from proceeds derived from the subleasing of the leased equipment (pursuant to an "equipment lease", dated November 1, 1981) to the Applicant under a sublease agreement to be dated November 1, 1981. All subrentals will be assigned by the city to and deposited directly with the Jeffrey Energy Center Pollution Control Bond Trustee. The Jeffrey Energy Center Pollution Control Bond Trustee will have as security for protection of the holders of the bonds a pledge of the subrentals to be received under the sublease agreement. The bonds will be sold to the Underwriter by the City of Wamego pursuant to a Bond Purchase Agreement, to be dated November 1, 1981, relating to the bonds, entered into by the city and the Underwriter. Neither the Applicant, KP&L, KG&E nor CTU will be a party to said agreement.

To enhance the investment quality and marketability of the bonds and thereby achieve interest cost savings to ratepayers and the company, the Applicant will enter into an agreement with the Manufacturers Hanover Trust Company to obtain a letter of credit securing the pollution control bonds to allow for a AAA rating of the bonds. The fee for such a letter of credit

is one-half of one percent based upon the aggregate amount of bonds and seven months interest on the bonds. Such letter of credit is evidenced in the form of a reimbursement agreement with the bank. Additionally, Applicant will execute an inducement letter to be delivered to the City of Wamego and to Merrill Lynch White Weld Capital Markets Group, (the "Underwriter"), to induce the city and Underwriter to enter into the Bond Purchase Agreement. The Underwriter will then publicly offer the pollution bonds.

Applicant estimates that its share of the net proceeds of the bonds will be approximately \$6,800,000, representing reimbursement for expenditures previously made by Applicant or on Applicant's behalf for the purchase, construction and equipping of its share of the leased equipment, which will be used to retire interim financing for pollution control facilities. The application as amended states that the Underwriter involved in the transaction estimates that the subject pollution control revenue bonds will be publicly sold at an annual interest rate not to exceed eleven percent.

On February 13, 1980, the Kansas State Department of Health and Environment certified that the pollution control facilities at Jeffrey Energy Center Unit No. 3 are designed and are in furtherance of the purposes of abating or controlling atmospheric pollutants or contaminants. The benefits to be derived from the issuance of the pollution control bonds involved herein will be protection of the environment in connection with the operation of additional generating capacity being constructed to meet the demand for and to improve the reliability of the provision of electric service by the Applicant.

The following documents have been attached to and made a part of the instant application, as amended, as exhibits:

- Exhibit 1 -- A copy of the City of Wamego, Kansas, city ordinance of June 18, 1974, authorizing the issuance of pollution control revenue bonds in an amount up to \$200,000,000 for the pollution control facilities of all units to be located at the Jeffrey Energy Center;
- Exhibit 2 -- Certificate issued by the Kansas State Department of Health and Environment on February 13, 1980, certifying that the pollution control facilities at Jeffrey Energy Center Unit No. 3 are designed and are in furtherance of the purposes of abating or controlling atmospheric pollutants or contaminants;
- Exhibit 3 -- Statement of the capital expenditures made by Applicant for the acquisition of property and the construction, completion, extension or improvement of its plants and systems within five years next prior to the filing of the instant application;

Exhibit 4 -- Includes the Applicant's balance sheet as of July 31, 1981, and the Applicant's statement of income for the twelve months ending July 31, 1981.

The Applicant has also submitted the following documents: A draft of the Indenture of Trust to be entered into between the City of Wamego, Kansas, and the First National Bank of Kansas City as the Jeffrey Energy Center Pollution Control Bond Trustee; the equipment lease and sublease agreements; a copy of a reimbursement agreement, constituting an agreement between the Applicant and Manufacturers Hanover Trust Company for the purpose of obtaining a letter of credit securing the pollution control revenue bonds; and a copy of an inducement letter to be executed by the Applicant and delivered to the City of Wamego and the Underwriter for the purpose of inducing the city and the Underwriter to enter into the Bond Purchase Agreement. A copy of the Bond Purchase Agreement is to be submitted as a late-filed exhibit.

Applicant proposes to enter into an equipment lease and sublease substantially in the form as furnished to the Commission. The equipment lease provides for the leasing of the Applicant's interest in the pollution control facilities for the Jeffrey Energy Center Unit No. 3 as leased equipment to the City of Wamego. In turn, Applicant will sublease the leased equipment and the city's easement rights from the city pursuant to the sublease agreement. The equipment lease and sublease will be for a term commencing with the date of issuance of the Jeffrey Energy Center Pollution Control Bonds and terminating one day following the date of final payment of the Jeffrey Energy Center Pollution Control Bonds, at a rental equal to the lesser of (a) the net proceeds from the sale of the Jeffrey Center Bonds, or (b) the cost of construction of the leased equipment, which rental and subrental is to be paid upon certification of the cost of construction of the leased equipment. The subrentals payable pursuant to the sublease agreement to be paid by Applicant will be paid directly to the Trustee for the city in amounts sufficient to pay the principal, premium, if any, and interest on the City of Wamego, Kansas, Pollution Control Revenue Bonds as and when due.

The equipment lease provides that the net proceeds from the sale of the bonds (exclusive of a sum equal to the accrued interest, if any), will be deposited by the Trustee in a construction fund from which the Trustee will make disbursements to pay the cost of construction of the leased equipment, including reimbursement of Applicant for any payments advanced by it. In

consideration thereof, Applicant proposes to execute the equipment lease transferring to the city a leasehold of its eight percent undivided interest in the leased equipment. Under the sublease, Applicant will be obligated to pay the subrental payments due the city for Applicant's eight percent subleasehold interest received from the city. If the net proceeds from the sale of the bonds exceed the cost of construction of leased equipment and related expenses, the rental under the equipment lease will be reduced and the excess of the proceeds will be used to repurchase bonds in the open market or to pay principal and interest on the bonds.

The Staff has reviewed the instant application, as amended, and recommends that the authority sought be granted. The Staff also recommends that the Applicant be required to immediately inform the Commission of the interest rate associated with the issuance of the pollution control revenue bonds when such rate has been confirmed, and that within 60 days of the sale of the bonds, the Company provide: The selling price of the securities; the net proceeds from the sale of the bonds; the expenses associated with the sale; and a statement as to the disposition of the funds received.

The instant application is within the jurisdiction of this Commission pursuant to Section 393.190, RSMo 1978. Said section provides that prior to the sale, assignment, lease, transfer, mortgage or other disposal of or encumbrance of the whole or any part of its franchise, works or system, necessary or useful in the performance of its duties to the public, all electrical corporations must secure from the Commission an order authorizing such action.

The Commission concludes that the authority sought by the Applicant to enter into the various agreements as described herein for the purpose of facilitating the issuance of pollution control revenue bonds by the City of Wamego, Kansas, and, thus, providing financing for the construction of pollution control facilities at Unit No. 3 of the Jeffrey Energy Center, appears reasonably necessary for such purposes, and the Commission further concludes that such authority should be granted, subject to the provisions set forth below.

By subsequent order, the Commission will make a determination as to the applicability of the statutory fee schedule provided for in Section 386.300.1(5), RSMo 1978.

It is, therefore,

Exhibit 4 -- Includes the Applicant's balance sheet as of July 31, 1981, and the Applicant's statement of income for the twelve months ending July 31, 1981.

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