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GXP - Q2 2013 Great Plains Energy, Inc. Earnings Conference Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. And welcome to the Q2 2013 earnings conference call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. (Operator Instructions) Thank you.

I would now like to turn the call over to Mr. Kevin Bryant. You may begin your conference, sir.

Kevin Bryant - *Great Plains Energy, Inc. - VP of IR and Strategic Planning, Treasurer*

Thank you, Vernell. Good morning, everyone, and thank you for joining us for our second-quarter 2013 earnings conference call.

Let me begin by introducing the members of the Great Plains Energy management team who are with here with me today. We have Terry Bassham, Chairman and Chief Executive Officer; and Jim Shay, Senior Vice President and Chief Financial Officer, who, in a few moments, will both provide an overview of our second-quarter results. Scott Heidtbrink, Executive Vice President and Chief Operating Officer of KCP&L, is also with us this morning, and will be available during the question-and-answer portion of today's call.

Before we begin, I must remind you of the uncertainties in any forward-looking statements in our discussion this morning. Slide 2 and the disclosure in our SEC filings contain a list of some of the factors that could cause future results to differ materially from our expectations. I also want to remind everyone that we issued our earnings release in second-quarter 10-Q after the market closed yesterday. These items are available, along with today's slides and supplemental financial information regarding the quarter, on the main page of our website.

With that, I'll now hand the call to Terry.

Terry Bassham - *Great Plains Energy, Inc. - Chairman, President and CEO*

Thanks, Kevin. Good morning, everyone. Appreciate you joining us. Yesterday, we announced second-quarter earnings of $63.2 million or $0.41 per share compared with earnings of $57.7 million or $0.41 per share last year. Favorable drivers for the quarter included new retail rates, which became effective in January this year, and lower interest expense. Weather was unfavorable compared to the second-quarter 2012 with cooling degree days closer to normal this year versus last year's warmer-than-normal weather. With the solid financial performance in the second quarter, we are reaffirming our 2013 earnings per share range of $1.44 to $1.64. Jim will provide more details on the quarter in his comments.

We continue to make regulatory and operational progress on Transource Energy, our joint venture with American Electric Power. Just this week, the Missouri Public Service Commission issued an order authorizing the transfer of our two Southwest Power Pool regional projects to Transource Missouri, thus allowing Transource Missouri to construct, own, and operate the projects. As a reminder, following this approval in Missouri, KCP&L and GMO must also obtain approval from the SPP to novate the projects to Transource. The SPP will then submit its approval of the novation to FERC for final approval. We anticipate receiving the final regulatory approvals from the SPP and FERC, and transferring the projects to Transource in the next six months.

In June, after an extensive year-long information gathering process, the final route for the Sibley to Nebraska City line was announced. GMO's share of the final route is approximately 135 miles of the 180-mile project, and the line is expected to be in service in 2017. Construction on the 30-mile Iatan to Nashua project is underway, and is expected to be in service in 2015.

Turning to our Wolf Creek nuclear unit, the RFP that we and our co-owners initiated last year for a formal review of options to manage the unit, was recently completed. After evaluating the results, the owners concluded that the assessment did not provide sufficient long-term benefits for our stakeholders to warrant a change. Wolf Creek is an important asset in our generation portfolio, and we will continue to work with our co-owners and with Wolf Creek to provide low-cost reliable power for our customers.

In that regard, the Nuclear Regulatory Commission recently issued an inspection report on the loss of offset power to Wolf Creek that occurred in the first quarter of 2012. The NRC determined Wolf Creek's evaluation of the incident was comprehensive, and inspection objectives were met. The report also indicates improved performance, and that the NRC's increased level of oversight at the plant, stemming from the loss of offset power, will be reduced. We're pleased with the progress, but will continue working with our co-owners to further improve Wolf Creek's operating performance.

Turning to slide 5, in June, KCP&L and GMO filed annual updates to their integrated resource plans that are included -- included preferred plans to meet the electricity needs of our customers in the years ahead. As a reminder, these are annual compliance filings required by the Missouri Public Service Commission. And as part of the review process, we will receive feedback from the Commission staff and other stakeholders.

Previously, we disclosed estimated environmental compliance costs of approximately $1 billion through 2020. Through the IRP process, this view is updated annually, based on our current estimate on environmental control investments, and the potential retirements of some of our smaller coal-fired generating units, to address final and proposed environmental regulations. While this view has evolved, our near-term environmental compliance strategy has not materially changed.

Our primary near-term investment remains our 615 million share of the upgrade at the La Cygne generating station. Longer-term, the preferred plans in our IRP update reflect additional investments to our coal fleet that extend beyond 2020. These additional investments include approximately 600 million to 800 million to comply with pending Clean Air and Clean Water Act regulations. The current preferred plan, however, shows that we have more flexibility than under the previous plan. Under our prior $1 billion estimate, we had planned to invest $400 million by 2020, which included the installation of environmental equipment at our Sibley 3 unit by approximately 2017.

Under the current plan, our investment time horizon for Sibley 3 extends beyond 2020. In addition, we have included rough estimates for compliance costs associated with the Clean Water Act, should the regulations be finalized. The certainty and timing of the longer-term expenditures remain fluid until either the proposed regulations are completed and/or the timing becomes more certain. We will keep you updated on our plans as the final regulations become available.

The La Cygne environmental upgrade remains the focal point of our near-term environmental capital spend. And upon completion in 2015, approximately 72% of our coal fleet will be scrubbed. We believe that the proactive investments in environmental control technology that we have made, and in the process of completing, provide us the flexibility and time to make prudent long-term resource decisions. We also expect our capital needs to return to a more normalized level post the La Cygne upgrade, providing us with more cash flow flexibility.

Now with more details on the quarter, I'll turn you over to Jim.

Jim Shay - *Great Plains Energy, Inc. - SVP of Finance and Strategic Planning, CFO*

Thank you, Terry, and good morning, everyone. I'll begin with slide 7, which provides a comparison of 2013 to 2012.

As Terry indicated, our second-quarter 2013 and 2012 earnings were $0.41 per share for both periods. Although there are a number of puts and takes, year-over-year earnings were flat, as the favorable impacts of new retail rates in 2013 and lower interest expense were largely offset by the impact of milder weather compared to last year, combined with the impact of dilution associated with the issuance of common shares in June 2012 to settle our obligations under Great Plains Energy's equity units.

For the six months ended June 30, earnings were $0.58 per share compared to $0.34 per share last year. The $0.24 per share year-over-year increase was largely driven by the new retail rates and lower interest expense, offset by the previously discussed impacts of weather and share dilution. I'd also point out that interest expense for the six-month period in the current year is lower primarily due to the mid-2012 maturity of $500 million of high coupon GMO senior notes, along with lower interest on the refinance debt underlying the equity units. It's also important to note that the prior-year results were negatively impacted by an unplanned outage at Wolf Creek during the first quarter of that year.

Turning to slide 8, as Terry mentioned, we are reaffirming our 2013 guidance range of $1.44 to $1.64 in earnings per share. Our guidance assumes normal weather for the last six months of the year, and full-year weather normalized load growth of flat to 1%. Our weather normalized load growth through the first six months of 2013 is minus 0.1% or essentially flat. From a sector standpoint, we are pleased to report that weather normalized residential demand is up 1.2% for the quarter and 2.5% for the year. This represents the first two consecutive quarters of growth in the residential sector, which typically makes up approximately 40% of our retail sales in almost 3 years.

We attribute the favorable growth to a number of factors, including low regional unemployment of 6.6% in June compared to 7.8% nationally. In addition, home construction for the first six months of 2013 is the strongest we've seen since 2008. Year-to-date, weather normalized load growth for our commercial sector is down 0.9%. This is consistent with what we have historically seen, as demand trends in the commercial sector tend to follow the residential sector. Year-to-date, weather normalized load growth in our industrial sector, which represents roughly 15% of our retail load, is down 4.1%, which is partially attributable to the temporary shutdown and retooling at one of the production lines at the Ford Claycomo plant in our service territory. The Transit van line is scheduled to begin production early next year, and we are expecting it to contribute to improved industrial results.

Year-to-date, weather normalized load growth has been near the bottom end of our target range. We've aggressively managed the cost side of our business, enabling us to deliver solid financial results for the first six months. In establishing our guidance for the year, we indicated that we expected O&M increases of $28 million, due to increased regulatory amortizations, pension costs, and energy efficiency expenses, all of which are recovered in our new retail rates. Through six months, our O&M performance has been solid, running $6 million below the same period last year.

From a timing standpoint, we have a favorable O&M comparison in 2013 relating to the Wolf Creek unplanned outage last year. Beyond timing, we have taken actions to proactively manage costs, which include a 2% reduction in workforce through attrition. We are also benefiting from lower procurement costs resulting from our supply chain transformation activities, and lower rail costs as a result of renegotiating contracts prior to expiration. Although a portion of the O&M favorability for the first half of the year is due to timing, we will continue to proactively manage costs and balance O&M and other expenses in line with our view of weather and demand. On the financing front, we expect issue long-term debt at GMO consistent with the financing plan we outlined at the beginning of the year.

In summary, weather normalized load growth has been at the bottom end of our target range through the first six months of the year. For the month of July, weather trends in our service territory were cooler than normal. For the balance of the year, we are expecting a modest improvement in weather normalized load growth, and that overall weather patterns will continue to fluctuate. We remain focused on process improvement and cost containment, and are committed to achieving our financial targets.

This concludes our prepared remarks, and thank you for your time this morning. Terry, Scott and I would now be happy to answer any questions you may have.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Ali Agha, SunTrust.

Ali Agha - *SunTrust Robinson Humphrey - Analyst*

I wanted to get a little more insight on the load growth trend. I know it's flat year-to-date, but it was up 0.6% in the first quarter and then actually negative 0.8% in the second quarter. Can you talk a little bit more about the dynamic quarter-over-quarter there?

Jim Shay - *Great Plains Energy, Inc. - SVP of Finance and Strategic Planning, CFO*

You know, from a -- our residential growth was a little bit stronger in the first quarter. We were up 3.5%. We did see some continued growth in the second quarter. And so we're also seeing -- we saw more positive trend develop in industrial, with a little fall-back in commercial. But sitting at basically flat through the first six months of the year, and a lot of the positive indicators that we're seeing, we feel pretty good about seeing some growth the second half of the year.

Ali Agha - *SunTrust Robinson Humphrey - Analyst*

So the slowdown or the negative numbers in the second quarter, you don't think are cause for concern for the second half?

Jim Shay - *Great Plains Energy, Inc. - SVP of Finance and Strategic Planning, CFO*

No.

Ali Agha - *SunTrust Robinson Humphrey - Analyst*

Okay. My second question, on the O&M cost front, given the program that you have underway internally, how should we be thinking about O&M growth from these '13 levels? Should we think of them growing with inflation? Flat? Below inflation? How should we overall be thinking about O&M from these levels?

Terry Bassham - *Great Plains Energy, Inc. - Chairman, President and CEO*

You know, again, what we've talked about here is that we've managed basically flat for the year, down from kind of expectations, if you will. Some of that's timing. Some of it we've got some expense in the back half of the year that we would expect to spend. But obviously, we're managing that down as well as we can. So I wouldn't tell you we would be flat year-over-year. But I do think we're going to be below what maybe we expected at the beginning of the year through some strong cost management.

Ali Agha - *SunTrust Robinson Humphrey - Analyst*

Terry, I mean, from that '13 base, wherever you end up, assuming that these -- assuming these programs are ongoing in nature, what sort of O&M growth beyond '13 should we be thinking about for your portfolio?

Terry Bassham - *Great Plains Energy, Inc. - Chairman, President and CEO*

You know, I think we would expect some small amount of growth, but -- so I couldn't tell you that we expect to be able to stay completely flat, but we don't expect to see a whole lot of growth. I would expect it to be inflation or better from that perspective going forward.

Ali Agha - *SunTrust Robinson Humphrey - Analyst*

And my last question, as far as regulatory lag, I mean, that's obviously been a big focus of yours. Just looking at the timing of your rate cases, presumably the next big round comes up mid-'15 filing for '16 increases. Should we think about '16 as the next year when we should see a big dent in the lag? And should the next big rate case cycle be very similar to the last couple we've seen? Can you give us some insight on how we should be thinking about that lag going forward?

Terry Bassham - *Great Plains Energy, Inc. - Chairman, President and CEO*

Sure. Let me see if I can address your question. First of all, I mean, I think given our O&M performance on the year, it's clear that we're managing lag very well from an O&M expense perspective. Again, with growth at flat to 1%, we shouldn't have a lag related to revenue. So, those two things I think halfway through the year show a great indication of us managing exactly as we said we would do.

As we move forward, we'll be filing our abbreviated rate case in Kansas later this year to bring CWIP up-to-date on the La Cygne project. And then we will be moving toward the rate case for '15/'16, as you describe, on La Cygne in service, and a series of other costs related to solar and other things like that, which provide us some cash lag but don't provide earnings lag.

So, again, I think our plan is to be exactly as we said, which is to manage that lag through the next couple of years. But as we get closer to the rate case, obviously, we're bring up-to-date any costs for that rate case that need to be included, such that we don't have additional lag moving forward. And I'll also remind you that in that case, we would also ask for a fuel factor at KCP&L to eliminate the risk around lag related to that, from that perspective as well.

Ali Agha - *SunTrust Robinson Humphrey - Analyst*

And Terry, the size of that next -- I know we're a couple of years away from that, but should we assume, for modeling purposes, similar size to what we saw last round of rate cases?

Terry Bassham - *Great Plains Energy, Inc. - Chairman, President and CEO*

You know, I don't think I could say that. It's uncertain because of factors driving the coming rate case are different than in the past. We certainly have La Cygne, which will be a driver. But remember, we are talking $615 million on a much larger rate base then maybe past cases you've seen. And then the other drivers for that rate case are probably more likely to be some of the true-ups around solar and other things that are not in the traditional rate cases we've had in the past. So, as we sit here today with a 2015 filing, I don't think I could tell you yet exactly what the range of increase would be. But obviously, it will bring everything up-to-date current at that point.

Ali Agha - *SunTrust Robinson Humphrey - Analyst*

Thank you.

Terry Bassham - *Great Plains Energy, Inc. - Chairman, President and CEO*

Thank you.

Operator

Charles Fishman, Morningstar.

Charles Fishman - *Morningstar - Analyst*

If we could go to slide 5, and I'm trying to compare that to -- I mean, that's a similar slide to what you showed in the past, and I just want to make sure I understood what you said. The $700 million on the top bullet point, that's just La Cygne. And I guess (multiple speakers) --

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Terry Bassham - *Great Plains Energy, Inc. - Chairman, President and CEO*

Let me stop you one minute. The $700 million is $615 million of La Cygne, and the additional balance -- $85 million of additional costs related to, I believe, Sibley, is what we -- but it's a miscellaneous of things that would need to be spent by that time period.

Charles Fishman - *Morningstar - Analyst*

Okay. And what happened to Montrose, the one unit at Montrose? Is that down below now in the $600 million to $800 million?

Scott Heidtbrink - *Great Plains Energy, Inc. - EVP and COO of KCP&L*

Well, yes, this is Scott. In that balance that Terry talked about, the $700 million, two of the Montrose units would have some minor ESP electrostatic precipitator rebuilds and activated carbon injection. But long-term in the IRP that we filed, one of the Montrose units would be retired in 2016 and then the others in the early 2020's.

Charles Fishman - *Morningstar - Analyst*

Okay. So that the one unit at Montrose, is that getting -- under this plan, that's -- less capital is going in than originally planned or --?

Scott Heidtbrink - *Great Plains Energy, Inc. - EVP and COO of KCP&L*

Yes.

Jim Shay - *Great Plains Energy, Inc. - SVP of Finance and Strategic Planning, CFO*

Effectively. And let me just -- so we can premise the questions, remember that this is our current view based upon our filing in Missouri, which we were required to make. And given, if the rules worked out exactly the way we see them today and the costs worked out the way we see them today, these are the changes we would see. I'll just continue to stress the flexibility around those. And as rules get completed and costs get finalized, those could move around some. But you're right. That would suggest that we would shut down one unit, which we had not planned originally as early.

Charles Fishman - *Morningstar - Analyst*

Okay. Thank you. That's helpful.

Operator

Paul Ridzon, KeyBanc.

Paul Ridzon - *KeyBanc Capital Markets - Analyst*

I just wanted to clarify -- you think O&M is going to be higher than flat but not as high as the $28 million you originally outlined?

Terry Bassham - *Great Plains Energy, Inc. - Chairman, President and CEO*

That's correct.

Paul Ridzon - *KeyBanc Capital Markets - Analyst*

Okay. And can you talk about what kind of turned you off on kind of the nuclear management options?

Terry Bassham - *Great Plains Energy, Inc. - Chairman, President and CEO*

Well, it's just -- without getting into the details of the view of the bids which we reviewed, the bottom line is, is that we were looking at were there opportunities to utilize fleet management to improve on costs and structure related to the units. And it was a combination, I'd say, of both parties' view of what it would cost and what the benefits would be of that process. And we believe we can move forward alone more cost effectively and efficiently than what we saw in our RFP process.

Paul Ridzon - *KeyBanc Capital Markets - Analyst*

And do you have year-to-date industrial load ex- the Ford impact?

Terry Bassham - *Great Plains Energy, Inc. - Chairman, President and CEO*

We have -- I can give you a range. I think the Ford effect is about 50% of the impact on industrial load. 40% to 50%.

Paul Ridzon - *KeyBanc Capital Markets - Analyst*

That would be a good name for a car, the Ford Effect.

Terry Bassham - *Great Plains Energy, Inc. - Chairman, President and CEO*

(laughter) Well, since it's a positive effect for us, I would agree with you.

Paul Ridzon - *KeyBanc Capital Markets - Analyst*

Thanks a lot, guys.

Terry Bassham - *Great Plains Energy, Inc. - Chairman, President and CEO*

Thank you.

Operator

Michael Goldenberg, Luminus Management.

Michael Goldenberg - *Luminus Management - Analyst*

I just wanted to get some numbers straight. I'm not sure I caught them. The weather-adjusted residential was plus 1.2. What was the weather-adjusted commercial for the quarter?

Jim Shay - *Great Plains Energy, Inc. - SVP of Finance and Strategic Planning, CFO*

For the quarter, it was 1.5% of decline.

Michael Goldenberg - *Luminus Management - Analyst*

Minus one point --? And then industrial for the quarter was how much?

Jim Shay - *Great Plains Energy, Inc. - SVP of Finance and Strategic Planning, CFO*

Industrial was minus 2.6%.

Michael Goldenberg - *Luminus Management - Analyst*

So, industrial is due to the Ford plants, right? Because it was still open in Q2 '12.

Terry Bassham - *Great Plains Energy, Inc. - Chairman, President and CEO*

Again, about 40%, 50% of that.

Michael Goldenberg - *Luminus Management - Analyst*

And what's the other 40%, 50%?

Terry Bassham - *Great Plains Energy, Inc. - Chairman, President and CEO*

It's miscellaneous businesses that have cut back -- a trend that we've seen over the last couple of years. It's similar to what's happening in the nation, not anything unique, I don't think, to our service territories.

Michael Goldenberg - *Luminus Management - Analyst*

And do you expect that to continue or you expect that to revert or flatten out?

Terry Bassham - *Great Plains Energy, Inc. - Chairman, President and CEO*

I think we see indications within the economy that would suggest it's going to continue and improve. We're obviously working with our cities to work on economic development and other things that would help improve that as well. So, we think the longer trend as it does improve, especially as Ford comes back, we'll see a pop there. And so, it's a smaller piece of our total, but we do think, over time, it's going to continue to grow, as we've seen across the country.

Michael Goldenberg - *Luminus Management - Analyst*

And then commercial, do you expect to follow residential? Did I understand that correctly?

Terry Bassham - *Great Plains Energy, Inc. - Chairman, President and CEO*

Yes, over the last 20 or 30 years of data, it's suggested it tends to follow residential. And so we expect it to begin to grow as well, assuming we continue to see what we've seen from residential so far.

Michael Goldenberg - *Luminus Management - Analyst*

Got it. Thank you very much.

Terry Bassham - *Great Plains Energy, Inc. - Chairman, President and CEO*

You bet. Thank you.

Operator

Brian Russo, Ladenburg Thalmann.

Brian Russo - *Ladenburg Thalmann & Company Inc. - Analyst*

Is the $6.5 billion of 2016 projected rate base still a good number to use, even with some of these adjustments on your capital budget in the longer term?

Terry Bassham - *Great Plains Energy, Inc. - Chairman, President and CEO*

Yes. I think that's still good.

Brian Russo - *Ladenburg Thalmann & Company Inc. - Analyst*

Okay. And the 50 to 150 basis points of lag, is that kind of still bookends of your guidance range?

Terry Bassham - *Great Plains Energy, Inc. - Chairman, President and CEO*

It is. And I'll remind you that we talked before about working toward the top end of that range (multiple speakers) -- half of that range.

Brian Russo - *Ladenburg Thalmann & Company Inc. - Analyst*

Okay. And lastly, you mentioned lower rail costs as a driver, I think in 2Q results or first half results. Is that result to the new contracts that you were negotiating? And could you quantify the impact?

Terry Bassham - *Great Plains Energy, Inc. - Chairman, President and CEO*

It is the result of those negotiations that contract was set to expire at the end of the year. We renegotiated early. We've not talked about specific dollar amounts, but it's certainly one of the contributions to our lower O&M this year, and will continue to be so next year.

Brian Russo - *Ladenburg Thalmann & Company Inc. - Analyst*

Okay, so that follows in the O&M line and it's not in kind of the fuel line, where you don't have those fuel costs in Missouri?

Terry Bassham - *Great Plains Energy, Inc. - Chairman, President and CEO*

It's fuel. Yes.

Brian Russo - *Ladenburg Thalmann & Company Inc. - Analyst*

It's -- okay. It's in the fuel and purchase power line.

Terry Bassham - *Great Plains Energy, Inc. - Chairman, President and CEO*

Right.

Brian Russo - *Ladenburg Thalmann & Company Inc. - Analyst*

Okay. Thank you very much.

Terry Bassham - *Great Plains Energy, Inc. - Chairman, President and CEO*

You bet you.

Operator

Michael Lapides, Goldman Sachs.

Michael Lapides - *Goldman Sachs - Analyst*

Just want to clarify two things. So, environmental spending after La Cygne, between finishing La Cygne in 2020, what's that number?

Terry Bassham - *Great Plains Energy, Inc. - Chairman, President and CEO*

Between finishing La Cygne -- oh, in 2015 and 2020?

Michael Lapides - *Goldman Sachs - Analyst*

Yes, that kind of that five-year view.

Terry Bassham - *Great Plains Energy, Inc. - Chairman, President and CEO*

Well, we don't have a firm number yet because of the way the rules are working around. Our RP outlines how much it can change year-over-year. And so again, we're talking the $600 million to $700 million or $600 million to $800 million over a little longer time period, but I don't know that we know exactly in the first five years what it will be yet, because of the uncertainty around the environmental rules are so up-in-the-air timewise.

Michael Lapides - *Goldman Sachs - Analyst*

Understood. So I mean, if I wanted to be very big-picture/broadbrush, I could take the midpoint of that $600 million to $800 million and spread it over seven or eight years, seven or nine years, and directionally, I'm somewhere in the ballpark?

Jim Shay - *Great Plains Energy, Inc. - SVP of Finance and Strategic Planning, CFO*

Absolutely.

Michael Lapides - *Goldman Sachs - Analyst*

Okay. That's great. Got another question. When you think about capital spend after La Cygne, what happens -- I mean, do you expect a dramatic ramp-down in CapEx come like mid-2015?

Terry Bassham - *Great Plains Energy, Inc. - Chairman, President and CEO*

Well, what I would expect is the flexibility around how to spend that cash on CapEx. If you look at our strategies we've talked about, we have Transource, which we would expect to start ramping up about that time. We have the environmental spend, which we've just talked about over that time period. We also have some win requirements over that time period, which we would have the ability to build and own, as opposed to PPA's we currently have. And then we have the base business, which obviously, we would have the ability to spend on.

So, in terms of absolute required -- what we've called, maybe in the past, strategic projects -- we've got a lot more flexibility around that. But we've also got a lot of opportunity, we believe, for those capital dollars, and flexibility over how and where we do that in the most efficient way for our shareholders.

Michael Lapides - *Goldman Sachs - Analyst*

Got it. Last question. Jim, are there any other significant refinancing opportunities when you look across the capital structure?

Jim Shay - *Great Plains Energy, Inc. - SVP of Finance and Strategic Planning, CFO*

Not at this point, Michael.

Michael Lapides - *Goldman Sachs - Analyst*

Okay. Thanks, guys. Much appreciated.

Jim Shay - *Great Plains Energy, Inc. - SVP of Finance and Strategic Planning, CFO*

Thank you.

Operator

Shar Pourreza, ISI Group.

Ryan Levine - *ISI Group - Analyst*

This is Ryan Levine on Shar's behalf. Just wanted to clarify about the 8% decline in retail sales. Was that included in your previous outlook?

Terry Bassham - *Great Plains Energy, Inc. - Chairman, President and CEO*

The --?

Ryan Levine - *ISI Group - Analyst*

The weather normalized retail mega-wide sale decline.

Jim Shay - *Great Plains Energy, Inc. - SVP of Finance and Strategic Planning, CFO*

0.8.

Ryan Levine - *ISI Group - Analyst*

Yes, sorry, it's 0.8.

Scott Heidtbrink - *Great Plains Energy, Inc. - EVP and COO of KCP&L*

Effectively flat.

Jim Shay - *Great Plains Energy, Inc. - SVP of Finance and Strategic Planning, CFO*

Yes, it's -- we're -- in terms of being where we need to be to achieve our overall numbers for the year, we're in reasonable shape.

Ryan Levine - *ISI Group - Analyst*

Okay. Great. Thank you.

Operator

(Operator Instructions). Andy Levi, Avon Capital.

Andy Levi - *Avon Capital - Analyst*

Hey, just one very quick clarification. So, when you said O&M would be better than expected for the year versus your forecast? And then I know there was -- I don't know if it was a slip of the tongue when you called the fuel O&M, but does that include the better-than-expected include the savings on the fuel? Or is that separate?

Jim Shay - *Great Plains Energy, Inc. - SVP of Finance and Strategic Planning, CFO*

No -- yes, my point when I mentioned the fuel, that was in reference to total cost of service. That was not part of the O&M discussion.

Andy Levi - *Avon Capital - Analyst*

Okay, so it's separate. So saying that O&M is better-than-expected this year is separate from the benefits of the fuel.

Jim Shay - *Great Plains Energy, Inc. - SVP of Finance and Strategic Planning, CFO*

Yes.

Andy Levi - *Avon Capital - Analyst*

Got it. Perfect. Thank you very much.

Jim Shay - *Great Plains Energy, Inc. - SVP of Finance and Strategic Planning, CFO*

Thank you.

Operator

Ali Agha, SunTrust.

Ali Agha - *SunTrust Robinson Humphrey - Analyst*

Terry, can you remind us as you sit here today and you look at your CapEx, when at the earliest you believe you may need to issue equity? And should we assume any equity issuance as you balance your equity ratio for your next rate case filing?

Terry Bassham - *Great Plains Energy, Inc. - Chairman, President and CEO*

You know, a couple of factors, as we've talked about no equity through 2015, and from a cash flow standpoint longer-term, we've also talked about not being a cash taxpayer until 2018. So we've got a lot of flexibility moving forward. So, don't see any equity on the horizon.

Ali Agha - *SunTrust Robinson Humphrey - Analyst*

So -- and so just to be clear then, as you update your capital structure for your next round of rate cases in late '15, we should not assume any need for equity in that process?

Jim Shay - *Great Plains Energy, Inc. - SVP of Finance and Strategic Planning, CFO*

No plans to issue equity at this point.

Ali Agha - *SunTrust Robinson Humphrey - Analyst*

Understood. Thank you.

Operator

And there's no further questions at this time. I would like to turn it back over to management for closing remarks.

Terry Bassham - *Great Plains Energy, Inc. - Chairman, President and CEO*

All right. Well, thank you very much. We appreciate everybody's attendance on the call and look forward to talking in the future. Thank you.

Operator

Thank you for joining today's Q2 2013 earnings call. You may now disconnect your lines.
