

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

In Reply Refer To:
Office of Enforcement
Docket No. PA11-17-000
October 20, 2011

Ms. Ellen Fairchild
Vice President, Corporate Secretary and Chief Compliance Officer
Kansas City Power & Light Company
1200 Main St., 30th Floor
Kansas City, MO 64105

Dear Ms. Fairchild:

1. The Division of Audits within the Office of Enforcement (OE) has completed its audit of Kansas City Power & Light Company (KCP&L) in Docket No. PA11-17-000.
2. The audit was conducted to determine whether KCP&L Greater Missouri Operations Company (KCP&L GMO) complied with the conditions imposed by the Commission's March 23, 2010 and April 19, 2010 orders authorizing KCP&L GMO to issue short-term debt securities under section 204 of the Federal Power Act (FPA).¹ The audit period was from March 23, 2010 through June 30, 2011.
3. The audit report recommends corrective actions on one finding of non-compliance with the Commission's March 23, 2010 and April 19, 2010 orders. By letter dated August 3, 2011, which I have attached, you informed us that KCP&L agrees with our findings and recommendations and that KCP&L GMO has taken corrective actions. I hereby approve the corrective actions, as described in the enclosed audit report and your August 3, 2011 letter.
4. The Commission delegated the authority to act on this matter to the Director of OE under 18 C.F.R. § 375.311(j) (2011). This letter order constitutes final agency action. The Company may file a request for rehearing with the Commission within 30 days of the date of this order under 18 C.F.R. § 385.713 (2011).

¹ *KCP&L Greater Missouri Operations*, 130 FERC ¶ 62,246 (2010), and *KCP&L Greater Missouri Operations*, 131 FERC ¶ 62,047 (2010).

5. This letter order is without prejudice to the Commission's right to require hereafter any adjustments it may consider proper from additional information that may come to its attention. Also, any instance of noncompliance not addressed herein or that may occur in the future may also be subject to investigation and appropriate remedies.

6. I appreciate the courtesies extended to our auditors. If you have any questions, please contact Bryan K. Craig, Director and Chief Accountant, Division of Audits, at (202) 502-8741.

Sincerely,

Norman C. Bay
Director
Office of Enforcement

Enclosure



Federal Energy Regulatory Commission

**Audit of KCP&L Greater
Missouri Operations
Company's Compliance
With Conditions Governing
Issuance of Short-Term
Debt Securities**

Docket No. PA11-17-000
October 20, 2011

**Office of Enforcement
Division of Audits**

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I. Executive Summary

A. Overview

The Division of Audits in the Office of Enforcement (OE) has completed an audit of Kansas City Power & Light Company (KCP&L or the Company). The audit was initiated on November 10, 2010 to determine whether the Company complied with the requirements of conditions imposed by orders the Commission issued on March 23, 2010 and April 19, 2010, authorizing KCP&L Greater Missouri Operations Company (KCP&L GMO), a KCP&L affiliate, to issue short-term debt securities under section 204 of the Federal Power Act (FPA).² The audit covered March 23, 2010 through June 30, 2011.

B. KCP&L GMO

KCP&L GMO was created in 2008 when Great Plains Energy, Inc. (Great Plains) acquired Aquila Inc. and its electric utility operations in Missouri. KCP&L and KCP&L GMO are wholly owned subsidiaries of Great Plains. KCP&L, KCP&L GMO, and Great Plains are headquartered in Kansas City, MO. Great Plains is a Missouri corporation incorporated in 2001.

C. Summary of Compliance Findings

The audit found that the Company did not, in certain instances, comply with the requirement that an authorized officer of the public utility certify, within 30 days of each open account advance: (1) that, at the time of the advance, repayment of the funds will not impair the ability of the public utility to perform as a public utility; and (2) the intended use or uses of the funds advanced.

² *KCP&L Greater Missouri Operations*, 130 FERC ¶ 62,246 (2010), and *KCP&L Greater Missouri Operations*, 131 FERC ¶ 62,047 (2010).

D. Summary of Recommendations

Audit staff recommended that KCP&L GMO:

1. Review its procedures for preparing the certifications required when open account advances are made to KCP&L GMO from the Great Plains Energy money pool, and update and revise them as necessary.³
2. Review its certifications from March 23, 2010 to present, revise them as necessary, and provide OE staff copies of the revised certifications.
3. Submit for audit staff's review KCP&L GMO's plans for implementing audit staff's recommendations. KCP&L GMO should provide these plans to audit staff within 30 days of the issuance of the final audit report in this docket.
4. Submit quarterly reports to the Division of Audits in the Office of Enforcement describing KCP&L GMO's progress in completing each corrective action recommended in the final audit report in this docket. KCP&L GMO should make these filings no later than 30 days after the end of each calendar quarter, beginning with the first quarter after the final audit report in this docket is issued, and continuing until the Company completes all recommended corrective actions.
5. Submit copies of any written policies and procedures developed in response to the recommendations in the final audit report. These policies and procedures should be submitted for audit staff's review in the first quarterly filing after completion by KCP&L GMO.

E. KCP&L GMO's Implementation of Recommendations

1. KCP&L GMO reviewed its *National Grid* compliance procedures, and updated and revised its internal procedures as recommended by the audit report.

³ The money pool is described in KCP&L GMO's application as an internal financing arrangement in which the excess of funds of some participants are used to satisfy the short-term borrowing needs of KCP&L and KCP&L GMO. The third member of the pool is Great Plains Energy, which serves solely as a lender. KCP&L GMO's December 22, 2009 Application in Docket No. ES10-19 at p. 7.

2. KCP&L GMO reviewed its *National Grid* certifications from April 1, 2010 to the present and made all necessary corrections, as recommended by the audit report.
3. The Office of Enforcement has reviewed KCP&L GMO's updated and revised internal procedures and finds that they satisfy our concerns.
4. The Office of Enforcement has reviewed KCP&L GMO's revised certifications and finds that they satisfy our concerns.

II. Introduction

A. Objectives

The objectives of the audit were to determine whether and how KCP&L GMO complied with all relevant requirements imposed by the Commission's orders of March 23 and April 19, 2010, regarding the issuance of short-term debt securities. This included determining whether the Company complied with: (1) limits on the amount it could borrow and the interest rates it could pay; (2) restrictions governing the use of certain funds borrowed and the responsibility for debt incurred; and (3) requirements applicable to advances the Company receives from its parent company's money pool. The audit covered March 23, 2010 through June 30, 2011.

1. Limits on Amount Borrowed and Interest Rates

The Commission orders authorized KCP&L GMO to issue a maximum of \$500 million in short-term debt at any one time. The orders also limited the interest rate KCP&L GMO may pay on this debt to no more than either: (1) the greater of the one-, two-, three-, or six-month London Interbank Offered Rate (LIBOR) in effect at the time of the loan plus up to 430 basis points; or (2) the greater of the prime rate or Federal funds rate in effect at the time of loan plus 430 basis points. The orders required that any loans based on the prime rate or Federal funds rate must be repaid or refinanced as a LIBOR loan on or before the sixth calendar day the indebtedness is outstanding.

2. Westar Restrictions

The orders also imposed conditions first imposed by the Commission in *Westar Energy, Inc.*, 102 FERC ¶ 61,186, *order on reh'g*, 104 FERC ¶ 61,018 (2003)(*Westar*). In *Westar*, the Commission required:

- (1) The proceeds of debt backed by a public utility asset must be used for public utility purposes;
- (2) If any public utility assets that secure debt issuances are divested or spun off, the debt must follow the asset and also be divested or spun off;
- (3) If any of the proceeds from unsecured debt are used for nonutility purposes, the debt must follow the nonutility assets, i.e., if the nonutility assets are divested or spun-off, a proportionate share of the debt must follow the divested or spun-off asset; and

(4) If utility assets financed by unsecured debt are divested or spun off to another entity, then a proportionate share of the debt must also be divested or spun off.

3. National Grid Restrictions

Finally, because the orders authorized KCP&L GMO to receive noninterest bearing open account advances from its parent company's money pool, the Commission required KCP&L GMO to comply with the conditions it first imposed in *National Grid USA*, 115 FERC ¶ 61,241 (2006) (*National Grid*). In that case, the Commission required an authorized officer of the public utility to certify, within 30 days of the date of each advance: that, at the time of the advance, repayment will not impair the ability of the public utility to perform as a public utility, and the intended use or uses of the funds advanced.

B. Scope and Methodology

To accomplish the audit objectives, audit staff:

- sent the Company data requests to determine compliance with the conditions the Commission's orders impose;
- reviewed publicly available materials, including filings with the Commission, select filings with the Securities and Exchange Commission (SEC), materials available on the Company's web site, and KCP&L GMO's 2010 FERC Form No. 1;
- held discussions with Company personnel; and
- conferred with other Commission staff on compliance issues to ensure that audit findings would be wholly consistent with Commission precedent and policy.

Audit staff performed these specific steps to evaluate KCP&L's compliance with these conditions imposed by the Commission orders:

- *Amount Borrowed and Interest Rates*

Audit staff reviewed the information KCP&L provided to audit staff to determine whether it had complied with the limits the two Commission orders authorizing KCP&L to issue short-term debt

securities imposed on the maximum amounts of debt it could issue and interest rates it could pay.

Specifically, audit staff reviewed copies of: (1) a credit agreement dated September 23, 2008, between Aquila, Inc. (now KCP&L GMO) and a group of lenders; and (2) a credit agreement dated August 9, 2010, between KCP&L GMO and various lenders. These credit agreements set forth the maximum amounts that may be borrowed and interest rates that will be charged under each agreement. Audit staff also examined confirmations from the lender of amounts borrowed and interest rates applied for advances made under the credit agreements.

These documents indicate that the interest rates paid and maximum short-term debt outstanding issued under the authority granted by the Commission's orders never exceeded the limits established by the Commission's orders.

- *Westar Restrictions*

Audit staff reviewed the information KCP&L provided to audit staff to determine whether it had complied with the *Westar* restrictions governing: (1) the use of the proceeds of debt backed by a public utility asset; (2) when any public utility assets that secure debt issuances are divested or spun off; (3) when any of the proceeds from unsecured debt are used for nonutility purposes; and (4) when utility assets financed by unsecured debt are divested or spun off to another entity.

The Company's responses to audit staff's data requests indicate that none of the debt issued under the authority granted by the Commission's orders was secured. Staff's review of the credit agreements confirms that they were unsecured. The first two *Westar* restrictions thus did not apply. Similarly, the data responses indicate that none of the debt the Company issued was used for nonutility purposes, and no nonpublic assets were divested or spun off, meaning that the third *Westar* restriction was not triggered. Finally, the fourth *Westar* restriction was similarly not triggered because no public utility assets were divested or spun off.

- *National Grid Restrictions*

KCP&L submitted certifications signed by KCP&L GMO's Treasurer in each month from April 2010 to January 2011. These certifications set forth for the months of March 2010 through January 2011: (1) the amount of any advances made to KCP&L GMO from the Great Plains Energy Money Pool; (2) whether, at the time of each loan, repayment would impair KCP&L GMO's ability to perform as a public utility; and (3) the intended purpose of each loan.

Audit staff reviewed these certifications and found that the Company did not, in certain instances, comply with the *National Grid* requirements. This conclusion is based on the fact that in three months, the Treasurer's certification listed the incorrect month or certified that there were advances when there were none.

III. Findings and Recommendations

A. *National Grid* Requirements

KCP&L GMO complied with the *National Grid* conditions in most, but not all, cases. In three months of entries, the Treasurer's certification listed the incorrect month or certified that there were advances when there were none.

Pertinent Guidance

In *National Grid, USA*, 115 FERC ¶ 61,241 (2006), the Commission imposed the following conditions on its approval of National Grid's request for authorization to receive non-interest bearing open account advances from its parent company:

(1) an authorized officer of the public utility must certify, within 30 days of the date of the advance, that, at the time of the advance, repayment of the funds advanced will not impair the ability of the public utility to perform as a public utility; and

(2) an authorized officer of the public utility must certify, within 30 days of the date of the advance, the intended use or uses of the funds advanced. These certifications are to be retained in company files, and provided to the Commission or its staff upon request, for 5 years from the date the transaction is completed.

The Commission's order authorizing KCP&L GMO to receive non-interest bearing open account advances from the Great Plains money pool required it to comply with the requirements in *National Grid*.⁴

Staff Evaluation of Compliance

Audit staff reviewed KCP&L GMO's responses to data requests to determine KCP&L GMO's compliance with the *National Grid* conditions imposed in the Commission's orders. This review revealed that KCP&L GMO complied with these conditions in most, but not all, cases. In one month, KCP&L GMO's Treasurer mistakenly stated that a certification was for the wrong month. In two

⁴ *KCP&L Greater Missouri Operations*, 130 FERC ¶ 62,246 at pp. 2-3 (2010).

other cases, the Treasurer certified that conditions for advances had been met in months when there were no advances.

Recommendations

We recommended that KCP&L GMO:

1. Review its *National Grid*-related compliance policies and procedures, and update and revise them as necessary.
2. Review its *National Grid* certifications from April 1, 2010 to the present, and make the necessary changes.

Corrective Actions

1. KCP&L GMO reviewed its *National Grid*-related compliance policies and procedures, and updated and revised them as necessary.
2. KCP&L GMO reviewed its *National Grid* certifications from April 1, 2010 to the present, and made the necessary changes.



VIA OVERNIGHT DELIVERY

August 3, 2011

Mr. Bryan K. Craig
Director and Chief Accountant
Division of Audits
Federal Energy Regulatory Commission
888 First Street, NE – Room 51-37
Washington, DC 20426

**RE: Docket No. PA11-17-000
FERC Compliance Audit of Kansas City Power & Light Company**

Dear Mr. Craig:

This letter is in response to the draft *Audit of KCP&L Greater Missouri Operations Company's Compliance with Conditions Governing Issuance of Short-Term Debt Securities* ("Draft Report"), dated July 19, 2011, issued by the Division of Audits within the Office of Enforcement of the Federal Energy Regulatory Commission (the "Commission"). Kansas City Power & Light Company ("KCP&L") appreciates this opportunity to comment on the Draft Report.

Please note that the Executive Summary of the Draft Report, should be corrected to state that KCP&L Greater Missouri Operations Company ("KCP&L GMO") was created in 2008 when Great Plains Energy, Inc. ("Great Plains") acquired Aquila, Inc. and its electric utility operations in Missouri. KCP&L and KCP&L GMO both are wholly owned subsidiaries of Great Plains.

Your letter requested a response to the audit finding and recommendations in the Draft Report within fifteen days. Additionally, it indicated that KCP&L GMO should state "whether we agree or disagree with the audit finding and recommendations." As set forth below, KCP&L and KCP&L GMO agree with the finding and recommendations proposed by the audit staff. Corrective actions have been implemented for all recommendations in the Draft Report. Because all corrective actions are complete, submission of quarterly reports will not be necessary.

Draft Report Findings and Recommendations

1. *National Grid* Requirements

Audit staff's review revealed that KCP&L GMO complied with the *National Grid* conditions in most, but not all, cases. In three months of entries, the Treasurer's certification listed the incorrect month or certified that there were advances when there were none.

Pertinent Guidance

In *National Grid, USA*, 115 FERC, 61,241 (2006), the Commission imposed the following conditions on its approval of National Grid's request for authorization to receive non-interest bearing open account advances from its parent company:

- (1) an authorized officer of the public utility must certify, within 30 days of the date of the advance, that, at the time of the advance, repayment of the funds advanced will not impair the ability of the public utility to perform as a public utility; and
- (2) an authorized officer of the public utility must certify, within 30 days of the date of the advance, the intended use or uses of the funds advanced. These certifications are to be retained in company files, and provided to the Commission or its staff upon request, for 5 years from the date the transaction is completed.

The Commission's order authorizing KCP&L GMO to receive non-interest bearing open account advances from its corporate parents required it to comply with the requirements in *National Grid*.

Staff Evaluation of Compliance

Audit staff reviewed KCP&L GMO's responses to data requests to determine KCP&L GMO's compliance with the *National Grid* conditions imposed in the Commission's orders. This review revealed that KCP&L GMO complied with these conditions in most, but not all, cases. In one month, KCP&L GMO's Treasurer mistakenly stated that a certification was for the wrong month. In two other cases, the Treasurer certified that conditions for advances had been met in months when there were no advances.

Recommendations

We recommend that KCP&L GMO:

1. Review its *National Grid-related* compliance policies and procedures, and update and revise them as necessary.

2. Review its *National Grid* certifications from April 1, 2010 to the present, and make the necessary changes.

KCP&L Response

KCP&L GMO has reviewed its *National Grid* compliance procedures and has updated and revised its internal procedures in accordance with the recommendations provided in the Draft Report. A copy of the revised procedures will be provided directly to audit staff. KCP&L GMO also has reviewed its *National Grid* certifications from April 1, 2010 to the present. All necessary corrections have been completed. A copy of corrected certifications will be provided directly to audit staff.

The revised procedures specific to compliance with *National Grid* requirements will be shared with KCP&L's Treasury Department employees.

Conclusion

Great Plains, KCP&L and KCP&L GMO are committed to compliance with the Commission's regulations. We believe the audit and the Draft Report process have provided a constructive means to help us improve our compliance objectives and to foster a strong culture of compliance.

Please do not hesitate to contact me with questions or comments.

Regards,



Ellen Fairchild
Vice President, Corporate Secretary and Chief Compliance Officer
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Kansas City, MO 64105
ellen.fairchild@kcpl.com
816-556-2083

cc: Denise Buffington, Corporate Counsel – Regulatory