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GXP - Q1 2012 Great Plains Energy, Inc. Earnings Conference Call

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OVERVIEW:

GXP reported 1Q12 consolidated loss of $9.5m or $0.07 per share. Expects 2012 EPS to be $1.20-1.40.

CORPORATE PARTICIPANTS

Kevin Bryant *Great Plains Energy Inc - VP of IR and Treasurer*

Mike Chesser *Great Plains Energy Inc - Chairman, CEO*

Terry Bassham *Great Plains Energy Inc - President and COO*

Jim Shay *Great Plains Energy Inc - SVP, CFO*

CONFERENCE CALL PARTICIPANTS

Shahriar Pourreza *Citigroup - Analyst*

Ashar Khan *Visium Asset Management - Analyst*

Jay Dobson *Wunderlich Securities - Analyst*

Andy Levi *Avon Capital - Analyst*

Paul Patterson *Glenrock Associates - Analyst*

Timothy Yee *KeyBanc Capital Markets - Analyst*

PRESENTATION

Operator

Good morning. My name is Brooke, and I will be your conference Operator today. At this time, I would like to welcome everyone to the Great Plains Energy first quarter 2012 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)

I would now like turn the conference over to Mr. Kevin Bryant, Vice President of Investor Relations and Treasurer of Great Plains Energy. Thank you, Mr. Bryant. You may begin your conference.

Kevin Bryant - *Great Plains Energy Inc - VP of IR and Treasurer*

Thank you, Brooke, and good morning everyone. Welcome to Great Plains Energy's first quarter 2012 earnings conference call. Joining me this morning to present our results are Mike Chesser, Chairman and Chief Executive Officer; Terry Bassham, President and Chief Operating Officer; and Jim Shay, Senior Vice President and Chief Financial Officer. Before we begin, I must remind you of the inherent uncertainties in any forward-looking statements in our discussion this morning. Slide two, 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 and first quarter 2012 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 at www.greatplainsenergy.com. With that, I will now turn the call over to Mike Chesser.

Mike Chesser - *Great Plains Energy Inc - Chairman, CEO*

Thanks, Kevin, and good morning, everyone. We appreciate you joining us this morning. I know it is a busy time. I hope you had an opportunity to read the earnings release we issued yesterday. We announced a loss of $9.5 million, or $0.07 per share, compared with an earnings of $2 million, or $0.01 per share last year. Weather during the quarter had a significant impact on our earnings. Heating degree days were down 34% versus last year, and down 27% versus normal. In fact, it was the warmest first quarter for the Kansas City Region in more than 80 years. We were also negatively impacted by an unplanned outage at Wolf Creek. As we disclosed during our 2011 year end webcast, a breaker failure in a sub-station located at Wolf Creek led to an unplanned outage in January. The plant remained off-line to address the interruption and implement necessary corrective actions before returning to service in late March. The unit has performed well since returning to service, particularly as we head into the peak summer season.

Despite these challenges in the first quarter, we believe we are positioned to deliver earnings within our guidance range. As result, we are affirming our 2012 earnings guidance range of $1.20 to $1.40 per share. As a reminder, the current guidance range was updated in late February, when we had a directional view of the first quarter. Jim will provide more detail on the quarter in his comments. We remain focused on executing our 2013 target to reduce revelatory lag to 50 basis points of allowed ROE. Last month, we filed a general rate case in Kansas, with a requested increase in rates of approximately $64 million. We recognize these are difficult economic times, and asking for a rate increase is not something we take lightly. We are seeking recovery to maintain a reliable electric system, and make renewable energy and environmental investments needed to meet future state and federal renewable energy and emission control mandates. Terry will provide more details around the rate case filings in his comments.

Last month was an active month for us, as we also announced the formation of Transource Energy, a joint venture with American Electric Power. Transource will pursue competitive transmission projects that fall within the scope of FERC order 1000. The order facilitates competition, and will foster a national perspective of the market. The initial focus of Transource, of which were own 13.5% share, will be on new projects in the Southwest Power Tool, Midwest Independent Transmission System Operator, and PJM Interconnection, with expansion to other regional transmission organizations, or RTOs, as markets mature.

In addition to exclusively agreeing to pursue new FERC order 1000 projects, we will also seek revelatory approval to novate two of our Southwest Power Tool regional projects to Transource. We believe that by partnering with AP, a recognized leader in the transmission business, Great Plains Energy will be well positioned to compete in the emerging competitive transmission market, while, very importantly, further diversifying our earnings and footprint. So with that, I'd like to introduce Terry, who will provide an update on regulatory and operational activities.

Terry Bassham - *Great Plains Energy Inc - President and COO*

Thanks, Mike, and good morning, everyone. Turning to slide 6, I will spend a few minutes here discussing our rate case filings, performance at our plans, and customer consumption. As Mike indicated in April, we filed a rate case in Kansas requesting an increase of approximately $64 million, reflecting an ROE of 10.4%. The test year in the case is the 12 month period ending December 31, 2011, with certain known and measurable changes projected through June 30, 2012. The new rates are anticipated to be effective January 1, 2013. The equity ratio of approximately 51.8% is slightly lower than the ratio in or Missouri rate cases, reflecting a different true-up date.

The rate base included in this filing is approximately $40 million higher than at the conclusion of the last rate case, reflecting an increase of approximately 2%. This increase includes approximately $66 million for construction work in progress, our CWIP on our La Cygne environmental upgrade, and approximately $51 million for the Kansas jurisdictional share of our 48 megawatt Spearville 2 wind facility. Additions to rate base were partially offset by an increase in accumulated deferred income tax as result of bonus depreciation. Other factors impacting the Kansas rate case are a request update that appreciation rates supplied to capital investments, due in part to the large increase in plant investments we've made in the last four years. We're also requesting what we believe is more appropriate method for the allocation of capacity related costs between KCP&L's Kansas and Missouri jurisdictions.

The Kansas case also includes request to file an abbreviated rate case for an additional La Cygne environmental CWIP following the conclusion of this case. While we continue to manage cost to minimize the amount of impact of any rate increases on our customers, the costs associated with generating and delivering clean, safe, and reliable electricity continue to increase. Our investments in additional renewable energy, and environmental upgrades to our existing facilities are important steps to building a balanced generation portfolio, and ensuring that we are doing our part to improve regional air quality. Timely and adequate recovery of our cost of service and capital investments is essential to continue providing the quality, reliable service that customers expect.

Next, turning to slide 8. As a reminder, in February we filed rate cases in our Missouri jurisdictions, requesting an increase of approximately $189 million for KCP&L and GMO. The requested ROE is 10.4%, and the equity ratio is approximately 52.5%. The procedural schedule has been set for these cases, with staff and intervenor direct testimony scheduled to be filed in early August, and evidentiary hearings scheduled to begin October

17. There's no date for the commission to issue an order, but we anticipate new rates will be effective in late January 2013. As always, we will keep you updated on the rate cases as they proceed.

I have one additional item on the regulatory front. On our year end call, we discussed the accounting authority order, or AAO, that KCP&L and GMO filed requesting authority to defer the cost to comply with solar rebate requirements in Missouri's renewable energy standard. Recently, the MPSC approved the stipulation and agreement that will allow both companies to differ these costs, and to address the issue of cost recovery in the current Missouri rate cases. We expect costs to comply with these requirements will increase, and have deferred approximately $6 million as regulatory asset to the end of the first quarter. These AAOs are part of our continued effort to minimize the impact of the regulatory lag.

As depicted on slide 9, our fleet equivalent availability factor, or EAF for the quarter was 79%, compared to 75% for the same period last year. The increase was driven by our coal fleet, or Iatan one and two, and La Cygne one had planned outages in the first quarter 2011, and they were available during the first quarter of 2012. As Mike mentioned, Wolf Creek's unplanned outage caused the unit to be down most of the quarter, resulting in a lower EAF compared to last year. As a result of the unplanned outage, and the extended refueling outage that occurred in 2011, we are delaying the start of the next refueling outage for the third quarter 2012 to the first quarter of 2013.

Next, turning to slide 10. I will conclude my sectional comments on retail customer consumption. Compared to the 2011 first quarter, total retail megawatt hour sales decreased approximately 8.5%, primarily due to the extremely warm weather. Compared to normal, the negative gross margin impact of the warm weather during the quarter was approximately $14 million pre-tax, or about $0.06 per share. On weather normalized basis, retail megawatt hour sales increased 0.2%.

On slide 11, we highlight weather normalized megawatt hour by customer segment. Sales increased an estimated 0.9% and 1.5%, respectively, in our commercial and industrial customer segments, while the residential segment decreased by 0.8%. As we look ahead, the regional economy appears to be improving. The US Bureau of Labor Statistics recently reported that Kansas City Metropolitan area had the largest unemployment rate decline from January '11 to January 2012, among the 372 metro areas tracked by the Bureau. The regional jobless rate during this period dropped from 9.3% to 7.2% over this time frame. In addition, in March 2012, there were 8,300 more non-farm jobs in the Metro area than there were in March 2011.

We are also seeing positive trends in the housing market. For the full year 2011, new residential housing permits increased 6% compared to 2010. In addition, in the first quarter of this year, single-family housing starts were the strongest that we've seen in the four years. For existing homes, sales in March were up more than 14% compared to last year, with the average sales price up 3%. These data points provide encouraging signs for our region. Consistent with our guidance for the year, we anticipate that weather normalized demand will improve as the regional economy continues to build momentum. You will recall that our expectations are for 0.5% of weather normalized demand growth in 2012, and we continue to hold this view. We will monitor the economy closely for developing trends, and keep you informed. I will now turn the call over to Jim.

Jim Shay - *Great Plains Energy Inc - SVP, CFO*

Thank you, Terry, and good morning, everyone. I'll begin with slide 13, which provides a comparison of the 2012 first quarter to 2011. For the quarter, the Company's consolidated loss was $0.07 per share, compared with earnings of $0.01 per share in 2011. The $0.08 per share decline is due to, first, the decrease of about $0.11 per share from weather. Second, an estimated negative impact of $0.07 per share at Wolf Creek, with $0.06 per share resulting from the unplanned outage during the first quarter 2012, and an increase in amortization of $0.01 per share from the extended refueling outage that begin in late March 2011, and concluded in early June 2011.

Third, approximately $0.10 per share from increase in interest expense, primarily due to the absence of Iatan two carrying costs of $0.06 per share, and the early recognition of the remaining interest obligation of the subordinating debt underlying Great Plains Energy equity units of about $0.03 per share, resulting from the successful remarketing of the notes this March. These factors were partially offset by approximately $0.13 per share resulting from new retail rates in Missouri that became effective in May and June 2011 for KCP&L and GMO, respectively.

You'll also note that 2012 has a favorable comparison to 2011 of $0.07 per share relating to last year's special factors from our organizational realignment involuntary separation program, and KCP&L and GMO's combined share of the impact of the disallowed construction costs for the

Iatan one environmental retrofit and Iatan two projects, as well as other costs as a result of the April 2011 Missouri Public Service Commission order in KCP&L's rate case. As shown on slide 14, Great Plains Energy had a loss of $9.5 million, or $0.07 per share for the quarter, compared with 2011 first quarter earnings of $2 million, or $0.01 per share. The electric utilities segment had a decline in earnings of $0.03 per share from $0.05 per share in 2011. The other category had a loss of $0.10 per share from $0.04 per share in 2011. The decline in these segments are primarily attributable to the factors I just discussed.

Turning to slide 15, as previously referenced, we successfully completed the early remarketing of the debt component of our $287.5 million of equity units in March. The remarketing resulted in the issuance of 10 year senior unsecured notes, with the coupon of approximately 5.3%. The proceeds will be used to fulfill the equity unit holders' obligation to purchase common stock this June. As noted earlier, the timing of the remarketed debt led to the early recognition of interest expense of about $0.03 per share in the quarter, instead of the second quarter 2012. Proceeds from the June conversion of the equity units will be used to refinance a portion of GMO's 500 million and 11.875% senior notes that mature this July. As a reminder, the conversion of the equity units in June of this year will increase common stock outstanding by 17.1 million shares.

Given our 2012 and 2013 maturity schedule, we continue to evaluate a number of refinancing alternatives, but expect to refinance the remaining portion of this maturity with an issuance of long-term debt by early 2013. While we previously discussed the potential to issue equity to finance ownership of one of the 100 megawatt purchased power agreements that we secured in late 2011, we do not plan on pursuing ownership at this time. Further, as Mike mentioned, with our partnership in Transource, we believe we will be well positioned to compete in the emerging competitive transmission market space. Transource also provides the benefit of diversifying earnings, and the partnership has the added benefit of potentially reducing medium term capital expenditure requirements and external financing needs. We continue to project that we won't need to issue equity through 2013. Our liquidity position remains strong, with approximately $815 million of available capacity on our credit line.

Finally, I wanted to wrap up with a few comments on the reaffirmation of our 2012 EPS guidance and our 2013 target. We've not changed our views about 2012, and as Mike indicated earlier, we are affirming our guidance of $1.20 to $1.40 per share. We had some visibility into the potential impacts of warm weather through the first two months of the first quarter at the time we revised our 2012 earnings guidance in late February. We are assuming normal weather for the remainder of the year, and as Terry mentioned, have no change to our full-year whether normalized demand growth expectations at 50 basis points.

Although we were not in a position to fully quantify at the time, we had anticipated an impact of the unplanned Wolf Creek outage when we revised our 2012 earnings guidance. The 2012 earnings per share impact of the outage will also be mitigated, with the shift of the next refueling outage to 2013, and diligent cost management programs at the unit. We remain focused on our 2013 targets of 50 basis points of lag in our regulated operations. The Missouri and Kansas rate cases will be key drivers in the ability to reach our 2013 target. That concludes my comments. Thank you for your participation, and I will now turn the call back to Mike.

Mike Chesser - *Great Plains Energy Inc - Chairman, CEO*

Thanks, Jim. So as I'm sure most of you know, I am retiring as CEO of Great Plains Energy at the end of this month, although I will be continuing on as Chairman of the Board. Among other things, that means this will be the last opportunity I have to talk with you all on these quarterly earnings calls. As I reflect back over the last nine years, I believe that we have laid a solid foundation to anticipate and meet the changing demands and expectations of our stakeholders, and to prepare Great Plains Energy for the future.

In just under a decade, we added base load capacity, with the addition of Iatan two to our fleet, lived up to our environmental responsibilities by retrofitting a significant portion of our coal fleet ahead of Federal regulations, improving regional air quality in giving us competitive advantage in years to come, created a more balanced portfolio by investing in renewable energy and being a leading advocate for energy efficiency. We have Company owned assets and commitments in place that will increase our renewable portfolio to approximate 600 megawatts of wind and hydroelectric generated power. And we are hopeful we will have a permanent recovery mechanism for energy efficiency investments in Missouri, allowing us to further invest in our customers and build on a portfolio of programs that are already the equivalent of two peaker power plants. Of course, we've fully embraced the communities with a spirit of collaboration, and we've significantly expanded our regulated utility business, with the acquisition of the higher growth areas of Aquila.

So as we look forward, Great Plains Energy's Management Team will be anchored by a strong leader in Terry. I have 100% confidence in Terry and the Team, and look forward to continuing the work with them as Chairman. The Management Team, and our engaged and extremely talented employees have the vision and commitment to deliver tier one customer service, solid financial performance, and long-term growth. And most importantly, we remain focused on executing our plan to deliver improved shareholder returns. This truly has been, for me, a remarkable place to work, and I'd like to thank all of you for your support, and I've enjoyed working with each of you. So thank you again for your attention this morning, and Terry, Jim, and I would now be happy to take any questions that you may have.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from Shahriar Pourreza with Citigroup.

Shahriar Pourreza - *Citigroup - Analyst*

Good morning, everyone. When I look at your quarter, you lost $0.07, right? If we exclude the weather impact, your loss comes to closer to about $0.01. If we exclude the unplanned outage at Wolf Creek, you actually earned about $0.05 for the quarter. The question is really on Wolf Creek. I think it was determined that the problems at the plant was really stemmed from a contractor error. What are you guys do to recoup the additional purchase power cost and O&M increases from the plant? Are you going after the contractor?

Terry Bassham - *Great Plains Energy Inc - President and COO*

This is Terry. The initial cause of the outage wasn't a contractor, it was a breaker failure, then a subsequent issue that occurred. And we did find in the process that a contractor could have, and should have, worked a little more diligently on some outage work. Typically those contracts don't allow for consequential damages. But we have certainly dealt with the issues around that to ensure that in future work, not only do we get better performance, but we are managing that work, as well, to provide insurance that our overview checks up on that as well. We are working to make sure that, in the future, we don't have those kind of issues.

Shahriar Pourreza - *Citigroup - Analyst*

Okay. Then just let me ask you to something else. Some news came out of FERC yesterday. They essentially agreed to hear some challenges on the allowed ROE from complaintants in the New England region. Is there any potential spillover to the SPP region, or how close are you guys monitoring this?

Terry Bassham - *Great Plains Energy Inc - President and COO*

We are obviously -- this is Terry again. We are obviously monitoring it very closely. It is brand-new. And ROEs at the FERC level have been discussed for quite a while, and will continue to be, and so we will follow it. I don't expect there to be anything that we would know today, other than what you've read, to be helpful. But as we follow along, we will be attentive in managing that. We continue to expect fair and full returns from FERC assets, and we are comfortable with that.

Mike Chesser - *Great Plains Energy Inc - Chairman, CEO*

Just keep in mind, the other positive thing for us from a transition investment standpoint is the construction work in progress. So that's not something we have available to us in Missouri. So even with a normal ROE, these are very attractive investments.

Shahriar Pourreza - *Citigroup - Analyst*

Great, thanks, questions answered.

Operator

Your next question comes from Ashar Khan with Visium Asset Management.

Ashar Khan - *Visium Asset Management - Analyst*

Good morning, how are you doing?

Mike Chesser - *Great Plains Energy Inc - Chairman, CEO*

Good morning.

Ashar Khan - *Visium Asset Management - Analyst*

Terry, I guess, one thing, as you take over the reins -- and Mike, thanks for shepherding the Company. How should we -- I guess one thing which we have been a little bit frustrated as investors has been improved returns on the stock. I think that's got something to do with, I guess, this regulatory lag issue. Is there a time frame, as you look forward in terms of your plan, that how you can progressively improve returns to your shareholders, and we can get out of the cycle of just filing rate cases every year, and year, and year, because the regulatory lag just doesn't keep disappearing? Could you just elaborate, as you take over, how do you improve your shareholder returns?

Terry Bassham - *Great Plains Energy Inc - President and COO*

Absolutely. We laid out a plan in August, details around the plan, and a strategic vision around a plan to do exactly as you said. As we got into the rate cases to be filed, we obviously saw the economy and gas prices, and other things affect our off-system sales, which impacts our rate case ask and our current lag, that forced us to reduce guidance earlier in the year. But I think, as you've seen here, even though we had weather, and other things, which you know you have to deal with, we didn't reduce our guidance further. And our plan is to do, still, what we said in August, which is to manage our costs, such that when we have things that affect us, we manage around them. But we have to get the structure right. And we have a structural issue around regulatory lag that these cases we just filed, we believe, will address that. A big driver of that in Kansas City Power and Light, MO is off-system sales, which that credit is buried in base rates.

We believe that the filing in this case will reset that at a level which is manageable. Then we have riders and trackers that we've asked for, as well as just cost-of-service adjustments for the last of the CEP clean-up, if you will, such that we believe we, in '13, can manage within our 50 basis points we've talked with reasonable results from our rate cases this year. And from there on, we would expect to file rate cases, primarily, it would be the plan, when we have asset additions. You can't say for sure, but with the economy hopefully beginning to stabilize and grow some, we would expect not to have to file another rate case until we had an asset addition, or some other major adjustment in the marketplace, and not be in a cycle of having to file for rate cases every year. Our customers and we are in a situation where we think are going to be able to manage over the next several years without that annual cycle.

Ashar Khan - *Visium Asset Management - Analyst*

Okay. That is, to me, very important, is that. Other companies like NV, and all that, they come to an end of a plan, and it is time to kind of harvest and improve our cash flows, and not file rate cases and add assets. I hope I am hearing the same priority, to get rid of the regulatory lag, and not get into another cycle of cases with planned additions.

Mike Chesser - *Great Plains Energy Inc - Chairman, CEO*

I think that's exactly what you see from us. That was our plan originally. I don't think it's very difficult to see the recession that we had, and the $2 gas that's now affected our off-system sales pieces. But that's exactly where we are at. That's exactly why we didn't purchase the last couple hundred megawatts of wind, to preserve capital. That's one of the reasons we entered into Transource, to help be careful with capital. So we absolutely understand that we have EPA regulations and things that need to be done. We've got those built-in, and we are being very cautious with additional capital needs moving forward, so we can have as much flexibility as possible to avoid that up-and-down in rate case requirements on a more regular basis.

Ashar Khan - *Visium Asset Management - Analyst*

Okay. Thank you so much.

Mike Chesser - *Great Plains Energy Inc - Chairman, CEO*

Thank you.

Operator

Your next question comes from Jay Dobson with Wunderlich Securities.

Jay Dobson - *Wunderlich Securities - Analyst*

Good morning.

Mike Chesser - *Great Plains Energy Inc - Chairman, CEO*

Good morning, Jay.

Jay Dobson - *Wunderlich Securities - Analyst*

Mike, congratulations on your retirement, and I absolutely believe you have a fantastic and capable successor. So hopefully you'll enjoy a small time as Chairman, and a long time as a shareholder.

Mike Chesser - *Great Plains Energy Inc - Chairman, CEO*

That's my plan, and I will be sleeping well.

Jay Dobson - *Wunderlich Securities - Analyst*

Outstanding. Jim, can we go back to the Wolf Creek outage, and really what I'm trying to look at is the cost of the outage relative to the refueling outage you would have had later this year. And maybe the way to look at it is, what was the cost of the last refueling outage? Are these roughly equal, I guess is what I'm trying to get to?

Jim Shay - *Great Plains Energy Inc - SVP, CFO*

The last refueling outage was about $30 million in total costs that we're currently amortizing. So a way to think about the impacts of the current extended outage, you saw from the release that there was a $7 million cost impact, relating to O&M specific to the outage. So the mitigation plan is our RF-18, the prior refuel outage 18, the prior, that will actually get amortized over a longer period of time, plus the amortization of refuel 19 will not start until next year. So you do get some benefits to offset that, along with some other plans to work with the unit to reduce other costs to maintain their original goals.

Jay Dobson - *Wunderlich Securities - Analyst*

Got you. But since you levelized the cost of the nuclear outage, it is really not going to be one-for-one, so you still will see a negative impact in '12 relative to '13, or '11 for that matter?

Jim Shay - *Great Plains Energy Inc - SVP, CFO*

No, I wouldn't characterize it that way. I think we should be able to cover that $7 million through the net impact of what goes on with the amortization of the refueling outages, plus other cost measures. We expect it to be neutral, and to be able to cover it.

Jay Dobson - *Wunderlich Securities - Analyst*

Okay. Fair enough. Maybe that's the right next place to go. Talk a little bit about total operating costs, and your expectations for 2012, and then if you can, 2013, understanding you will be out of the rate case cycle then.

Jim Shay - *Great Plains Energy Inc - SVP, CFO*

Relative to 2012, with the current rate case filings in our historical test years, we are really working to manage our cost structure in line with the current rate case filings. And so as we move forward into 2013, and our goal to maintain 50 basis points of regulatory lag, we will be balancing our view of load growth against cost growth to make sure that we can land on that target. The other piece of the puzzle is we have to take a look at regulated utility assets, not in rates, as that's another component of lag. So we have to balance those three variables to achieve our 50 basis points of lag target next year, and we've got a very good handle on the variables.

Jay Dobson - *Wunderlich Securities - Analyst*

Got you. But 2012, in light of the efforts you are taking to manage costs, given the $7 million increase for the Wolf Creek outage, if we talk about total O&M for '12, that's declining versus '11?

Jim Shay - *Great Plains Energy Inc - SVP, CFO*

I would not -- we do not have a decline baked in. We are really trying to keep our O&M flat, our overall cost flat, including the impacts of Wolf Creek, is what we are driving towards.

Jay Dobson - *Wunderlich Securities - Analyst*

Perfect. Then I'm not sure if you covered it is, but in the release you talked about a $1.8 million after-tax loss on the sale of real estate property. Can you give me an idea of what that was?

Jim Shay - *Great Plains Energy Inc - SVP, CFO*

That was an Aquila property from some of their -- it is actually located up in Omaha, related to some of their deregulated activities that we were able to sell this quarter.

Jay Dobson - *Wunderlich Securities - Analyst*

Got you. Then last question, probably mitigated fairly by the Wolf Creek outage, but talk a little bit about where your coal stockpiles are right now.

Terry Bassham - *Great Plains Energy Inc - President and COO*

Coal stockpiles are back at the levels that we had hoped for for the summer. Remember that last year we had gone through the flood, and concluded that we needed to increase the stockpiles, and be a little heavier headed into the summer. It doesn't look like, given snow pack up North, and projected releases from the dams, that we're going to have any flooding issues. But still, we'll probably carry a little more coal than we did last year. We've also had better turnaround times, if you will, from the railroads. They've got a great job of restocking, and so we are headed into the summer with kind of our peak opportunity early in place for coal inventory.

Jay Dobson - *Wunderlich Securities - Analyst*

What is your goal on that, Terry? Is that 40 or 45 days of burn?

Terry Bassham - *Great Plains Energy Inc - President and COO*

No, it was more in the 45 to 50 last year. We're going to increase that, probably, I'd say 15, 20 days, probably on average, among the plants, to have a little heavier load on the ground. Again, just a safety measure, given what happened last year.

Jay Dobson - *Wunderlich Securities - Analyst*

Great. Thanks again, and congratulations, Mike.

Mike Chesser - *Great Plains Energy Inc - Chairman, CEO*

Thank you, Jay.

Operator

Your next question comes from Andy Levi with Avon Capital.

Andy Levi - *Avon Capital - Analyst*

Hi, good morning.

Mike Chesser - *Great Plains Energy Inc - Chairman, CEO*

Good morning.

Andy Levi - *Avon Capital - Analyst*

On Wolf Creek, can you give us a breakdown, I guess, was the $0.06 all kind of from the outage related, or was it also, does that relate to the wholesale business, as well, or can you give us an idea, just in general, how the wholesale business did in the quarter? I apologize if you discussed that already.

Jim Shay - *Great Plains Energy Inc - SVP, CFO*

The $0.06 breaks down to $0.04 of higher O&M relating to the extended outage, and $0.02 is higher fuel expense, to the extent that we did not have that unit available, as pertains to the KC MO jurisdiction. And it in terms of wholesale, we lowered our guidance for the year by $0.10, and we are still managing to that outcome, and wouldn't have a quarter-by-quarter breakdown on the wholesale performance.

Andy Levi - *Avon Capital - Analyst*

But I guess your expectation, as you outlined when you took down your guidance, that kind of played out in the first quarter, is that correct?

Jim Shay - *Great Plains Energy Inc - SVP, CFO*

That's what we're managing to. Yes.

Andy Levi - *Avon Capital - Analyst*

Okay. Then just on Transource. I guess so the main reason that you got into the partnership is to preserve capital, or --

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Terry Bassham - *Great Plains Energy Inc - President and COO*

This is Terry again. That wasn't the main reason. That was one of the factors, obviously, that we were looking at. The main reason was that we had two solid projects that were locked down, but with the order 1000, it was clear that we would have to compete, even locally, against larger competitors, likely and our ability, practically, to compete outside our territory would have been eliminated. For us to go to another jurisdiction, given our size, is not likely. So the main reason was that it gave us an opportunity to partner with AEP, who is a long time transmission entity with lots of experience, and a larger entity who could help us participate in other markets. Certainly, over the next several years we've got mandatory EPA spend at La Cygne, and that certainly gave us the ability to have some more flexibility around capital in the next three to four years. So it was certainly something we thought was a nice fit. But the main reason was to give us the ability to compete outside of just the SPP, given the order 1000 removal of right of first refusal.

Andy Levi - *Avon Capital - Analyst*

Okay. And just to make sure that I kind of -- I remember when you announced it, I kind of ran through some numbers on what you may have spent on transmission, and kind of how the partnership works. So I guess, no better way to put it, Transource, although a very good long-term opportunity,

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probably took away, again, we're not talking big dollars, but probably took away some short-term opportunity, short-term being like '14 and '15 opportunity, as far as additional earnings growth beyond what you're seeing already? Is that a fair statement?

Terry Bassham - *Great Plains Energy Inc - President and COO*

Push it out a little bit. Really our projects would've started more like '16, '17 having a material EPS, and I would say that we traded some short-term certainty for some longer-term opportunity, and maybe even some opportunity sooner than you would expect. But we've got to work through those. Our projects were certain, because we had them locked down, as opposed to our opportunities through the Transource partnership.

Andy Levi - *Avon Capital - Analyst*

Okay. One last question, which we are kind of seeing all of the country, but I just want to get your opinion on it. It is just on, as far as your sales levels, and again, residential sales were down, commercial did pretty good on a weather normalized basis. But if you were to back out the extra day in the quarter, leap year, what would the numbers have been? And just in general, what are you seeing as far as demand in residential? Any idea why we continue, whether it is you guys, or just pick any state you want, continue to see a tough demand situation, when it comes to residential, and then in some cases commercial, too?

Jim Shay - *Great Plains Energy Inc - SVP, CFO*

Yes. If you back out the one day, it would have been a decline. We ended up at 0.2% normalized, but it would've been a decline without the one day. But we had that baked into our forecast when we established the target for the first quarter, and we're thinking about our overall guidance for the year of 0.5%.

Mike Chesser - *Great Plains Energy Inc - Chairman, CEO*

And keep in mind, looking at the winter is tricky, because you had a lot of phenomena where people previously owned heat pumps who are converting to gas, or using gas at a higher set point in their temperature, and I think the real indicator will be the summer load.

Andy Levi - *Avon Capital - Analyst*

And just in general, on demand in general, what are your just high level kind of used, and what we're seeing nationally?

Mike Chesser - *Great Plains Energy Inc - Chairman, CEO*

I think it is fair to say that there is a dampening effect from a transition to more efficient appliances, as air conditioners are changed out, and plasma TVs are change out to LEDs, and so forth. But once the economy returns, we used to be seeing 3% to 4% load growth, maybe we will see something like 2% to 3% load growth. But I think it will still be there in a normal economy, but it won't be as robust as has been in the past.

Andy Levi - *Avon Capital - Analyst*

Terrific. Thank you, guys. Hope you have a good second quarter.

Jim Shay - *Great Plains Energy Inc - SVP, CFO*

Before we take the next question, I would like to clarify the question that Jay Dobson had. I made a statement relative to NFOM them being flat. We do have different components of our NFOM, and we actually did forecast Wolf Creek to be up for the year. So we don't have a specific line item NFOM forecast, but we do have that guidance variability range, which is intended to kind of balance the impact of changes in demand, kind of offset by NFOM changes. So if I left an impression from a modeling standpoint that you should just model in NFOM flat, I just wanted to clarify that that shouldn't just be an immediate assumption.

Operator

Your next question comes from Paul Patterson with Glenrock Associates.

Paul Patterson - *Glenrock Associates - Analyst*

I wanted to follow-up on the sales growth question. Does the 0.5% have a leap year in there, as well?

Jim Shay - *Great Plains Energy Inc - SVP, CFO*

Yes.

Paul Patterson - *Glenrock Associates - Analyst*

Okay. And when you say the economy coming back, I mean, we are not really in a recession anymore, theoretically. I don't know exactly, but it sounded like you guys were having a substantial amount of unemployment improvements, and other things, and industrial sales were up. So I guess, what is the economic -- when you say with the economy coming back and getting up to those robust numbers, how should we think about what kind of economic growth we should be thinking about?

Mike Chesser - *Great Plains Energy Inc - Chairman, CEO*

Just to give you an idea, when I came here at the end of 2003, 2004, housing starts in our area were around 10,000 a year. At the depths of the recession, it was around 1,500. We are nowhere near back to that 10,000 again. The economy does cycle, and you can see at some point in future, as you got back up to there, you could see, instead of the 3% to 4% load growth we were seeing then, as I said, you might see 2%.

Terry Bassham - *Great Plains Energy Inc - President and COO*

I think, in general, what we've said is that we are seeing the start of recovery in Kansas City. I think that's what you would hear from our local and regional economists. But as with probably most places across the country, that start takes a while to reflect itself in a lot of other places, and we've got $2 gas, which affects us and our markets, in addition to that. So you go through that process, and our Company is not probably a lot different. We are being cautious in terms of our hiring, because we are managing budgets. So I think people are feeling better about our region. Things are beginning to happen. But in terms of actual electricity growth, you'll notice from our estimates for the year, that we are still cautiously optimistic about a turnaround, but as Mike says, we are not projecting a return to what would be called traditional growth.

Paul Patterson - *Glenrock Associates - Analyst*

Okay. Fair enough. Is there a specific GDP number, though, in your forecast? Was there some sort of a ratio to GDP, or is there housing starts that we should be thinking about? Just, is there any particular economic data point we should be thinking about?

Terry Bassham - *Great Plains Energy Inc - President and COO*

Well, probably one of the most important is housing starts. Remember that we are less attached to industrial growth, and so housing is a big piece of our load. And so yes, I think as Mike described, a return to normal level of even growth, not typical levels, but growth for us in housing would certainly signal a growth for electricity usage. Then looking at commercial, it follows that, and then certainly, we may have some industrial opportunities, with Ford and others ramping up certain of their processes, here. But housing is probably pretty good one.

Paul Patterson - *Glenrock Associates - Analyst*

Okay. I'm sorry, you said it was 10,000 prior, when you first got there?

Mike Chesser - *Great Plains Energy Inc - Chairman, CEO*

Those are my memories from nine years ago. We will get you the exact number.

Paul Patterson - *Glenrock Associates - Analyst*

Okay. Thanks a lot guys.

Operator

(Operator Instructions) Your next question comes from Shahriar Pourreza with Citigroup.

Shahriar Pourreza - *Citigroup - Analyst*

Hey, guys, thanks for taking my follow-up question. Let's assume that we get a fair outcome in the rate case, and you get afforded the tracking mechanisms that you've asked, and some of the accounting orders, the flooding and stuff like that. Could you theoretically, with capital spending kind of leveling off, could you stay out of a rate case, say, to the 2014, 2015 time frame?

Terry Bassham - *Great Plains Energy Inc - President and COO*

That's our plan. Our plan is to finish this rate case, and we know that we will likely need to file a case when La Cygne is complete, which would be the summer of 2015. That asset is large enough, we would expect to need to make a filing. So the plan is to not file in between. Never say never. But that is the is the plan, and we currently see things that make that happen. The only thing that would be in addition to that is, remember that we have asked for what's called an abbreviated case in Kansas. The intent of that would only be to continue to include CWIP, as we spend it on La Cygne. But that would not be the kind of general rate case we are talking about here, it would be very specific to the environmental add.

Mike Chesser - *Great Plains Energy Inc - Chairman, CEO*

And Shahriar, just keep in mind, once that La Cygne is complete, we will have 72% of our coal capacity retro-fit, which is certainly on the higher end, I think, from most Midwest companies, which means we may be able to stay out from rate cases, and have less of an upward impact on customers' rates than some others would.

Shahriar Pourreza - *Citigroup - Analyst*

So theoretically, if you take that scenario, your test year could get pushed out to maybe the 2014 time frame. So when we think about equity needs, when you say 2013 potentially, theoretically, if you get a pushing out of a rate case, and your test year gets pushed out, maybe we can look for you guys to access the equity markets beyond 2013, maybe 2014 time frame?

Terry Bassham - *Great Plains Energy Inc - President and COO*

We don't currently have any plans for the issuance of equity through that time period. Again, market conditions can change, opportunities could arise. As we've said before, we wouldn't be issuing equity unless it made good sense for our shareholders. Right now, as we see it through our plans, we don't have any equity needs that we see.

Shahriar Pourreza - *Citigroup - Analyst*

Terrific. Thanks. Questions answered.

Mike Chesser - *Great Plains Energy Inc - Chairman, CEO*

Sure.

Operator

Your next question comes from Timothy Yee with Keybanc.

Timothy Yee - *KeyBanc Capital Markets - Analyst*

Good morning. Could you just talk a little bit more about how your business is impacted by the low natural gas prices? Most of your base load is coal and nuclear, and I think your gas plants are all peakers. So I'm just trying to understand if there's any coal-to-gas switching, and how you think about the business in a low-gas environment, commodity prices, et cetera?

Terry Bassham - *Great Plains Energy Inc - President and COO*

Well, the two primary impacts, the first is in the rate case, is that those gas prices affect market prices for off-system sales, and Kansas City Power and Light MO has built into base rates an assumption around earned margins on off-system sales that are a credit to base rates. So the others have fuel factors, Kansas City Power and Light MO does not, and as we've described, we are not going to be able to meet that bottom line credit number for '12. So we are resetting that in our case, such that and '13 it will be set at a level we are very comfortable with. Also, remember that we have, as gas is low, you have more likelihood that residential customers, during the winter, are looking at that opportunity as well.

Timothy Yee - *KeyBanc Capital Markets - Analyst*

Okay. That's all I had. Thank you.

Operator

At this time there are no further questions. I will now turn the conference back to Mike Chesser for closing remarks.

Mike Chesser - *Great Plains Energy Inc - Chairman, CEO*

Okay. Well again, thank you all for very much for the questions. We look forward to continuing to share with you in this uncertain environment, as the local economy evolves. But as I said before, I think we have a plate set here for future shareholder growth that's very favorable. And as Jay Dobson said, I certainly look forward to sitting back, and watching that, and enjoying that with the rest of you. So thanks, again, and have a great day.

Operator

Thank you. This concludes the conference. You may now disconnect.