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GXP - Q2 2015 Great Plains Energy Inc Earnings Call

EVENT DATE/TIME: AUGUST 07, 2015 / 1:00PM GMT

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CORPORATE PARTICIPANTS

Lori Wright *Great Plains Energy Inc - VP of IR & Treasurer*

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

Jim Shay *Great Plains Energy Inc - SVP of Finance & CFO*

Kevin Bryant *Great Plains Energy Inc - VP of Strategy Planning & Incoming CFO*

CONFERENCE CALL PARTICIPANTS

Ali Agha *SunTrust Robinson Humphrey - Analyst*

Paul Ridzon *KeyBanc Capital Markets - Analyst*

Brian Chin *BofA Merrill Lynch - Analyst*

Shar Pourreza *Guggenheim Partners - Analyst*

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

David Paz *Wolfe Research - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Great Plains Energy second quarter 2015 earnings conference call.

(Operator instructions)

As a reminder, this conference may be recorded. I would now like to turn the conference over to the host of today's call, Ms. Lori Wright, you may begin.

Lori Wright - *Great Plains Energy Inc - VP of IR & Treasurer*

Thank you, operator and good morning. Welcome to Great Plains Energy second quarter 2015 earnings conference call. Today, Terry Bassham, Chairman, President and Chief Executive Officer and Jim Shay, Senior Vice President Finance and Chief Financial Officer will provide an overview of our second quarter results. Scott Heidtbrink, Executive Vice President and Chief Operating Officer of KCP&L and Darren Ives, Vice President Regulatory Affairs, are also with us this morning as are other members of our management team who will be available during the question-and-answer portion of today's call.

I must remind you of the inherent uncertainties and 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 and second quarter 2015 10-Q after the market closed yesterday.

These items are available, along with today's webcast slides, and supplemental financial information regarding the quarter, on the main page of our website at GreatPlainsEnergy.com.

With that, I will now hand the call over to Terry

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

Thanks, Lori, and good morning, everybody. As you saw in the 8-K that was filed yesterday, we're announcing a change in our officer team. Jim Shay will be leaving the Company effective September 2 to take a role as CFO at Hallmark Cards here in Kansas City. It has truly been an honor and a pleasure to work with Jim and we appreciate his leadership.

Replacing Jim as Senior Vice President Finance, Strategy, and Chief Financial Officer will be Kevin Bryant, who many of you know and have already worked with. Kevin is currently our Vice President of Strategy Planning and has been with Great Plains Energy for 12 years. His previous responsibilities with the Company include Vice President of Investor Relations and Treasurer and Vice President of Energy Solutions. He is very eager to assume his new responsibilities and, in particular, working with each of you. I hope you'll join me in wishing Jim the best in his new opportunity and welcoming Kevin to his new role.

On our call this morning we will discuss our second-quarter results and provide an update of KCP&L's rate cases in Missouri and Kansas. We will also give an operations update and an overview of Transource's new project in West Virginia.

I'll begin with slide 4 of the presentation. Yesterday we announced second quarter 2015 earnings of $44 million or $0.28 per share compared to $52 million or $0.34 per share in 2014. Drivers for the quarter include favorable operations and maintenance expense, positive weather normalized demand growth and milder weather with cooling degree days 15% below the second quarter 2014. We also reaffirmed our 2015 EPS guidance range of $1.35 to $1.60. Jim will discuss more details of the quarter in his comments.

On the regulatory front, KCP&L's rate cases are on schedule to be completed during the third quarter. In Missouri, evidentiary hearings were completed in July and the final reply briefs were filed earlier this week. KCP&L's initial request in revenue increase of $120.9 million was subsequently adjusted $112.7 million as a result of updates to the case and negotiated partial stipulations and agreements.

As a reminder KCP&L's request is based on a return of equity of 10.3%. The Missouri public service commission staff's recommended revenue increase range has been $76.8 million to $87.3 million predicated on an ROE range of 9% to 9.5%. The partial stipulations and agreements that have already been approved by the MPSC resolved several issues in the case. The remaining unresolved items include ROE as well as the Company's ability to utilize a fuel clause and trackers for property taxes and critical infrastructure protection standards or CIPs / cyber security expenses.

In Kansas, evidentiary hearings concluded in June and reply briefs were filed earlier this week. KCP&L requested a revenue increase of $67.3 million based on a return of equity of 10.3%. The Kansas Corporation Commission's staff recommended a revenue increase of $44 million based on an ROE of 9.25%. Similar to the Missouri case we were able to resolve a majority of the issues in our Kansas case and partial stipulations and agreements were filed in June.

The agreements include the ability for KCP&L to implement a transmission delivery charge rider and a CIPs / cyber security tracker. Stipulations and agreements have yet to be approved by the KCC. With most of these issues settled, ROE remains as one of the few unresolved items in the Kansas case. We anticipate new rates to be effective in both KCP&L jurisdictions by the beginning of the fourth quarter of the year.

You can find summaries of the rates cases in the appendix of this presentation. We remain confident in our ability to deliver constructive regulatory outcomes in our current proceedings reinforcing our commitment to deliver 4% to 6% earnings growth from 2014 to 2016. In addition, we remain on target to grow rate based to $6.5 billion by 2016.

Turning to operations, earlier this week the Environmental Protection Agency issued the final standards for its Clean Power Plan. As we analyzed the more than 1,500-page document, we are getting a better understanding of the plan and its potential impact. Although KCP&L and the electric power industry have spent more than a year working with the EPA on a viable solution, the final version of the Clean Power Plan has significantly changed from the draft and we will continue evaluating the new rules.

In recent months our service territory has been impacted by a number of severe weather events, including a storm in late June that led to our largest customer outage since 2002. Storms uprooted, or caused significant damage to over 50,000 trees and left over 150,000 customers without power. Our employees and neighboring utilities worked diligently and safely to restore power to our customers and I'd like to take this opportunity to thank everyone for their efforts in execution.

I'll wrap up with a few comments on transmission. We were pleased that Transource, our joint venture with AEP, was selected by PJM to develop the competitive portions of the Thorofare Area Project in West Virginia. Construction on the $60 million, 138-kV line is expected to begin in 2017, and to be in service in 2019. This win in the emerging competitive transmission market combined its existing SPP projects, reinforces our belief that Transource is well-positioned to successfully compete and deliver innovative solutions.

I'll now turn the call over Jim to discuss our financial performance.

Jim Shay - *Great Plains Energy Inc - SVP of Finance & CFO*

Thank you, Terry. And good morning everyone. I'll begin with slide 6 which presents a comparison of the second quarter and year-to-date earnings per share results for 2015 compared to 2014. As Terry indicated our second-quarter 2015 earnings were $0.28 compared to $0.34 per share last year. Lower operating and maintenance expense, positive weather and normalized demand growth, and new retail rates in Kansas, were positive drivers that were more than offset by milder weather, decrease in AFUDC, and increases in depreciation and amortization.

For the year to date period, earnings were $0.40 per share compared to $0.49 per share last year. Through the first half of 2015 we have seen favorable O&M expense driven by diligent cost management and lower costs at Wolf Creek related to the planned 2014 mid-cycle maintenance outage and lower refueling amortization. For the second half of 2015 we expect our O&M expenses to increase above the 2014 level. Consistent with our 2015 guidance we expect overall O&M for the full year to increase 3% to 4% which includes increases in regulatory amortizations and items which have direct revenue offsets.

As a reminder the O&M items with direct revenue offsets include our Missouri Energy Efficiency Investment Act programs. These investments allow us to invest in our customers by providing long term energy solutions and ability to generate shareholder returns. We recover program costs and a throughput disincentive for these programs which is included in our gross margin. Our projected O&M increase for the full-year 2015, exclusive of regulatory amortization's and items which have direct revenue offsets, is 1% to 2%.

Turning to slide 7, as we think about the third quarter compared to a year ago, we will be impacted by a decrease in a AFUDC and increasing O&M. We will also expect continued lag from property taxes, transmission costs, and depreciation until new rates are in effect. Lower natural gas prices are negatively impacting off-system sales which have an earnings impact at KCP&L in Missouri where we do not have a fuel clause.

As Terry discussed KCP&L's ability to utilize the fuel clause is one of the remaining items to be determined by the commission in the Missouri rate case. A fuel clause would mitigate the exposure to off-system sales going forward. Finally, in the third quarter of 2014 we had unrecognized tax benefits that will have an unfavorable year-over-year comparison.

As a result of these drivers we expect third-quarter 2015 earnings will be lower than the same period in 2014. Weather normalized demand, net of the impact of our energy efficiency programs, was up 1.2% for the quarter and up 0.6% year-to-date through June. The results are in line with our full-year projection of flat to 0.5% net of energy efficiency. Year-to-date we've seen strong residential and commercial demand partially offset by lower industrial demand which has the lowest margin among the sectors.

The Kansas City region has experienced 47 consecutive months of seasonally adjusted job growth and, in June, the unemployment rate of 5.3% was below the national rate of 5.5%. Construction is well underway at Cerner Corporations new Trails Campus, in South Kansas City. The first of two towers which, will accommodate more than 3,500 employees, are under construction with a move-in date likely in early 2017.

Over the next 10 years a total of 16 new buildings containing 4.7 million square feet of office space, supporting approximately 16,000 employees are planned, making it the largest economic development project in Missouri's history. On the industrial front, we were impacted by a customer relocating to a more energy efficiency facility within our service territory and a general decrease in usage from a handful of customers. Demand at

Ford's Kansas City assembly plant remains strong. Sales of Ford's F-150 pickup truck has benefited from gasoline prices that are near a five-year low.

The Ford plant is operating with three shifts to keep up with demand for the F-150, America's best-selling vehicle. On the capital markets front we expect to issue long-term debt at KCP&L this year, with no plans at this time to issue equity. We are reaffirming our 2015 earnings per share guidance range of $1.35 to $1.60. We are on plan to deliver on our financial objectives for the year and we remain confident in our ability to deliver 4% to 6% earnings growth from 2014 to 2016.

Thanks for your time this morning. We 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*

Thank you. In the past as I recall coming out of the last rate case cycle you had mentioned that a target earnings power company should be between 50 to 100 basis points lag from the last ROE. Is that still a good rule of thumb to think about as we come out of this current year cycle?

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

Yes, I think that's what we've said all along is that the first year out of a case you should see that kind of range. Obviously what can affect your ability to deliver within that range will be based on the outcomes of these cases. A few issues around riders and trackers and things like that. But certainly coming out as we did in the last cycle of the year after should be better matched to our historical test year.

Ali Agha - *SunTrust Robinson Humphrey - Analyst*

Then, on the riders, trackers, fuel adjustment clause, any insights into how the commission may be looking at that? Any sense of, or conviction level, in terms of the ability to get those this time around?

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

Obviously, we're still awaiting an order so probably a little premature to handicap those. I would say that they remain very important to us. You can see some things that have happened in other cases that could indicate where they ruled on those before. But, I'll, again remind you that we did get the CIPs tracker in Kansas and that's a positive going forward, for sure. We certainly, time wise, expect to see those orders and rates implemented in this quarter.

Ali Agha - *SunTrust Robinson Humphrey - Analyst*

And assuming you do get those trackers and fuel adjustment clause, is it possible for you to hold onto that earned ROE in the following year, like in 2017? Or is that just a natural lag in the way things work that you see some slippage as you go beyond, into next year from the rate case next?

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

Well, obviously, it depends on which of the trackers. Obviously we feel confident and think it's important that we get the fuel factor itself in Missouri. Then there's the transmission piece. And in the other asks we've made. Obviously, if we've got all of the tracker, riders and asks we've made in that front, it makes it easier the second year. To the extent you don't get them, it certainly makes it more difficult.

What I would say to you is that if we don't get those riders and trackers because they are considered general rate case type asks, we'll have to file rate cases on a much more frequent basis and we will do that. That was our response in this case with our prior ask and so what you'll see from us if we're not allowed to deal with those in that manner, is filing general rate cases much quicker. Just the nature of what we would assume is an indication from the commission.

Ali Agha - *SunTrust Robinson Humphrey - Analyst*

Lastly, can you just remind us when you talk about the 2014 to 2016 earnings growth outlook, can you just remind us what the base for 2014 is?

Jim Shay - *Great Plains Energy Inc - SVP of Finance & CFO*

It's $1.60.

Ali Agha - *SunTrust Robinson Humphrey - Analyst*

$1.60 for 2014?

Jim Shay - *Great Plains Energy Inc - SVP of Finance & CFO*

Off of the original guidance range. $1.60 with the bottom end of the original guidance range.

Ali Agha - *SunTrust Robinson Humphrey - Analyst*

Got it. Thank you.

Operator

Paul Ridzon, KeyBanc.

Paul Ridzon - *KeyBanc Capital Markets - Analyst*

Jim, congratulations on your new position and new role. I wish you the best of luck. It has been a pleasure working with you over the years.

Jim Shay - *Great Plains Energy Inc - SVP of Finance & CFO*

Thank you.

Paul Ridzon - *KeyBanc Capital Markets - Analyst*

Quick question, how much of a headwind is not having the Missouri fuel clause?

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

Well, obviously it would be a disappointment in the way we believe were entitled to it. It would be a great disappointment, candidly. In terms of actual financial effect, we've already talked about the fact that we would have to file a case again pretty quickly and at this point with off-system sales which were embedded into that being at a very low level and an update on the coal cost at the time, it wouldn't be as big a drag as it historically has been but it certainly would be one more challenge we would have to face. But we would, again, quickly file, as appropriate, ask for that in the next case.

Paul Ridzon - *KeyBanc Capital Markets - Analyst*

Just historically, you had a fuel clause, then you kind of gave it up as part of a deal. Is that history correct?

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

No, not really. Back in 2004 when the original Comprehensive Energy Plan was signed, there weren't fuel clauses in Missouri. There was some discussed legislation that could create that and so as we finalize the Comprehensive Energy Plan and the deal, if you will, including gives and takes on both sides, it was agreed by the Company not to ask for a fuel clause, if and when it legislation provided for that, for a 10 year period. So that brings us to 2015 as our first opportunity to ask for it.

Paul Ridzon - *KeyBanc Capital Markets - Analyst*

Thank you. And just on the transmission and property tax in Missouri, where does that stand as far as legislation? Or are you seeking more of a regulatory solution at this point?

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

Again, we've asked for both of those in the case we'll know, again, this quarter the result of that request from a commission standpoint. Certainly, if we're not allowed to get those in the commission standpoint that would become part of our legislative agenda for the upcoming session.

Paul Ridzon - *KeyBanc Capital Markets - Analyst*

Thanks for the update.

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

You bet. Thank you.

Operator

Brian Chin, Bank of America.

Brian Chin - *BofA Merrill Lynch - Analyst*

On the Thorofare Area Project can we get a sense of the spending pattern for that? Is there a ramp up as of certain years? Should we think about even spending between now and 2019 -- just a little bit more color there would be great.

Jim Shay - *Great Plains Energy Inc - SVP of Finance & CFO*

$60 million that will get spent from the period from 2017 to 2019 would be the run rate.

Brian Chin - *BofA Merrill Lynch - Analyst*

Great. And just as a clarification, the $60 million is the investment opportunity for Great Plains, or is that the investment opportunity for the entirety of the project?

Jim Shay - *Great Plains Energy Inc - SVP of Finance & CFO*

For the entire project. And Great Plains will have 13.5% of that.

Brian Chin - *BofA Merrill Lynch - Analyst*

Got you. Appreciate it. Jim, congratulations on the new position. I'm just glad that I won't have to potentially wear it Kansas Jayhawks tie again.

(laughter)

Jim Shay - *Great Plains Energy Inc - SVP of Finance & CFO*

But you do have to buy Hallmark Cards, though.

Brian Chin - *BofA Merrill Lynch - Analyst*

Fair enough. Congrats.

Jim Shay - *Great Plains Energy Inc - SVP of Finance & CFO*

Thanks Brian.

Operator

(Operator Instructions)

Shar Pourreza of Guggenheim Partners.

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Shar Pourreza - *Guggenheim Partners - Analyst*

Just one question -- curious to get a refreshed viewpoint a little bit on sort of the requested ROE adjustment mechanism that Westar filed. Obviously the staff recommended against it but also left it open for potential generic proceeding. Curious to see if that is something that you would potentially look to go after with your Kansas utility.

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

Yes, obviously each case presents its own issues and opportunities. That was a request from Westar that has been left open and certainly to the extent that there was a discussion on a more statewide level we would want to participate and work with both the commission and the staff and Westar to discuss that opportunity.

Shar Pourreza - *Guggenheim Partners - Analyst*

Have conversations we begun as far as joint collaboration yet or is it to preliminary?

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

The case has been on file, and the settlement just happened. So we've been busy getting ready for this call.

Shar Pourreza - *Guggenheim Partners - Analyst*

Excellent. Congrats, Kevin and Jim on the next phase of your career.

Kevin Bryant - *Great Plains Energy Inc - VP of Strategy Planning & Incoming CFO*

Thank you.

Jim Shay - *Great Plains Energy Inc - SVP of Finance & CFO*

Thank you.

Operator

Brian Russo of Ladenburg Thalmann.

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

I am just curious if we could just talk some more about the lower gas prices and sensitivity on the wholesale sales, back to Missouri utilities. Could you just give us a sense of the total amount of wholesale sales in terms of megawatt hours and the mechanics of that? What's the baseline that the sensitivity is based off of?

Jim Shay - *Great Plains Energy Inc - SVP of Finance & CFO*

Yes, we don't really have a lot of information in the public domain with respect to specifics, but you'll recall in the last case we got a set of off-system sales established in rates and relative to over or under performance will either get the benefit or give up an opportunity.

And we have seen some pressure on gas prices this year which has been putting some pressure on off-system sales. But in the upcoming rate case we will get that trued-up and hopefully a fuel clause and eliminate that volatility moving forward. But we really don't have any numbers in terms of actual sensitivity in the public domain.

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

And recall the prices, obviously, are at low's so the opportunity, hopefully, would be that they would tick up a little bit.

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

Understood. Thank you.

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

You bet.

Operator

David Paz of Wolfe Research.

David Paz - *Wolfe Research - Analyst*

I just wanted to clarify a statement I think I heard earlier. Can you remind me on the 4% to 6% growth target over the 2014 to 2016 period, what is the base again?

Jim Shay - *Great Plains Energy Inc - SVP of Finance & CFO*

It is off of the original guidance for 2014 which is a $1.60 to $1.75. So, a pretty ride range using 4% to 6% growth rates off of that range.

David Paz - *Wolfe Research - Analyst*

Thank you. I thought I heard you say $1.60. I just wanted to make sure.

Jim Shay - *Great Plains Energy Inc - SVP of Finance & CFO*

No, I was pointing to the bottom end of the range. But the guidance target is off of the full range.

David Paz - *Wolfe Research - Analyst*

Okay, great. Thank you so much and congratulations again, Jim.

Operator

I'm showing no further questions. I would now like to turn the call back over to management for closing remarks.

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

Thank you, operator and thank you everybody for joining us this morning we appreciate, as always, your participation in the call. We look forward to meeting with many of you in the weeks and months ahead. So, thank you and have a good weekend.

Operator

Ladies and gentleman this concludes today's conference. Thank you for your participation and have a wonderful day.