BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

In the matter of the Application of Kansas City Power & Light Company for Approval to Issue Secured Debt to Two Bond Insurers Under Existing Municipal Bond Insurance Agreements.	))))	Case No. EO-2009-0274

STAFF RECOMMENDATION TO APPROVE APPLICATION

COMES NOW the Staff of the Missouri Public Service Commission (Staff) and, for its recommendation to approve application, states:

1. On January 23, 2009, Kansas City Power & Light Company (KCP&L) filed an application seeking Commission authorization to issue secured debt to two bond insurers under existing municipal bond insurance agreements and requesting the Commission issue an order approving the debt issuance by no later than February 27, 2009.

2. In its Memorandum, attached hereto as Appendix A, the Staff, for the reasons stated therein, recommends the Commission grant KCP&L authority through December 31, 2009, to issue up to $196.5 million in aggregate principal amount of first mortgage bonds to the municipal bond insurers—XL Capital Assurance Inc. and Financial Guaranty Insurance Company—of the City of Burlington, Kansas, Environmental Improvement Revenue Refunding Bonds (Kansas City Power & Light Company Project) Series 2005, 2007A and 2007B, if and as required by the terms of the municipal bond insurance agreements to secure KCP&L's reimbursement obligations to these insurers.

3. The basis of the Staff's recommendation follows. KCP&L has asserted that canceling its existing contracts and replace them with new debt would cost KCP&L about $500,000 to $1,000,000 because (1) KCP&L would be required to tender the bonds from the existing holders and then remarket them, (2) KCP&L would incur associated incremental legal, underwriting and remarketing fees and (3) KCP&L might incur higher interest rates on newly

issued debt; however, KCP&L's proposal to issue first mortgage bonds would require no additional explicit costs and would not create any additional debt obligations.

WHEREFORE, the Staff recommends the Commission grant KCP&L authority through December 31, 2009, to issue up to $196.5 million in aggregate principal amount of first mortgage bonds to the municipal bond insurers—XL Capital Assurance Inc. and Financial Guaranty Insurance Company—of the City of Burlington, Kansas, Environmental Improvement Revenue Refunding Bonds (Kansas City Power & Light Company Project) Series 2005, 2007A and 2007B, if and as required by the terms of the municipal bond insurance agreements to secure KCP&L's reimbursement obligations to these insurers.

Respectfully submitted,

/s/ Nathan Williams

Nathan Williams
Deputy General Counsel
Missouri Bar No. 35512

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Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or emailed to all counsel of record this 18th day of February 2009.

/s/ Nathan Williams

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. EO-2009-0274, Kansas City Power & Light Company

FROM: Zephania Marevangepo, Financial Analysis Department
Nathan Williams, General Counsel's Office

/s/ Zephania Marevangepo 02/18/09	/s/ Nathan Williams 02/18/09
Project Coordinator / Date	Deputy General Counsel / Date

SUBJECT: Staff Recommendation to approve the Application of Kansas City Power & Light Company (KCP&L or Company) for approval to issue up to $196.5 million in aggregate principal amount of first mortgage bonds to the municipal bond insurers of the City of Burlington, Kansas, Environmental Improvement Revenue Refunding Bonds (Kansas City Power & Light Company Project) Series 2005, 2007A and 2007B, if and as required by the terms of the municipal bond insurance agreements to secure KCP&L's reimbursement obligations to such insurers.

DATE: February 18, 2009

BACKGROUND:

The Company's Application states:

> In Case No. EF-2005-0387, the Commission authorized KCP&L to guarantee all or a portion of outstanding and previously issued City of Burlington, Kansas Environmental Improvement Revenue Refunding Bonds (Kansas City Power & Light Company Project) ("EIRR Bonds") Series 1998A, 1998B, 1998C and 1998D with a municipal bond insurance policy, to extend the maturity of the EIRR Bonds, and take all other actions necessary for the issuance and maintenance of such municipal bond insurance policy.
>
> The $50 million principal amount of Series 1998C EIRR Bonds were refunded in 2005 as Series 2005 EIRR Bonds, which pursuant to the Commission's authorization had an extended maturity date and were insured by XL Capital Assurance inc. ("XLCA") through a municipal bond insurance policy (the "XLCA Policy").
>
> The $146.4 million principal amount of EIRR Bonds Series 1998A, 1998B and 1998D were refunded in 2007 as Series 2007A and 2007B EIRR Bonds, which pursuant to the Commission's authorization had an extended

maturity date and were insured by Financial Guaranty Insurance Company ("FGIC") through a municipal bond insurance policy (the "FGIC policy").

In summary, KCP&L is obligated to pay the principal, interest and premium (if any) on the Series 2005 EIRR Bonds, Series 2007A and Series 2007B EIRR Bonds through a lease-sublease arrangement with the City of Burlington, Kansas. XCLA and FGIC policies insure payment of principal and interest on the above-mentioned EIRR bonds. This agreement does not increase KCP&L's financial obligations, as it is obligated to pay principal and interest under the lease-sublease arrangement. KCP&L's obligations under the Series 2005 EIRR Bonds, Series 2007A and Series 2007B EIRR Bonds are not secured by first mortgage bonds. In order to protect their financial interests, the XLCA and FGIC Policies contain limits on KCP&L's ability to issue first mortgage bonds.

STAFF REVIEW/ COMMENTS:

The Staff reviewed the insurance agreements KCP&L entered into with the two insurance companies, XCLA and FGIC that were attached to the application, and performed discovery in order to better understand why KCP&L's proposed issuance of first mortgage bonds is necessary.

KCP&L's obligations under the Series 2005, Series 2007A and Series 2007B Bonds are not secured by first mortgage bonds and the XCLA and FGIC policies contain limits on KCP&L's ability to issue first mortgage bonds to obtain additional funds. If KCP&L were to determine that issuing secured long-term debt were the preferred option, it would expect to issue such debt in an amount that would cause the secured debt thresholds in the XLCA and FGIC policies to be exceeded. Accordingly, it would be required, pursuant to the XLCA and FGIC insurance contracts, to issue first mortgage bonds to those insurers in order to issue additional first mortgage bonds to the capital markets.

Because the credit ratings of XLCA and FGIC are no longer as strong as they were when KCP&L initially entered the insurance contracts in association with the EIRR bonds, there is no continuing benefit of lower debt costs associated with these insurance contracts. XLCA's and FGIC's credit ratings are currently below investment grade. As a result, the Staff questioned KCP&L about the need to continue these insurance policies. In response, KCP&L informed the Staff that the XLCA policy allowed KCP&L to benefit through the low fixed interest rate of 4.65 percent provided by the credit quality of the insurance company when the bond was issued. However, FGIC's insurance contract is no longer providing any continued benefit because the EIRR bonds issued in conjunction with this contract have since been charged based on KCP&L's credit rating.

According to the Company, canceling the contracts would cost the Company about $500,000 to $1,000,000. First, KCP&L would be required to tender the bonds from the existing holders and then remarket them. Second, KCP&L would also incur incremental legal, underwriting and remarketing fees. KCP&L would possibly incur higher interest rates on newly issued debt if the company decides to cancel the contracts and retire the EIRR bonds in question. On the other hand, KCP&L's proposal to issue first mortgage bonds would require no additional explicit costs and would not create any additional debt obligations. Therefore, Staff believes that it is important to allow KCP&L the desired flexibility by the granting of the request in its Application. As a result, KCP&L would have the opportunity to access the secured debt markets through the issuance of additional first mortgage bonds

STAFF'S RECOMMENDATION:

The Staff recommends that the Commission approve the Application submitted by KCP&L with an authority date to run through December 31, 2009.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power & Light Company For Approval to Issue Secured Debt to Two Bond Insurers Under Existing Municipal Bond Insurance Agreements	)))))	Case No. EO-2009-0274

AFFIDAVIT OF ZEPHANIA MAREVANGEPO

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Zephania Marevangepo, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was developed by him; that he has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of his knowledge and belief.

Zephania Marevangepo

Subscribed and sworn to before me this 18th day of February, 2009.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 08, 2012
Commission Number: 08412071

D. Suzie Mankin
Notary Public