



CATHRYN J. DINGES  
Corporate Counsel

March 5, 2014

Ms. Kim Christiansen, Executive Director  
Kansas Corporation Commission  
1500 SW Arrowhead Road  
Topeka, Kansas 66604

Re: Compliance Docket No. 11-WSEE-819-CPL

Dear Ms. Christiansen:

Pursuant to Section C(3) of the reporting standards adopted by the Commission in its Order dated December 3, 2010 in Docket No. 06-CIMX-181-GIV, please find enclosed a Moody's Ratings report dated January 31, 2014.

Sincerely,

A handwritten signature in blue ink that reads "Cathryn J. Dinges".

Cathryn J. Dinges

cc: Mr. Jeff McClanahan, Director of Utilities  
Mr. Justin Grady, Chief of Accounting & Financial Analysis

**Rating Action: Moody's upgrades Westar Energy and Kansas Gas & Electric to Baa1 from Baa2; outlooks are stable**

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Global Credit Research - 31 Jan 2014

**Approximately \$3.5 Billion of Debt Affected**

New York, January 31, 2014 -- Moody's Investors Service upgraded the ratings of Westar Energy (Westar; including its issuer rating to Baa1 from Baa2) and affirmed Westar's commercial paper rating at P-2. This rating action completes our review of Westar, initiated on November 8, 2013. In conjunction with this action, Moody's also upgraded the ratings of Westar's subsidiary Kansas Gas & Electric (KGE; including its issuer rating to Baa1 from Baa2). The outlooks for both Westar and KGE are stable.

"The rating upgrades for Westar and KGE primarily reflect regulatory provisions in Kansas that are consistent with our view of a generally improving regulatory environment for US electric and gas utilities", said Ryan Wobbrock, Assistant Vice President.

**RATINGS RATIONALE**

The primary driver of today's rating action is Moody's more favorable view of the relative credit supportiveness of the US regulatory framework, as detailed in our September 23, 2013 Request for Comment: "Proposed Refinements to the Regulated Utilities Rating Methodology and our Evolving View of US Utility Regulation." Factors supporting this view include better cost recovery provisions, reduced regulatory lag, and generally fair and open relationships between utilities and regulators. The US utility sector's low number of defaults, high recovery rates, and generally strong financial metrics from a global perspective provide additional corroboration for these upgrades.

The rating upgrade for Westar acknowledges the relatively stable and predictable regulatory environment in Kansas, which includes supportive cost recovery of Westar's most significant expenditures, such as abbreviated rate cases for the current environmental capex related to its La Cygne generation facility. The Kansas Corporation Commission (KCC) also provides a wide suite of expense tracking mechanisms and has recently improved rate design through increases in monthly customer charges, which reduces Westar's dependency on volumetric sales to recover fixed costs.

Westar's rating reflects the company's constructive regulatory jurisdiction and cost recovery provisions. The good suite of recovery mechanism have also resulted in improved financial metrics in recent years. The company's sizeable capital budget is beginning to ease with the completion of environmental upgrades, which should also bring stability to the pace of Westar's financing plans over the near-term.

KGE's rating is based on the rating of Westar due to a lack of any meaningful restrictions in the movement of funds between the subsidiary and Westar (also an operating company), the sharing of bank credit facilities and the commingling of treasury and cash management functions, which minimizes the distinction between the overall risk profiles of the two entities. As a practical matter, the companies are also effectively operated as one in terms of meeting the day-to-day business needs of its customers and Westar's consolidated capital structure is used for ratemaking purposes.

**Rating Outlook**

The stable rating outlook incorporates the KCC's regulatory support, which we think will be sufficient to maintain financial metrics of CFO pre-WC interest coverage and CFO pre-WC to debt of around 3.5x and in the mid-teens range, respectively.

**What Could Change the Rating - Up**

Ratings could be positively affected if financial metrics improve and are sustained at levels that are strong for the Baa rating category, including CFO pre-WC interest coverage approaching 4.5x and CFO pre-WC to debt approaching 20%, without the favorable impacts of accelerated depreciation.

## What Could Change the Rating - Down

Downward pressure on the company's rating could arise over a change in its regulatory relationship, a substantial increase in capital spending especially if financed with an over-emphasis on debt, resulting in a sustained deterioration of credit metrics that would result CFO pre-WC to debt falling lower than 13% and RCF to debt declining to below 9% for an extended period.

### Ratings Upgraded Include:

Westar Energy, Inc.

Issuer Rating to Baa1 from Baa2

Sr Sec Bank Credit Facility to A2 from A3

First Mortgage Bonds to A2 from A3

Senior Secured Shelf to (P)A2 from (P)A3

Senior Unsecured Shelf to (P)Baa1 from (P)Baa2

Pref. Shelf to (P)Baa3 from (P)Ba1

Outlook Stable

Kansas Gas & Electric

Issuer Rating to Baa1 from Baa2

First Mortgage Bonds to A2 from A3

Senior Secured to A2 from A3

Backed First Mortgage Bonds to A2 from A3

Underlying First Mortgage Bonds to A2 from A3

Senior Secured Shelf to (P)A2 from (P)A3

Outlook Stable

### Ratings Affirmed Include:

Westar Bkd Commercial Paper P-2

The principal methodology used in this rating was Regulated Electric and Gas Utilities published in December 2013. Please see the Credit Policy page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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