PUBLIC VERSION

Certain Schedules Attached to this Testimony Contain Confidential Information And Have Been Removed.

BEFORE THE STATE CORPORATION COMMISSION OF THE STATE OF KANSAS

DIRECT TESTIMONY OF

MICHAEL W. CLINE

ON BEHALF OF KANSAS CITY POWER & LIGHT COMPANY

IN THE MATTER OF THE APPLICATION OF KANSAS CITY POWER & LIGHT COMPANY TO MODIFY ITS TARIFFS TO CONTINUE THE IMPLEMENTATION OF ITS REGULATORY PLAN

DOCKET NO. 07-KCPE-____-RTS

Q. Please state your name and business address.

A. My name is Michael W. Cline. My business address is 1201 Walnut, Kansas City, Missouri 64106.

Q. By whom and in what capacity are you employed?

A. I am employed by Great Plains Energy, the parent company of Kansas City Power & Light Company ("KCPL" or "Company"), as Treasurer and Chief Risk Officer.

Q. What are your responsibilities?

A. My responsibilities include financing and investing activities, cash management, bank relations, rating agency relations, enterprise risk management, and insurance.

Q. Please describe your education, experience and employment history.

A. I graduated from Bradley University in 1983 with a B.S. in Finance, summa cum laude. I earned an MBA from Illinois State University in 1988. From 1984-1991, I was employed by Caterpillar Inc. in Peoria, Illinois and held a number of finance and treasury positions. From 1992-1993, I was Manager, International Treasury at Sara Lee Corporation in Chicago, Illinois. From 1994-2000, I was employed by Sprint Corporation in Overland Park, Kansas, initially as Manager, Financial Risk Management and then as Director, Capital Markets. During most of 2001, I was Assistant Treasurer, Corporate Finance, at Corning Incorporated in Corning, New York. I joined Great Plains Energy in October 2001 as Director, Corporate Finance. I was promoted to Assistant Treasurer in November 2002. During 2004, I was assigned to lead the company's Sarbanes-Oxley Act compliance effort on a full-time basis, though I retained the Assistant Treasurer title during that time. I was promoted to Treasurer in April 2005 and added the title of Chief Risk Officer in July 2005.

Q. Have you previously testified in a proceeding at the Kansas Corporation Commission ("KCC" or "Commission") or before any other utility regulatory agency?

A. Yes. In 2006, I provided Direct and Rebuttal testimony in KCPL's Kansas rate case, Docket No. 06-KCPE-828-RTS. Also in 2006, I provided Direct, Rebuttal, and Surrebuttal testimony in KCPL's Missouri rate case, Case No. ER-2006-0314, and also testified before the Missouri Public Service Commission related to the aforementioned docket. In 2005, I testified before the Missouri Public Service Commission in Case No. EO-2005-0329 and submitted testimony to the KCC concerning KCPL's Regulatory Plan in Docket No. 04-KCPE-1025-GIE ("Regulatory Plan").

Q. What is the purpose of your testimony?

A. My testimony is in two sections. In Section 1, I will do the following: (1) review the conceptual rationale for, and methodology for determining, the Contribution in Aid of Construction ("CIAC") to maintain KCPL's financial ratios as outlined in the Regulatory Plan Stipulation and Agreement in Docket No. 04-KCPE-1025-GIE ("1025 Stipulation"); (2) review the amount of pre-tax payment on plant authorized by the Commission in its Order in Docket No. 06-KCPE-828-RTS dated December 4, 2006; (3) describe the impacts to KCPL of achieving targeted credit metrics through earnings compared to CIAC; and (4) describe the amount of CIAC that KCPL is requesting in this case. In Section 2, I will support an adjustment related to accounts receivable sales fees as discussed in the Direct Testimony of KCPL witness John P. Weisensee.

SECTION 1

Q. The 1025 Stipulation discussed CIAC to maintain financial ratios. Please explain the significance of the CIAC mechanism and the maintenance of financial ratios for KCPL.

A. The Signatory Parties to the 1025 Stipulation agreed that it is imperative that KCPL maintain its debt at an investment grade rating during the implementation period of its Comprehensive Energy Plan (the "Plan"). For its part, KCPL acknowledged its responsibility and commitment to take prudent and reasonable actions to maintain its investment grade rating during this period. The non-KCPL Signatory Parties, in turn, agreed to support the "Contribution in Aid of Construction to Maintain Financial Ratios," (the "CIAC") as defined in the 1025 Stipulation and related appendices, in KCPL's general rate cases filed prior to June 1, 2010. The Signatory Parties agreed that the CIAC would be an element in any KCPL rate case only when the Kansas jurisdictional revenue requirement in that case fails to satisfy the financial ratios shown in Appendix E of the 1025 Stipulation.

Q. Why is it important for KCPL to maintain investment grade ratings during the implementation of the Plan?

A. Maintaining high credit quality at KCPL is vital to debt and equity investors, banks, rating agencies, and ratepayers for three primary reasons. First, KCPL and its parent, Great Plains Energy, will rely extensively on the debt and equity capital markets for financing over the next several years. Total capital expenditures (including Plan-related expenditures and "normal course" capital expenditures) over the 2007-2011 period are expected to exceed $2.5 billion. Approximately 45% of this amount will need to be raised through issuances of debt by KCPL and equity by Great Plains Energy. Investors will need to have confidence in KCPL's credit strength and financial wherewithal to feel comfortable making this capital available to KCPL and Great Plains Energy on attractive terms, particularly given competing opportunities for deployment of capital. Second, in addition to new funding required for the Regulatory Plan, KCPL will have a significant amount of debt subject to refinancing during the period of the Plan. KCPL has $225 million of senior notes maturing in March 2007. Further, KCPL has $257 million of tax-exempt debt that is either subject to remarketing during the Regulatory Plan period or is in a weekly or monthly "auction" mode and essentially refinanced at those intervals. KCPL's ability to refinance its debt efficiently, effectively, and on favorable terms will be heavily dependent on bondholder and rating agency views of KCPL's creditworthiness. Finally, the strong financial profile required for an investment grade rating benefits ratepayers by enabling KCPL to (a) attract the capital needed to make infrastructure investments; (b) reduce its interest costs; (c) meet its obligations in a timely fashion; (d) attract and retain a high-quality workforce; and (e) invest in the communities it serves.

Q. What is the purpose of the CIAC?

A. The 1025 Stipulation identified three credit ratios deemed most important to the credit rating agency Standard & Poor's ("S&P") in determining a utility's credit quality. These three ratios are: (i) Total Debt to Total Capitalization; (ii) Funds from Operations ("FFO") Interest Coverage; and (iii) FFO as a Percentage of Average Total Debt. The fundamental purpose of the CIAC is to provide a means by which KCPL may achieve an amount of FFO sufficient to sustain levels of ratios (ii) and (iii), above, that are consistent with the low end of the top third of the range for BBB-rated utility companies with an equivalent Business Risk Profile to KCPL, per S&P's guidelines.

Q. Does S&P publish these guidelines?

A. Yes. The ratio guidelines upon which the 1025 Stipulation were based were published in 2004 and are attached as Schedule MWC-1. S&P's methodology for calculating these ratios was updated in its October 2, 2006 report entitled "Utility Statistical Methodology," which is attached as Schedule MWC-2.

Q. Has the Business Risk Profile score assigned to KCPL by S&P changed from the level used to establish the target ratio levels established in the Stipulation?

A. No. As evidenced in the most recent credit report issued by S&P on KCPL, dated August 1, 2006 (attached as Schedule MWC-3), KCPL's Business Risk Profile remains a

"6." As such, the ratio guidelines established in the 1025 Stipulation are still applicable to KCPL.

Q. **How does the CIAC mechanism work?**

A. The mechanism results in CIAC being added to KCPL's cost of service in a rate case when the projected cash flows resulting from KCPL's Kansas jurisdictional operations, as determined by the KCC, fail to meet or exceed the Kansas jurisdictional portion of the low end of the top third of the BBB range shown in Schedule MWC-1 for the FFO Interest Coverage and FFO as a Percentage of Average Total Debt ratios. The amount of CIAC is the amount needed to achieve that threshold. Any CIAC granted to KCPL is subsequently treated as an offset to rate base, which reduces rates when they are set by the Commission in any future KCPL rate proceedings, beginning with the 2009 rate case.

Q. **Did the Commission authorize CIAC in KCPL's 2006 rate case?**

A. The Order in KCPL's Docket No. 06-KCPE-828-RTS authorized a pre-tax payment on plant in the amount of $4 million as part of a total rate increase of $29 million.

Q. **From KCPL's perspective, is cash flow generated through regulated earnings the same as cash flow generated through CIAC?**

A. No. The key difference is that, as described in the 1025 Stipulation, retail customers receive a rate base offset beginning with the 2009 rate case for any CIAC authorized. The effect of this is to lower KCPL's revenue requirement in future rate cases.

Q. **How does KCPL view allowed return versus CIAC?**

A. KCPL views the availability of CIAC as critical in supporting its efforts to maintain credit quality during a period of very high capital spending. That being said, the CIAC mechanism was not designed as a substitute for fair, traditional cost of service ratemaking. Determination of an appropriate return on equity commensurate with KCPL's risk profile is an essential element of this rate case. In his Direct Testimony in this case, KCPL's witness Dr. Samuel C. Hadaway states well-supported arguments that an 11.25% return on equity is an appropriate level for the Company. Dr. Hadaway's recommended level of return on equity is independent of the existence of the CIAC mechanism. Once a fair level of return has been established, the CIAC mechanism can work as initially contemplated in the 1025 Stipulation, i.e., to provide KCPL with an amount of incremental cash flow needed to attain certain key credit ratio thresholds, *to the extent that cash flow provided through rate relief is otherwise insufficient for this purpose.*

Q. What is the actual amount of CIAC for which KCPL is filing in this rate case?

A. Based on the various components of KCPL's case, as described in the testimony of numerous witnesses from the Company and experts testifying on the Company's behalf, KCPL estimates that CIAC in the amount of $12,840,873 above the $4 million granted in Docket No. 06-KCPE-828-RTS will be needed to achieve the target level FFO / Debt ratios, previously discussed. Schedule MWC-4 (Confidential) contains the supporting calculations for this amount of CIAC.

<u>SECTION 2</u>

Q. What is the purpose of this section of your testimony?

A. In this section of testimony, I will support two adjustments related to accounts receivable sales fees as referenced in the Summary of Adjustments, attached as Schedule JPW-2 in the Direct Testimony of KCPL witness John P. Weisensee.

Q. Briefly explain how the sale of KCPL's accounts receivables is structured.

A. The sale of KCPL's receivables is structured as follows: (i) KCPL sells all of its electric receivables at a discount to Kansas City Power & Light Receivables Company ("KCREC"), a wholly-owned subsidiary of KCPL; (ii) KCREC sells the receivables to a bank ("Bank"), up to a maximum commitment of $100 million; (iii) the Bank issues commercial paper to generate cash to pay KCREC for the receivables it buys; (iv) KCREC uses the cash it receives from the Bank to pay KCPL for a portion of the receivables it purchased; (v) KCREC issues a note to KCPL for the difference between the cash it pays to KCPL and the total receivables purchased; and (vi) KCREC pays the Bank sales fees on the amount of Commercial Paper it issued and also pays KCPL interest on the note.

Q. How are the Accounts Receivable sales fees calculated?

A. KCREC pays (i) the weighted average interest rate on the commercial paper issued by the Bank, plus 30 basis points, multiplied by (ii) the average amount of commercial paper outstanding during each calendar month, divided by 360, multiplied by the number of days in a month. KCREC also pays 15 basis points on the average of the difference between the maximum commitment by the Bank and the actual amount of receivables purchased by the Bank.

Q. Why are these adjustments necessary?

A. These adjustments are necessary for two reasons. First, accounts receivables sales fees are recorded on the books of KCREC, not KCPL. Therefore, an adjustment is necessary so that test year fees can be included in KCPL's cost of service. Second, an adjustment is necessary to increase the actual 2006 test year bank fees to projected 2007 expenses to reflect revised assumptions.

Q. How were these adjustment determined?

A. KCPL test year expenses excluded the Bank fees. The first adjustment was determined using actual 2006 commercial paper fees incurred by KCREC. The second adjustment was determined by estimating commercial paper rates for 2007 by month, adding 30 basis points, and applying this total rate to the projected advances under the accounts receivable facility for each month. The advance was estimated to be $70 million for every month in 2007. The second adjustment was the variance between actual 2006 Bank fees and the projected 2007 Bank fees.

Q. What is the amount of the first adjustment?

A. The adjustment for the total 2006 Bank fees is $3,822,431 and is shown as Adj-9 on the Summary of Adjustments attached to the direct testimony of KCPL witness John P. Weisensee as Schedule JPW-2.

Q. What is the amount of the second adjustment?

A. The adjustment for the incremental increase to projected 2007 Bank fees is $244,875 and is shown as Adj-54 on the Summary of Adjustments attached to the Direct Testimony of KCPL witness John P. Weisensee as Schedule JPW-2.

Q. Does this conclude your testimony?

A. Yes.

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the Matter of the Application of Kansas City Power & Light Company to Modify Its Tariffs to Continue the Implementation of Its Regulatory Plan	)))	Case No. 07-KCPE-______-RTS

AFFIDAVIT OF MICHAEL W. CLINE

STATE OF MISSOURI)
) **ss**
COUNTY OF JACKSON)

Michael W. Cline, being first duly sworn on his oath, states:

1. My name is Michael W. Cline. I work in Kansas City, Missouri, and I am employed by Great Plains Energy, the parent company of Kansas City Power & Light Company, as Treasurer and Chief Risk Officer.

2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Kansas City Power & Light Company consisting of nine (9) pages and Schedules MWC-1 through MWC-4, all of which having been prepared in written form for introduction into evidence in the above-captioned docket.

3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.

Michael W Cline
Michael W. Cline

Subscribed and sworn before me this 28th day of February 2007.

Nicole A. Wehry
Notary Public

My commission expires: Feb. 4 2011

" NOTARY SEAL "
Nicole A. Wehry, Notary Public
Jackson County, State of Missouri
My Commission Expires 2/4/2011
Commission Number 07391200

RESEARCH

New Business Profile Scores Assigned for U.S. Utility and Power Companies; Financial Guidelines Revised

Publication date: 02-Jun-2004
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Standard & Poor's Ratings Services has assigned new business profile scores to U.S. utility and power companies to better reflect the relative business risk among companies in the sector. Standard & Poor's also has revised its published risk-adjusted financial guidelines. The new business scores and financial guidelines do not represent a change to Standard & Poor's ratings criteria or methodology, and no ratings changes are anticipated from the new business profile scores or revised financial guidelines.

New Business Profile Scores and Revised Financial Guidelines

Standard & Poor's has always monitored changes in the industry and altered its business risk assessments accordingly. This is the first time since the 10-point business profile scale for U.S. investor-owned utilities was implemented that a comprehensive assessment of the benefits and the application of the methodology has been made. The principal purpose was to determine if the methodology continues to provide meaningful differentiation of business risk. The review indicated that while business profile scoring continues to provide analytical benefits, the complete range of the 10-point scale was not being utilized to the fullest extent.

Standard & Poor's has also revised the key financial guidelines that it uses as an integral part of evaluating the credit quality of U.S. utility and power companies. These guidelines were last updated in June 1999. The financial guidelines for three principal ratios (funds from operations (FFO) interest coverage, FFO to total debt, and total debt to total capital) have been broadened so as to be more flexible. Pretax interest coverage as a key credit ratio was eliminated.

Finally, Standard & Poor's has segmented the utility and power industry into sub-sectors based on the dominant corporate strategy that a company is pursuing. Standard & Poor's has published a new U.S. utility and power company ranking list that reflects these sub-sectors.

There are numerous benefits to the reassessment. Fuller utilization of the entire 10-point scale provides a superior relative ranking of qualitative business risk. A simultaneous revision of the financial guidelines supports the goal of not causing rating changes from the recalibration of the business profiles. Classification of companies by sub-sectors will ensure greater comparability and consistency in ratings. The use of industry segmentation will also allow more in-depth statistical analysis of ratings distributions and rating changes.

The reassessment does not represent a change to Standard & Poor's criteria or methodology for determining ratings for utility and power companies. Each business profile score should be considered as the assignment of a new score; these scores do not represent improvement or deterioration in our assessment of an individual company's business risk relative to the previously assigned score. The financial guidelines continue to be risk-adjusted based on historical utility and industrial medians. Segmentation into industry sub-sectors does not imply that specific company characteristics will not weigh heavily into the assignment of a company's business profile score.

Results

Previously, 83% of U.S. utility and power business profile scores fell between '3' and '6', which clearly

Schedule MWC-1

does not reflect the risk differentiation that exists in the utility and power industry today. Since the 10-point scale was introduced, the industry has transformed into a much less homogenous industry, where the divergence of business risk--particularly regarding management, strategy, and degree of competitive market exposure--has created a much wider spectrum of risk profiles. Yet over the same period, business profile scores actually converged more tightly around a median score of '4'. The new business profile scores, as of the date of this publication, are shown in Chart 1. The overall median business profile score is now '5'.

Chart 1

Chart 1

Distribution of Business Profile Scores

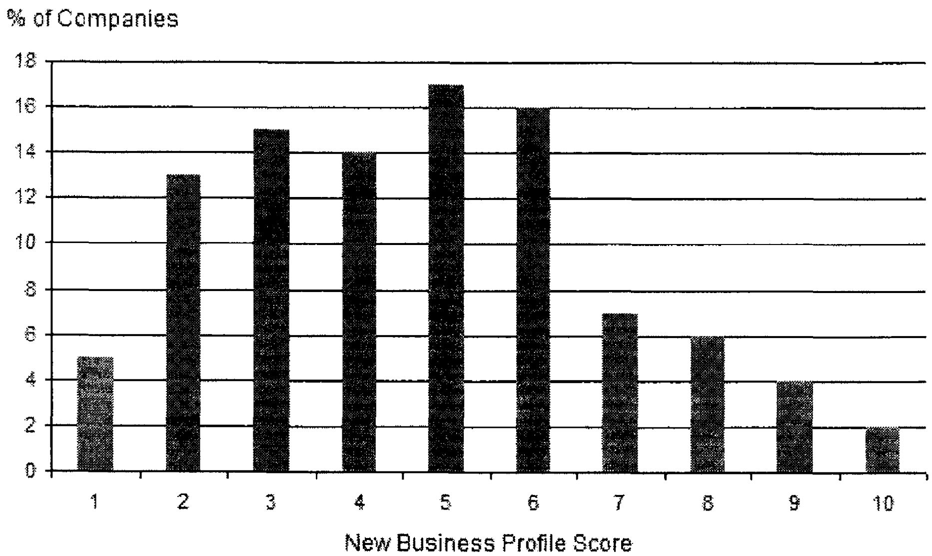


Table 1 contains the revised financial guidelines. It is important to emphasize that these metrics are only guidelines associated with expectations for various rating levels. Although credit ratio analysis is an important part of the ratings process, these three statistics are by no means the only critical financial measures that Standard & Poor's uses in its analytical process. We also analyze a wide array of financial ratios that do not have published guidelines for each rating category.

Table 1

Revised Financial Guidelines

Funds from operations/interest coverage (x)

Business Profile	AA		A		BBB		BB	
1	3	2.5	2.5	1.5	1.5	1		
2	4	3	3	2	2	1		
3	4.5	3.5	3.5	2.5	2.5	1.5	1.5	1
4	5	4.2	4.2	3.5	3.5	2.5	2.5	1.5
5	5.5	4.5	4.5	3.8	3.8	2.8	2.8	1.8
6	6	5.2	5.2	4.2	4.2	3	3	2
7	8	6.5	6.5	4.5	4.5	3.2	3.2	2.2

Table 1

Revised Financial Guidelines (cont.)								
8	10	7.5	7.5	5.5	5.5	3.5	3.5	2.5
9			10	7	7	4	4	2.8
10			11	8	8	5	5	3

Funds from operation/total debt (%)

Business Profile	AA		A		BBB		BB	
1	20	15	15	10	10	5		
2	25	20	20	12	12	8		
3	30	25	25	15	15	10	10	5
4	35	28	28	20	20	12	12	8
5	40	30	30	22	22	15	15	10
6	45	35	35	28	28	18	18	12
7	55	45	45	30	30	20	20	15
8	70	55	55	40	40	25	25	15
9			65	45	45	30	30	20
10			70	55	55	40	40	25

Total debt/total capital (%)

Business Profile	AA		A		BBB		BB	
1	48	55	55	60	60	70		
2	45	52	52	58	58	68		
3	42	50	50	55	55	65	65	70
4	38	45	45	52	52	62	62	68
5	35	42	42	50	50	60	60	65
6	32	40	40	48	48	58	58	62
7	30	38	38	45	45	55	55	60
8	25	35	35	42	42	52	52	58
9			32	40	40	50	50	55
10			25	35	35	48	48	52

Again, ratings analysis is not driven solely by these financial ratios, nor has it ever been. In fact, the new financial guidelines that Standard & Poor's is incorporating for the specified rating categories reinforce the analytical framework whereby other factors can outweigh the achievement of otherwise acceptable financial ratios. These factors include:

- Effectiveness of liability and liquidity management;
- Analysis of internal funding sources;
- Return on invested capital;
- The record of execution of stated business strategies;
- Accuracy of projected performance versus actual results, as well as the trend;
- Assessment of management's financial policies and attitude toward credit; and
- Corporate governance practices.

Charts 2 through 6 show business profile scores broken out by industry sub-sector. The five industry sub-sectors are:

- Transmission and distribution--Water, gas, and electric;
- Transmission only--Electric, gas, and other;
- Integrated electric, gas, and combination utilities;

- Diversified energy and diversified nonenergy; and
- Energy merchant/power developer/trading and marketing companies.

Chart 2

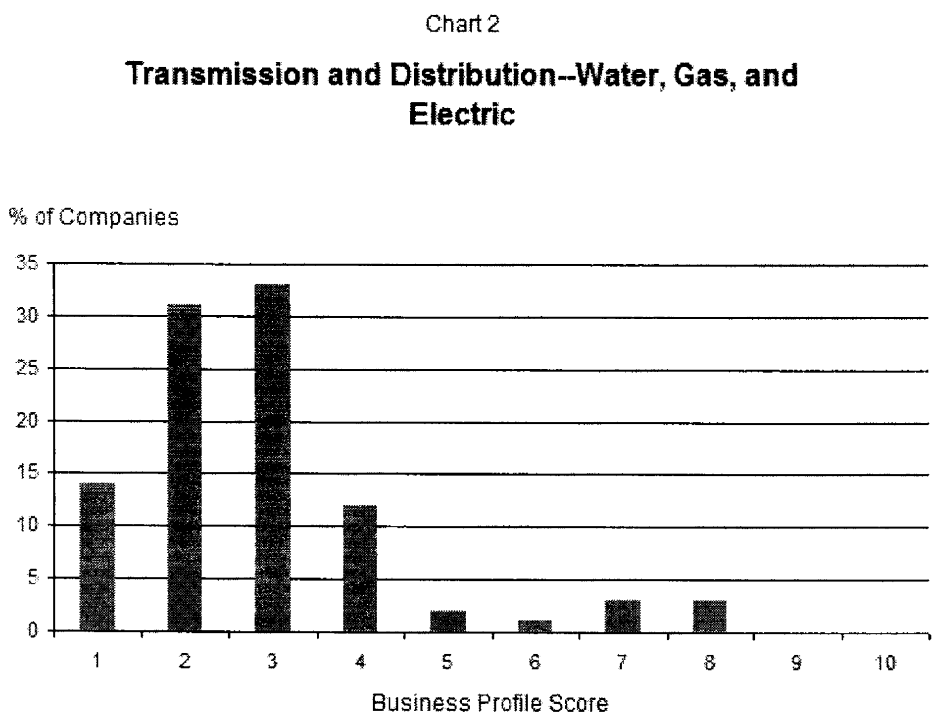


Chart 3

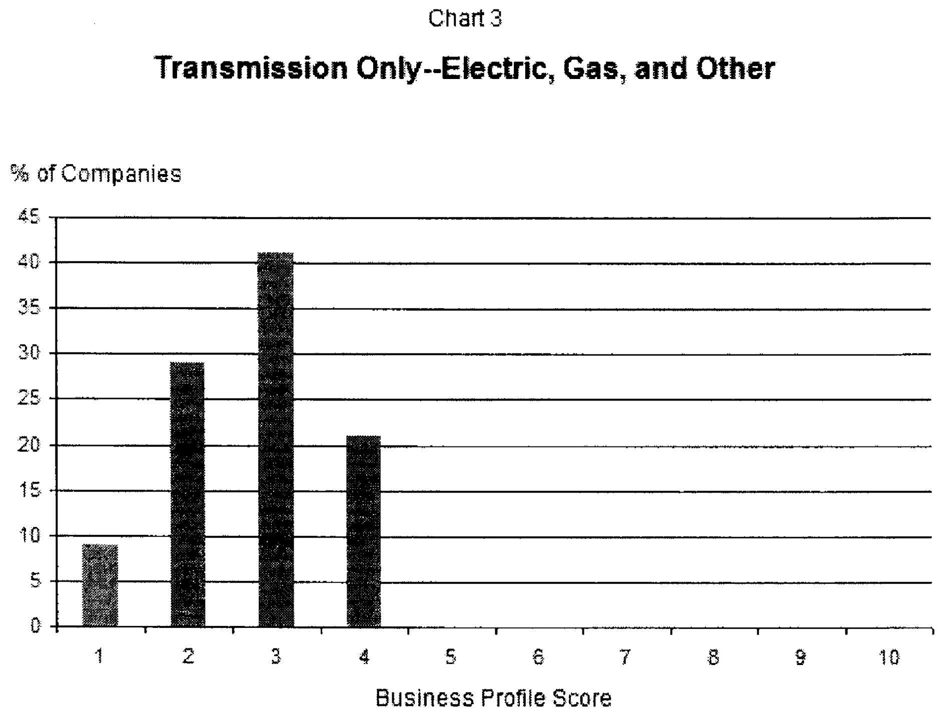


Chart 4

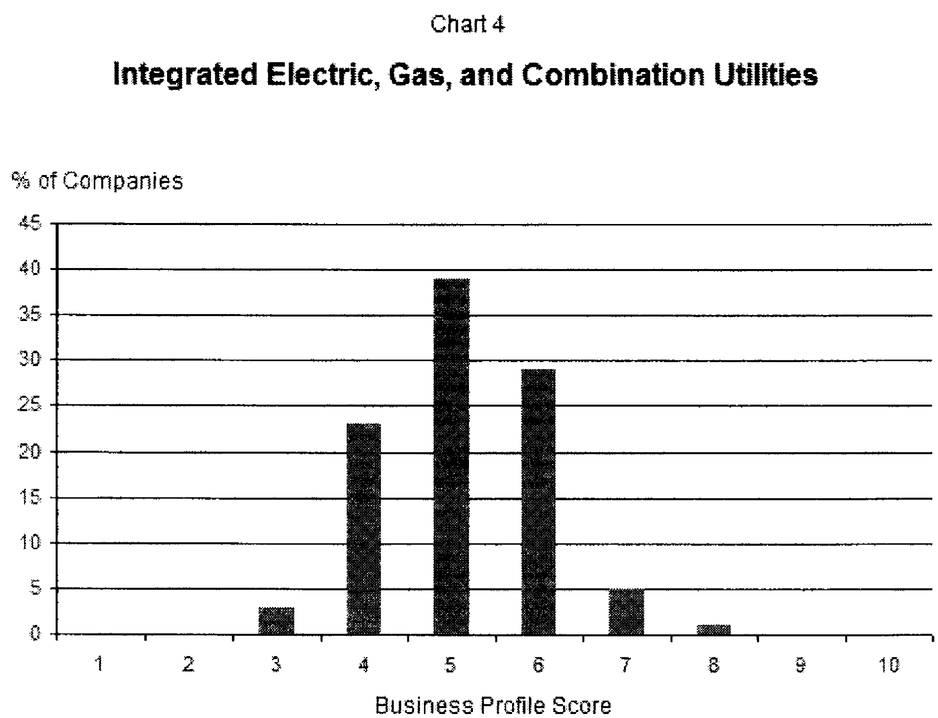


Chart 5

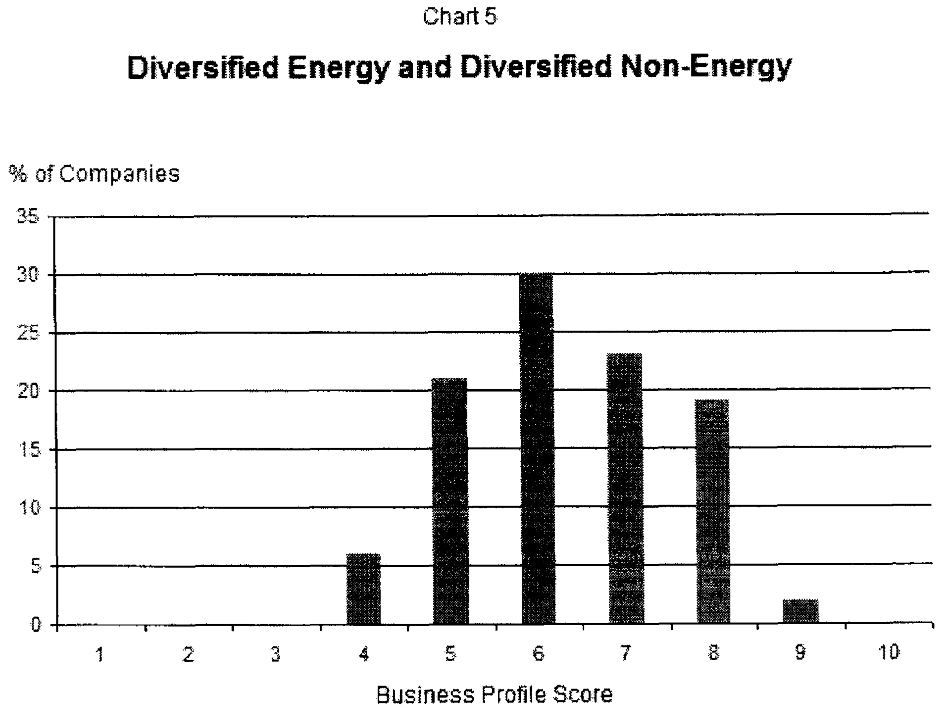
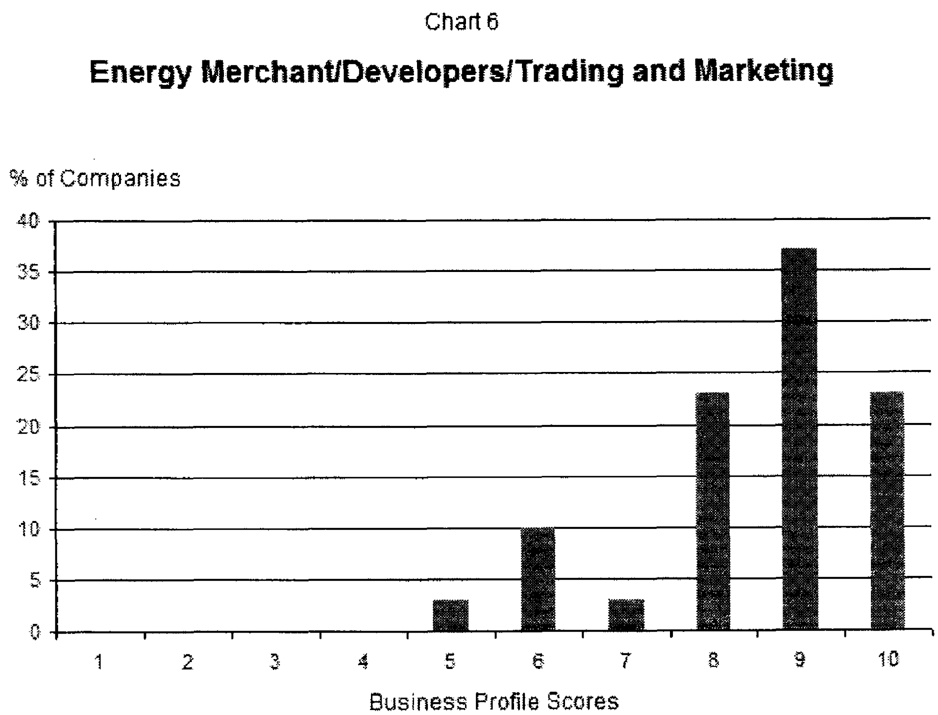


Chart 6



The average business profile scores for transmission and distribution companies and transmission-only companies are lower on the scale than the previous averages, while the average business profile scores for integrated utilities, diversified energy, and energy merchants and developers are higher.

The Appendix provides the company list of business profile scores segmented by industry sub-sector and ranked in order of credit rating, outlook, business profile score, and relative strength.

Business Profile Score Methodology

Standard & Poor's methodology of determining corporate utility business risk is anchored in the assessment of certain specific characteristics that define the sector. We assign business profile scores to each of the rated companies in the utility and power sector on a 10-point scale, where '1' represents the lowest risk and '10' the highest risk. Business profile scores are assigned to all rated utility and power companies, whether they are holding companies, subsidiaries or stand-alone corporations. For operating subsidiaries and stand-alone companies, the score is a bottom-up assessment. Scores for families of companies are a composite of the operating subsidiaries' scores. The actual credit rating of a company is analyzed, in part, by comparing the business profile score with the risk-adjusted financial guidelines.

For most companies, business profile scores are assessed using five categories; specifically, regulation, markets, operations, competitiveness, and management. The emphasis placed on each category may be influenced by the dominant strategy of the company or other factors. For example, for a regulated transmission and distribution company, regulation may account for 30% to 40% of the business profile score because regulation can be the single-most important credit driver for this type of company. Conversely, competition, which may not exist for a transmission and distribution company, would provide a much lower proportion (e.g., 5% to 15%) of the business profile score.

For certain types of companies, such as power generators, power developers, oil and gas exploration and production companies, or nonenergy-related holdings, where these five components may not be appropriate, Standard & Poor's will use other, more appropriate methodologies. Some of these companies are assigned business profile scores that are useful only for relative ranking purposes.

As noted above, the business profile score for a parent or holding company is a composite of the business profile scores of its individual subsidiary companies. Again, Standard & Poor's does not apply rigid guidelines for determining the proportion or weighting that each subsidiary represents in the overall business profile score. Instead, it is determined based on a number of factors. Standard & Poor's will analyze each subsidiary's contribution to FFO, forecast capital expenditures, liquidity requirements, and other parameters, including the extent to which one subsidiary has higher growth. The weighting is determined case-by-case.

Appendix: U.S. Utility and Power Company Ranking List

U.S. Utility and Power Company Ranking List

Company	Corporate Credit Rating	Business Profile
1. Regulated Transmission and Distribution - Electric, Gas, and Water		
Baton Rouge Water Works Co. (The)	AA/Stable/--	1
Nicor Gas Co.	AA/Stable/A-1+	2
Nicor Inc.	AA/Stable/A-1+	3
Washington Gas Light Co.	AA-/Stable/A-1+	2
WGL Holdings Inc.	AA-/Stable/A-1+	3
New Jersey Natural Gas Co.	A+/Stable/A-1	1
Aqua Pennsylvania	A+/Stable/--	2
KeySpan Energy Delivery Long Island	A+/Negative/--	1
KeySpan Energy Delivery New York	A+/Negative/--	1
Elizabethtown Water Co.	A+/Negative/--	2

U.S. Utility and Power Company Ranking List (cont.)		
California Water Service Co.	A+/Negative/--	3
Questar Gas Co.	A+/Negative/--	3
Southern California Gas Co.	A/Stable/A-1	1
Boston Edison Co.	A/Stable/A-1	1
Commonwealth Electric Co.	A/Stable/--	1
Cambridge Electric Light Co.	A/Stable/--	1
NSTAR	A/Stable/A-1	1
Massachusetts Electric Co.	A/Stable/A-1	1
Narragansett Electric Co.	A/Stable/A-1	1
Northwest Natural Gas Co.	A/Stable/A-1	1
Connecticut Water Service Inc.	A/Stable/ --	2
Connecticut Water Co. (The)	A/Stable/ --	2
Aquarion Co.	A/Stable/--	2
Aquarion Water Co. of Connecticut	A/Stable/--	2
NSTAR Gas Co.	A/Stable/--	2
Piedmont Natural Gas Co. Inc.	A/Stable/A-1	2
National Grid USA	A/Stable/A-1	2
Consolidated Edison Co. of New York Inc.	A/Stable/A-1	2
Orange and Rockland Utilities Inc.	A/Stable/A-1	2
Rockland Electric Co.	A/Stable/--	2
Consolidated Edison Inc.	A/Stable/A-1	2
Laclede Gas Co.	A/Stable/A-1	3
Laclede Group Inc.	A/Stable/--	3
Atlantic City Sewerage Co.	A/Stable/--	3
Niagara Mohawk Power Corp.	A/Stable/--	3
Central Hudson Gas & Electric Co.	A/Stable/--	3
American Water Capital Corp.	A/Negative/	2
Boston Gas Co.	A/Negative/--	2
Colonial Gas Co.	A/Negative/--	2
Middlesex Water Co.	A/Negative/--	3
York Water Co. (The)	A-/Stable/--	2
Alabama Gas Corp.	A-/Stable/--	2
Atlanta Gas Light Co.	A-/Stable/--	2
Public Service Co. of North Carolina Inc.	A-/Stable/A-2	2
Wisconsin Gas Co.	A-/Stable/A-2	2
North Shore Gas Co.	A-/Stable/A-2	2
Peoples Gas Light & Coke Co.	A-/Stable/A-2	2
ONEOK Inc.	A-/Stable/A-2	6
Indiana Gas Co. Inc.	A-/Negative/--	1
Southern California Water Co.	A-/Negative/--	3
American States Water Co.	A-/Negative/--	3
United Water New Jersey	A-/Negative/--	4
United Waterworks	A-/Negative/--	4
PPL Electric Utilities Corp.	A-/Negative/--	4

U.S. Utility and Power Company Ranking List (cont.)		
Commonwealth Edison Co.	A-/Negative/A-2	4
PECO Energy Co.	A-/Negative/A-2	4
Central Illinois Public Service Co.	A-/CW-Neg/--	3
Western Massachusetts Electric Co.	BBB+/Stable/--	1
Cascade Natural Gas Corp.	BBB+/Stable/--	2
South Jersey Gas Co.	BBB+/Stable/--	2
Baltimore Gas & Electric Co.	BBB+/Stable/A-2	3
Connecticut Natural Gas Corp.	BBB+/Negative/--	3
Southern Connecticut Gas Co.	BBB+/Negative/--	3
Central Maine Power Co.	BBB+/Negative/--	3
Atlantic City Electric Co.	BBB+/Negative/A-2	3
Potomac Electric Power Co.	BBB+/Negative/A-2	3
Delmarva Power & Light Co.	BBB+/Negative/A-2	3
Yankee Gas Services Co.	BBB+/Negative/--	3
Connecticut Light & Power Co.	BBB+/Negative/--	3
UGI Utilities Inc.	BBB+/Negative/--	4
Bay State Gas Co.	BBB/Stable/--	2
AEP Texas Central Co.	BBB/Stable/--	2
AEP Texas North Co.	BBB/Stable/--	2
Southwest Gas Corp.	BBB-/Stable/--	3
Columbus Southern Power Co.	BBB/Stable/--	3
Ohio Power Co.	BBB/Stable/--	3
Public Service Electric & Gas Co.	BBB/Stable/A-2	3
Oncor Electric Delivery Co.	BBB/Negative/--	2
Southern Union Co.	BBB/Negative/--	3
Centerpoint Energy Houston Electric LLC	BBB/Negative/--	3
CenterPoint Energy Resources Corp.	BBB/Negative/--	3
Duquesne Light Co.	BBB/Negative/	4
Duquesne Light Holdings Inc.	BBB/Negative/ --	5
TXU Gas Co.	BBB/CW-Dev/--	3
Jersey Central Power & Light Co.	BBB-/Stable/--	4
Metropolitan Edison Co.	BBB-/Stable/--	4
Pennsylvania Electric Co.	BBB-/Stable/--	4
Texas-New Mexico Power Co.	BB+/Stable/--	4
AmeriGas Partners L.P.	BB+/Stable/--	7
NUI Utilities Inc.	BB/CW-Dev/--	4
Suburban Propane Partners L.P.	BB-/Stable/--	8
Star Gas Partners L.P.	BB-/Stable/--	8
SEMCO Energy Inc.	BB-/Negative/--	5
Ferrellgas Partners L.P.	BB-/Negative/--	8
Potomac Edison Co.	B/Stable/--	3
West Penn Power Co.	B/Stable/--	3
Illinova Corp.	B/Negative/--	7
NorthWestern Corp.	D/NM/--	7

U.S. Utility and Power Company Ranking List (cont.)

2. Transmission Only - Electric, Gas, and Other		
Questar Pipeline Co.	A+/Negative/--	3
Mid-West Independent Transmission System Operator Inc.	A/Stable/--	1
American Transmission Co.	A/Stable/A-1	1
New England Power Co.	A/Stable/A-1	1
Colonial Pipeline Co.	A/Stable/A-1	3
Dixie Pipeline Co.	--/--/A-1	3
Plantation Pipeline Co.	--/--/A-1	3
Explorer Pipeline Co.	A/Stable/A-1	4
Northern Natural Gas Co.	A-/Positive/--	2
Buckeye Partners L.P.	A-/Stable/--	4
Kern River Gas Transmission Co.	A-/Negative/--	3
Northern Border Pipeline Co.	A-/CW-Neg/--	2
Texas Gas Transmission LLC	BBB+/Stable/--	3
Iroquois Gas Transmission System L.P.	BBB+/Stable/--	3
Florida Gas Transmission Co.	BBB/Stable/--	2
International Transmission Co.	BBB/Stable	2
ITC Holding Corp.	BBB/Stable	2
Texas Eastern Transmission L.P.	BBB/Stable/--	3
PanEnergy Corp.	BBB/Stable/--	3
TE Products Pipeline Co. L.P.	BBB/Stable/--	4
TEPPCO Partners L.P.	BBB/Stable/--	4
Panhandle Eastern Pipeline LLC	BBB/Negative/--	3
Noark Pipeline Finance LLC	BBB/Negative/--	4
Southern Star Central Gas Pipeline Inc.	BB/Stable/--	3
Transwestern Pipeline Co.	BB/CW-Dev/--	4
Transcontinental Gas Pipe Line Corp.	B+/Negative/--	2
Northwest Pipeline Corp.	B+/Negative/--	2
Colorado Interstate Gas Co.	B-/Negative/--	2
Southern Natural Gas Co.	B-/Negative/--	2
ANR Pipeline Co.	B-/Negative/--	3
Tennessee Gas Pipeline Co.	B-/Negative/--	3
El Paso Tennessee Pipeline Co.	B-/Negative/--	3
El Paso Natural Gas Co.	B-/Negative/--	4
Gas Transmission-Northwest Corp.	CC/CW-Pos/--	2
3. Integrated Electric, Gas, and Combination Utilities		
Wisconsin Public Service Corp.	AA-/Stable/A-1+	4
Madison Gas & Electric Co.	AA/Negative/A-1+	4
Southern Co.	A/Stable/A-1	4
Georgia Power Co.	A/Stable/A-1	4
Alabama Power Co.	A/Stable/A-1	4
Mississippi Power Co.	A/Stable/A-1	4
Gulf Power Co.	A/Stable/--	4

U.S. Utility and Power Company Ranking List (cont.)		
Savannah Electric & Power Co.	A/Stable/--	4
San Diego Gas & Electric Co.	A/Stable/A-1	5
MidAmerican Energy Co.	A/Stable/A-1	5
Questar Corp.	--/--/A-1	6
Equitable Resources Inc.	A/Stable/A-1	6
Florida Power & Light Co.	A/Negative/A-1	4
South Carolina Electric & Gas Co.	A-/Stable/A-2	4
SCANA Corp.	A-/Stable/--	4
Wisconsin Electric Power Co.	A-/Stable/A-2	4
AGL Resources Inc.	A-/Stable/A-2	4
Virginia Electric & Power Co. (Dominion Virginia)	A-/Stable/A-2	5
Idaho Power Co.	A-/Stable/A-2	5
IDACORP Inc.	A-/Stable/A-2	5
Energen Corp.	A-/Stable/--	6
Vectren Utility Holdings Inc.	A-/Negative/A-2	3
Wisconsin Power & Light Co.	A-/Negative/A-2	4
Atmos Energy Corp.	A-/Negative/A-2	4
Southern Indiana Gas & Electric Co.	A-/Negative/--	5
Montana-Dakota Utilities Co.	A-/Negative/--	5
PacifiCorp	A-/Negative/A-2	5
Northern Border Partners L.P.	A-/CW-Neg/--	4
Central Illinois Light Co.	A-/CW-Neg/--	5
CILCORP	A-/CW-Neg/--	5
Union Electric Co.	A-/CW-Neg/A-2	5
Ameren Corp.	A-/CW-Neg/A-2	5
Cincinnati Gas & Electric Co.	BBB+/Stable/A2-	4
Oklahoma Gas & Electric Co.	BBB+/Stable/A-2	4
Northern States Power Wisconsin	BBB+/Stable /A-2	5
Kentucky Utilities Co.	BBB+/Stable/A-2	5
Louisville Gas & Electric Co.	BBB+/Stable/A-2	5
Allete Inc.	BBB+/Stable/A-2	5
Wisconsin Energy Corp.	BBB+/Stable/A-2	5
PSI Energy Inc.	BBB+/Stable/A-2	5
Union Light Heat & Power Co.	BBB+/Stable/--	5
Hawaiian Electric Co. Inc.	BBB+/Stable/A-2	6
Enogex Inc.	BBB+/Stable/--	6
National Fuel Gas Co.	BBB+/Stable/A-2	7
Energy East Corp.	BBB+/Negative/--A2	3
RGS Energy Group Inc.	BBB+/Negative/--	4
Rochester Gas & Electric Corp.	BBB+/Negative/--	4
Michigan Consolidated Gas Co.	BBB+/Negative/A-2	4
Interstate Power & Light Co.	BBB+/Negative/A-2	5
Public Service Co. of New Hampshire	BBB+/Negative/--	5
Kaneb Pipe Line Operating Partnership L.P.	BBB+/Negative/--	5

U.S. Utility and Power Company Ranking List (cont.)		
Consolidated Natural Gas Co.	BBB+/Negative/A-2	6
Detroit Edison Co.	BBB+/Negative/A-2	6
Questar Market Resources Inc.	BBB+/Negative/--	8
Portland General Electric Co.	BBB+/CW-Neg./A-2	5
Columbia Energy Group	BBB/Stable/--	3
NiSource Inc.	BBB/Stable/--	4
Xcel Energy Inc.	BBB/Stable/A-2	5
Public Service Co. of Colorado	BBB/Stable /A-2	5
Northern States Power Co.	BBB/Stable /A-2	5
Southwestern Public Service Co.	BBB/Stable /A-2	5
Appalachian Power Co.	BBB/Stable/--	5
Kentucky Power Co.	BBB/Stable/--	5
Public Service Co. of Oklahoma	BBB/Stable/--	5
Southwestern Electric Power Co.	BBB/Stable/--	5
Northern Indiana Public Service Co.	BBB/Stable/--	5
Entergy Arkansas Inc.	BBB/Stable/--	5
Entergy Louisiana Inc.	BBB/Stable/--	5
Progress Energy Florida	BBB/Stable/--	5
Progress Energy Carolinas Inc.	BBB/Stable/A-2	5
Kansas City Power & Light Co.	BBB/Stable/A-2	6
PNM Resources Inc.	BBB/Stable/--	6
Southern California Edison Co.	BBB/Stable/A-2	6
Empire District Electric Co.	BBB/Stable/A-2	6
Entergy Mississippi Inc.	BBB/Stable/--	6
Entergy New Orleans Inc.	BBB/Stable/--	6
Duke Energy Field Services LLC	BBB/Stable/A-2	6
Arizona Public Service Co.	BBB/Negative/A-2	5
TXU U.S. Holdings Co.	BBB/Negative/--	5
Pinnacle West Capital Corp.	BBB/Negative/A-2	6
Cleco Power LLC	BBB/Negative/A-3	6
Puget Sound Energy Inc.	BBB-/Positive/A-3	5
Puget Energy Inc.	BBB-/Positive/--	5
Green Mountain Power Corp.	BBB-/Stable/--	5
Public Service Co. of New Mexico	BBB-/Stable/A-2	6
Pacific Gas & Electric Co.	BBB-/Stable/ --	6
Cleveland Electric Illuminating Co.	BBB-/Stable/--	6
Ohio Edison Co.	BBB-/Stable/--	6
Toledo Edison Co.	BBB-/Stable/--	6
Pennsylvania Power Co.	BBB-/Stable/--	6
El Paso Electric Co.	BBB-/Stable/--	6
Central Vermont Public Service Corp.	BBB-/Stable/--	6
Entergy Gulf States Inc.	BBB-/Stable/--	6
System Energy Resources Inc.	BBB-/Stable/--	7
Tampa Electric Co.	BBB-/Negative/A-3	4

U.S. Utility and Power Company Ranking List (cont.)		
Black Hills Power Inc.	BBB-/Negative/--	6
Westar Energy Inc.	BB+/Positive/--	5
Kansas Gas & Electric Co.	BB+/Positive/--	6
Indianapolis Power & Light Co.	BB+/Stable/--	4
IPALCO Enterprises Inc.	BB+/Stable/--	4
Enterprise Products Operating L.P.	BB+/Stable/--	6
Enterprise Products Partners L.P.	BB+/Stable/--	6
GulfTerra Energy Partners L.P.	BB+/CW-Neg/--	6
Consumers Energy Co.	BB/Negative/--	6
Tucson Electric Power Co.	BB/CW-Neg/--	6
Dayton Power & Light Co.	BB-/CW-Neg/ -	7
Monongahela Power Co.	B/Stable/--	5
Nevada Power Co.	B+/Negative/--	7
Sierra Pacific Power Co.	B+/Negative/--	7
Sierra Pacific Resources	B+/Negative/--	7
4. Diversified Energy and Diversified Non-Energy		
WPS Resources Corp.	A/Stable/A-1	5
KeySpan Corp.	A/Negative/A-1	4
FPL Group Inc.	A/Negative/--	6
Peoples Energy Corp.	A-/Stable/A-2	5
Vectren Corp.	A-/Negative/--	4
PacifiCorp Holdings Inc.	A-/Negative/--	5
Exelon Corp.	A-/Negative/A-2	7
MDU Resources Group Inc.	A-/Negative/A-2	7
Centennial Energy Holdings Inc.	A-/Negative/A-2	8
Otter Tail Corp.	A-/Negative/--	8
Kinder Morgan Energy Partners L.P.	BBB+/Stable/A-2	4
Northeast Utilities	BBB+/Stable/--	5
OGE Energy Corp.	BBB+/Stable/A-2	6
LG&E Energy Corp.	BBB+/Stable/--	6
Cinergy Corp.	BBB+/Stable/A-2	6
Constellation Energy Group Inc.	BBB+/Stable/A-2	7
Sempra Energy	BBB+/Stable/A-2	7
Pepco Holdings Inc.	BBB+/Negative/A-2	5
Conectiv	BBB+/Negative/--	5
Alliant Energy Corp.	BBB+/Negative/A-2	6
DTE Energy Co.	BBB+/Negative/A-2	6
Dominion Resources Inc.	BBB+/Negative/A-2	7
Kinder Morgan Inc.	BBB/Stable/A-2	5
American Electric Power Co. Inc.	BBB/Stable/A-2	6
Entergy Corp.	BBB/Stable/--	6
Hawaiian Electric Industries Inc.	BBB/Stable/A-2	6
Progress Energy Inc.	BBB/Stable/A-2	6

U.S. Utility and Power Company Ranking List (cont.)		
PPL Corp.	BBB/Stable/--	7
Public Service Enterprise Group Inc.	BBB/Stable/A-2	7
Great Plains Energy Inc.	BBB/Stable/--	7
Duke Energy Corp.	BBB/Stable/A-2	7
Duke Capital Corp.	BBB/Stable/A-2	8
TXU Corp.	BBB/Negative/--	5
Centerpoint Energy Inc.	BBB/Negative/--	5
Cleco Corp.	BBB/Negative/A-3	6
Potomac Capital Investment Corp.	BBB/Negative/--	8
MidAmerican Energy Holdings Co.	BBB-/Positive/--	5
FirstEnergy Corp.	BBB-/Stable/--	6
TECO Energy Inc.	BBB-/Negative/A-3	5
Black Hills Corp.	BBB-/Negative/--	8
Avista Corp.	BB+/Stable/--	6
Edison International	BB+/Stable/--	6
TNP Enterprises	BB+/Stable/--	6
New York Water Service Corp.	BB/Stable	7
CMS Energy Corp.	BB/Negative/--	7
DPL Inc.	BB- /CW-Neg/--	8
Williams Companies Inc. (The)	B+/Negative/--	8
Allegheny Energy Inc.	B/Stable/--	7
Dynegy Inc.	B/Negative/--	8
Dynegy Holdings Inc.	B/Negative/--	9
El Paso CGP Corp.	B-/Negative/--	6
Aquila Inc.	B-/Negative/--	8
El Paso Corp.	B-/Negative/--	8
5. Energy Merchants/Power Developers/Trading and Marketing		
Entergy-Koch L.P.	A/Stable/--	9
KeySpan Generation LLC	A/Negative/--	5
FPL Group Capital	A/Negative/A-1	8
Exelon Generation Co.	A-/Negative/A-2	8
AmerenEnergy Generating Co.	A-/CW-Neg/--	8
Southern Power Co.	BBB+/Stable/--	6
LG&E Capital Corp.	BBB+/Stable/A-2	9
Alliant Energy Resources Inc.	BBB+/Negative/--	9
American Ref-Fuel Co. LLC	BBB/Stable/--	6
PSEG Power LLC	BBB/Stable/--	8
PPL Energy Supply LLC	BBB/Stable/--	8
TXU Energy Co. LLC	BBB/Negative/--	7
Duke Energy Trading and Marketing LLC	BBB-/Negative/--	10
Northeast Generation Company	BB+/Negative/--	9
Cogentrix Energy	BB-/Stable/--	6
PSEG Energy Holdings Inc.	BB-/Stable/--	9

U.S. Utility and Power Company Ranking List (cont.)

AES Corp.	B+/Stable/--	9
NRG Energy Inc.	B+/Stable	9
Allegheny Energy Supply Co. LLC	B/Stable/--	8
Reliant Resources Inc.	B/Negative/--	8
Calpine Corp	B/Negative/--	9
Edison Mission Energy	B/Negative/--	9
Orion Power Holdings Inc	B/Negative/--	9
Reliant Energy Mid-Atlantic Power Holdings LLC	B/Negative/--	9
Mirant Americas Generation Inc.	D/--/--	10
Mirant Americas Energy Marketing L.P.	D/--/--	10
Mirant Corp.	D/--/--	10
NEGT Energy Trading Holdings Corp	D/--/--	10
PG&E National Energy Group	D/--/--	10
USGen New England Inc.	D/--/--	10

RESEARCH

CreditStats:

Utility Statistical Methodology

Publication date: 02-Oct-2006
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Secondary Credit Analyst: Brian Kahn, New York; brian_kahn@standardandpoors.com

Individual utility company key ratios are presented in the CreditStats by industry subsector. Within the subsectors are company financial statistics for the past five years, where available. Tables listing companies' three-year averages, also by subsector, are provided, with a subsector median. In all tables, unless otherwise noted, the key ratios reflect many of the adjustments that Standard & Poor's Ratings Services' analysts make when performing their quantitative analyses of historical data.

Nonrecurring gains or losses have been eliminated from earnings. This includes gains on asset sales; significant transitory income items; unusual losses; losses on asset sales; and charges due to write-downs, plant closings, restructurings, and early retirement programs. These adjustments affect chiefly interest coverage ratios, return on equity, and operating margins.

Unusual cash flow items similar to the nonrecurring gains or losses have also been reversed, unless the noncash nature of the charge was already factored into the reported cash flow figures. These changes affect funds flow ratios.

The ratings are as of Sept. 7, 2006, unless indicated otherwise. Because ratings are forward-looking and not just a reflection of past results, a company's historical ratios may not reflect its current rating: Companies that have strong results to date but face uncertain futures may be rated below what their historical ratios suggest; alternatively, a firm's poor recent financial history can be offset by a correction of its problems or a change in its business risk profile. In a few cases, acquisitions caused a few ratios to deviate from the levels typical for a firm's rating category.

The ratings may be changed at any time based on new information or changed circumstances. Thus, the accuracy of the ratings information beyond Sept. 7, 2006, should not be assumed.

Table 1

Key U.S. Utility Financial Ratios, Long-Term Debt

Three-year (2003 to 2005) averages

	AA	A	BBB	BB	B	CCC
Oper. income/sales(%)	21.0	23.4	25.7	22.7	12.2	5.6
Free oper. cash flow/sales (%)	4.3	(0.5)	3.0	7.0	(2.7)	1.0
Return on capital (%)	11.0	9.8	8.6	7.9	6.2	3.7
EBIT interest coverage (x)	4.5	3.3	2.8	1.8	0.7	0.6
EBITDA interest coverage (x)	6.4	4.7	4.3	2.7	1.3	1.6
EBITDA/total assets (%)	11.1	9.6	9.8	9.2	5.7	8.1
FFO/total debt (%)	26.5	19.3	20.1	13.5	5.7	9.4
Free oper. cash flow/total debt (%)	10.0	(0.6)	3.0	4.3	(4.6)	2.8
Disc. cash flow/total debt (%)	1.6	(6.6)	(1.7)	(0.4)	(4.8)	(7.5)

Schedule MWC-2

Table 1

Key U.S. Utility Financial Ratios, Long-Term Debt (cont.)						
Total debt/EBITDA (x)	3.0	3.8	3.8	5.2	7.6	6.8
Total debt/capital (%)	54.9	56.8	57.0	67.8	66.5	74.0

Table 2

Key U.S. Utility Financial Ratios, Short-Term Debt

Three-year (2003 to 2005) averages

	A-1+	**A-1**	**A-2**	**A-3**	**B-1**	**B-2**	**B-3**
Oper. income/sales(%)	16.5	23.3	25.5	18.5	21.0	20.7	7.5
Free oper. cash flow/sales (%)	(3.8)	(0.3)	2.0	3.9	(0.6)	1.4	(2.7)
Return on capital (%)	9.5	10.5	8.2	8.8	6.8	4.4	2.7
EBIT interest coverage (x)	4.4	4.5	3.0	2.9	1.5	0.8	0.6
EBITDA interest coverage (x)	6.6	6.1	4.7	4.3	1.9	1.2	1.3
EBITDA/total assets (%)	9.5	10.2	9.8	9.0	6.9	5.7	5.5
FFO/total debt (%)	23.6	25.5	19.9	17.4	13.5	6.1	8.3
Free oper. cash flow/total debt (%)	(6.0)	(0.6)	2.3	4.5	(0.4)	0.9	(4.6)
Disc. cash flow/total debt (%)	(13.5)	(6.7)	(3.7)	(0.7)	(0.5)	0.7	(4.6)
Total debt/EBITDA (x)	3.6	3.2	3.8	4.4	6.8	7.8	8.2
Total debt/capital (%)	59.1	56.6	55.6	60.5	75.6	66.5	58.5

Utility Financial Ratio Definitions

EBIT Interest Coverage (x)

Numerator: Revenue (less the interest portions of nonrecourse debt and securitized debt, where applicable) less the cost of goods sold, maintenance expenses, SG&A, taxes other than income, other operating expenses, and D&A, plus interest income, equity income, other nonoperating income (expenses), and the interest computed for the off-balance-sheet debt items. This total amount excludes all nonrecurring items.

Denominator: Gross interest expense (interest expense plus capitalized interest and the debt portion of AFUDC [less the interest portions of nonrecourse debt and securitized debt, where applicable]) plus the dividends paid on hybrid preferred securities and the interest computed for the off-balance-sheet debt items.

FFO Interest Coverage (x)

Numerator: Funds from operations (less the amortized portion of securitized debt and contributions to nuclear decommissioning trust funds, where applicable) plus cash interest paid (less the interest portions of nonrecourse debt and securitized debt, where applicable), capitalized interest and the debt portion of AFUDC, the dividends paid on hybrid preferred securities, and the interest computed for the off-balance-sheet debt items.

Denominator: Gross interest expense (interest expense plus capitalized interest and the debt portion of AFUDC [less the interest portions of nonrecourse debt and securitized debt, where applicable]) plus the dividends paid on hybrid preferred securities and the interest computed for the off-balance-sheet debt items.

Return On Common Equity (%)

Numerator: Net income from continuing operations less preferred dividends (exclusive of subsidiary preferred dividends), the equity portion of AFUDC, and capitalized interest and the debt portion of AFUDC.

Denominator: The two-year average of common equity.

Net Cash Flow/Capital Expenditures (%)

Numerator: Funds from operations (less the amortized portion of securitized debt and contributions to nuclear decommissioning trust funds, where applicable) less preferred dividends (exclusive of subsidiary preferred dividends) and common dividends.

Denominator: Capital expenditures (net of the equity portion of AFUDC and capitalized interest and the debt portion of AFUDC).

FFO/Adjusted Total Debt (%)

Numerator: Funds from operations (less the amortized portion of securitized debt and contributions to nuclear decommissioning trust funds, where applicable) plus the depreciation adjustment for operating leases.

Denominator: Total debt (includes hybrid preferred securities and off-balance-sheet debt; excludes securitized debt and nonrecourse debt).

Total Debt/Capital (%)

Numerator: Total debt (includes hybrid preferred securities and off-balance-sheet debt; excludes securitized debt and nonrecourse debt).

Denominator: Total debt (includes hybrid preferred securities and off-balance-sheet debt; excludes securitized debt and nonrecourse debt) plus minority interest, preferred stock, and common equity.

Common Dividend Payout (%)

Numerator: Common dividends.

Denominator: Net income from continuing operations less preferred dividends.

STANDARD & POOR'S RATINGSDIRECT

RESEARCH

Kansas City Power & Light Co.

Publication date: 01-Aug-2006
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Corporate Credit Rating

BBB/Stable/A-2

Business risk profile

1 2 3 4 5 $\boxed{6}$ 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)	
Kansas City Power & Light Co.	
Sr unsecd debt	
Local currency	BBB
Sr secd debt	
Local currency	BBB
CP	
Local currency	A-2
Pfd stk	
Local currency	BB+
Great Plains Energy Inc.	
Corporate Credit Rating	BBB/Stable/--
Sr unsecd debt	
Local currency	BBB-
Pfd stk	
Local currency	BB+
KCPL Financing II	
KCPL Financing III	

Corporate Credit Rating History	
Oct. 20, 2000	A-/A-2
Mar. 1, 2002	BBB/A-2

Schedule MWC-3

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 latan 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.

Short-term credit factors
KCPL's short-term rating is 'A-2.' 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.

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.

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			
(Mil. $)	**Great Plains Energy Inc.**	**Ameren Corp.**	**Xcel Energy Inc.**	**Westar Energy Inc.**
Rating as of April 27, 2006	BBB/Stable/--	BBB+/Watch Neg/A-2	BBB/Stable/A-2	BB+/Positive/NR
Business Risk Profile	7	6	5	5
Total revenues	2,406.1	5,511.0	8,636.1	1,503.0
Net income from continuing operations	163.1	554.7	512.0	132.6
Funds from operations (FFO)	399.6	1,250.9	1,423.4	349.3
Capital expenditures	225.0	873.3	1,171.2	213.0
Cash and investments	114.9	92.0	225.1	52.5
Total debt	1,647.3	6,402.2	8,453.1	2,221.7
Preferred stock	39.0	190.7	105.0	21.4
Common equity	990.0	5,031.9	4,824.8	1,220.9
Total capital	2,676.4	11,642.5	13,385.3	3,464.0
Adjusted ratios				
EBIT interest coverage (x)	3.4	3.8	2.2	1.9
FFO interest coverage (X)	4.9	4.8	3.5	2.7
FFO/total debt (%)	24.3	19.5	16.8	15.7
Discretionary cash flow/total debt (%)	4.9	(2.26)	(4.14)	1.0
Net Cash Flow/Capex (%)	123.8	89.8	94.0	134.5
Total debt/total capital (%)	61.6	55.0	63.2	64.1
Return on common equity (%)	16.1	11.1	9.2	11.8
Common dividend payout ratio (unadjusted) (%)	73.1	85.5	64.5	57.9

Table 2

Kansas City Power & Light Co. Financial Summary*

Industry Sector: INTEGRATED

	Fiscal year ended Dec. 31				
(Mil. $)	**2005**	**2004**	**2003**	**2002**	**2001**

Rating history	BBB/Stable/A-2	BBB/Stable/A-2	BBB/Stable/A-2	BBB/Stable/A-2	A-/Negative/A-2
Total revenues	1,130.9	1,091.6	1,057.0	1,071.3	1,350.9
Net income continuing	143.7	143.3	125.8	98.7	119.7
Funds from operations (FFO)	300.8	337.1	333.9	329.5	272.4
Capital expenditures	336.2	188.5	148.7	163.5	335.4
Cash and investments	3.0	51.6	26.5	0.2	1.0
Total debt	1,206.5	1,331.5	1,620.1	1,669.7	1,212.4
Preferred stock	0.0	0.0	0.0	0.0	0.0
Common equity	1,141.0	1,099.6	855.6	745.0	744.4
Total capital	2,347.5	2,431.1	2,475.7	2,414.7	1,956.8
Adjusted ratios					
EBIT interest coverage (x)	3.5	3.0	3.3	2.5	2.0
FFO interest coverage (x)	4.7	4.4	4.5	3.9	3.2
FFO/total debt (%)	24.9	25.3	20.6	19.7	22.5
Discretionary cash flow/total debt (%)	(6.24)	2.6	3.8	1.3	(8.11)
Net Cash Flow/Capex (%)	55.9	115.7	158.6	136.9	81.2
Total debt/total capital (%)	51.4	54.8	65.4	69.1	62.0
Return on average equity (%)	12.5	14.3	15.5	13.1	12.7
Common dividend payout ratio (unadjusted) (%)	N.M.	78.5	83.2	77.9	107.0

*Fully adjusted. N.M.–Not Meaningful.

SCHEDULE MWC-4

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