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**STATE OF MISSOURI
PUBLIC SERVICE COMMISSION**

At a Session of the Public Service
Commission held at its office
in Jefferson City on the 5th
day of August, 1998.

In the Matter of the Application of)
Kansas City Power & Light Company, a)
Missouri Corporation, for Authority)
to Issue Environmental Improvement)
Revenue Refunding Bonds.)

Case No. EF-98-578

ORDER APPROVING FINANCING

On July 7, 1998, Kansas City Power & Light Company (KCPL) filed an application with the Commission requesting authority to enter into a Purchase Agreement, Equipment Lease Agreement, Equipment Sublease Agreement and other documents, in connection with the issuance of up to \$196,500,000 Environmental Improvement Revenue Refunding Bonds (Kansas City Power & Light Company Project) Series 1998A, B, C and D (collectively the Refinancing Bonds) by the City of Burlington, Kansas.

In its application, KCPL states that the funds acquired from the proposed issuance will be used to refinance the \$106,500,000 of Customized Purchase Pollution Control Refunding and Improvement Revenue Bonds, Series 1985A and 1985B, and \$90,000,000 of Customized Purchase Pollution Control Revenue Refunding Bonds, Series 1987A and Series 1987B, which were issued by the City of Burlington, Kansas, to refinance certain of the Company's pollution control facilities at its Wolf Creek Generating Station (the CP Bonds).

The Refinancing Bonds will be structured, marketed and sold as multi-mode bonds with the interest rate set either at (i) a Dutch Auction

Rate, (ii) a weekly rate, or (iii) a fixed rate. Depending on market conditions at the time of issuance, the Refinancing Bonds will be initially issued in one or more of the interest rate modes indicated above. The Refinancing Bonds will not require a letter of credit, but will allow for the addition of lines of credit to provide liquidity or support facility to provide security.

Refinancing the CP Bonds to remove the letter of credit requirement will save at least .25 to .30 percent annually (around \$500,000). These savings do not include lower trustee fees and reduced administrative expenses that will also result from the refinancing.

The Refinancing Bonds will be offered to the public through Lehman Brothers and Smith Barney (Underwriters). KCPL, the City of Burlington, and the Underwriters will enter into a Purchase Agreement pursuant to which the Underwriters will purchase the Refinancing Bonds and sell them to the public. The Wolf Creek facilities will be leased by the City and subleased by KCPL pursuant to the Equipment Lease and Equipment Sublease Agreements.

On July 28, KCPL filed its Motion for Expedited Consideration, which states that the letters of credit supporting the CP Bonds being refinanced expire on August 13, 1998. KCPL has been notified by the Letter of Credit banks that the letters of credit will not be extended triggering the redemption of the CP Bonds under the provisions of the Indenture. In order to preserve the tax exempt status and lower interest rates of the \$196,500,000 CP Bonds, KCPL seeks to refund these Bonds with the proceeds from the new bonds. KCPL states that it is necessary that the new bonds be priced on August 6, 1998, in order to be sold and issued before the redemption of the CP Bonds. Finally, KCPL requests that the

order become effective on the date the Commission enters its approval.

The Staff of the Missouri Public Service Commission (Staff) filed its recommendation on July 29. Staff states there will not be any change in the capital structure of KCPL because this refinancing since the transaction is purely a refinance situation. Staff notes that KCPL states in its application that because the financial condition of the company has improved since the initial bonds were sold, KCPL should save approximately \$500,000 annually in interest costs. This savings will improve the interest coverage ratios of KCPL. Although KCPL had not yet provided to Staff pro forma financial statements or a capital expenditure schedule with its application, the pro forma financial statements were filed July 30 after the Staff filed its memoranda. Staff was able to review the application without those documents.

Staff reports that, based upon the current market conditions, KCPL is planning to issue Series 1998A and B at a rate that is set at the tax exempt commercial paper rate, which as of July 16 was 3.65 percent. Additionally, KCPL is planning to set Series 1998C and D at a three to five year tax exempt fixed rate, which as of July 16 was between 4.30 and 4.45 percent. Staff noted that the current fixed rate on tax exempt bonds with 15 year maturities is approximately 5.50 percent.

Staff has a concern that this transaction is possibly detrimental to the public interest if interest rates would rise over the life of this issue and in a rate proceeding an interest rate above the current-long term rate would be assigned to these issues. After meeting with KCPL, Staff states that it has a "level of comfort" with KCPL that this potential detriment is minimal, partially due to KCPL's past success with managing interest rate risk. Staff and KCPL agree that all rate making

treatment to be given these transactions will be deferred until a rate proceeding.

Staff has reviewed KCPL's application and recommends that the Commission approve the Company's Application with the following conditions:

1. That KCPL file a pro forma income statement and balance sheet showing the effect of these transactions as well as a capital expenditure schedule; and
2. The Commission reserves the right to consider the rate making treatment to be afforded these transactions and the resulting cost of capital in a later rate proceeding.

On July 30, 1998, KCPL filed its Pro forma Financial Statements, including its Income Statement, Balance Sheets, and Statements of Cumulative Preferred Stock and Long Term debt as requested during its meeting with Staff on July 28. KCPL filed its Motion waiving its right to rehearing. Further, KCPL states that it has communicated with the Office of the Public Counsel and OPC is not opposed to KCPL's Application or Motion for Expedited Consideration. On August 3 OPC and Staff filed its joint waiver of its right to respond to KCPL's pending motions.

The Commission has reviewed the application of KCPL, the attached documents, and the information and recommendation of the Staff. The Commission finds the proposed transaction to be reasonable and not detrimental to the public interest. The Commission will, therefore, approve the requested financing.

IT IS THEREFORE ORDERED:

1. That Kansas City Power & Light Company is hereby authorized to execute and enter into a Purchase Agreement, Equipment Lease, Equipment

Sublease, and all documents necessary to facilitate the issuance of the Refinancing Bonds by the City of Burlington, Kansas.

2. That nothing in the Commission's order shall be considered a finding by the Commission of the value of this transaction 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 Kansas City Power & Light Company shall file with the Commission a copy of a transaction documents within ten days of successful completion of the documents and advise the Commission upon the completion of the transaction within ten days of successful completion of the transaction.

4. That this order shall become effective on August 6, 1998.

BY THE COMMISSION



Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge

(S E A L)

Lumpe, Ch., Murray, Schemenauer
and Drainer, CC., concur.
Crumpton, C., absent.

Register, Regulatory Law Judge

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COMMISSION COUNSEL
PUBLIC SERVICE COMMISSION