THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

GXP - Q3 2015 Great Plains Energy Inc Earnings Call

EVENT DATE/TIME: NOVEMBER 06, 2015 / 2:00PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Lori Wright *Great Plains Energy - VP-IR and Treasurer*

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

Kevin Bryant *Great Plains Energy - CFO and SVP-Finance and Strategy*

CONFERENCE CALL PARTICIPANTS

Ali Agha *SunTrust Robinson Humphrey - Analyst*

Shar Pourreza *Guggenheim Partners - Analyst*

Brian Chin *BofA Merrill Lynch - Analyst*

Chris Turnure *JPMorgan - Analyst*

Charles Fishman *Morningstar - Analyst*

Michael Lapides *Goldman Sachs - Analyst*

Paul Ridzon *KeyBanc Capital Markets - Analyst*

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

Steve Fleishman *Wolfe Research - Analyst*

Paul Patterson *Glenrock Associates - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Great Plains Energy third-quarter 2015 earnings call. At this time, all participants are in a listen-only mode. Later we will conduct a question-and-answer session and instructions will follow at that time. (Operator Instructions)

As a reminder, this conference is being recorded.

I would like to introduce your host for today's conference, Ms. Lori Wright, Vice President - Investor Relations and Treasurer. Ma'am, please go ahead.

Lori Wright - *Great Plains Energy - VP-IR and Treasurer*

Thank you, operator. And good morning. Welcome to Great Plains Energy's third-quarter 2015 earnings conference call. On our call today will be Terry Bassham, Chairman, President, and Chief Executive Officer, and Kevin Bryant, Senior Vice President - Finance and Strategy and Chief Financial Officer. 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 third-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.

Summarized on slide 3 are the topics that will be covered in today's presentation. Terry will begin with a business update and will highlight KCP&L's recent rate case outcome followed by a discussion of our strategic initiatives. Kevin will provide an overview of our third-quarter financial results as well as updated considerations for 2016 and 2017.

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

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

Thank you, Lori, and good morning, everybody. I would also like to welcome everyone to the Great Plains Energy call and we are proud to say, the home of the world champion, Kansas City Royals. We are very excited here in Kansas City.

Yesterday we announced third-quarter earnings of $0.82 per share compared to $0.95 per share in 2014. Year-to-date earnings per share were $1.22 compared to $1.44 a year ago. In addition, we announced the narrowing of our 2015 EPS guidance range from $1.35 to $1.60 to $1.35 to $1.45, driven by mild weather, soft wholesale market conditions from lower natural gas prices, and the impact of regulatory outcomes in our recent rate cases in Missouri and Kansas. Kevin will discuss quarter and year-to-date drivers in his remarks.

Third quarter marked the milestone as we completed our rate cases in our KCP&L Missouri and Kansas jurisdictions. We received more than 75% of our ask in both cases, resulting in a total revenue increase of approximately $138 million. We were also granted approval to implement several new riders and trackers including a fuel recovery mechanism in Missouri, which will reduce the risk around wholesale margin moving forward, and, in Kansas, the transmission delivery charge rider and a CIPS/Cybersecurity tracker.

We are pleased that our Missouri and Kansas commissioners continue to recognize the strong project management discipline we regularly demonstrate in the value of the investments that we make on behalf of our customers. Consistent with the treatment received on prior major projects, there were no disallowances on the La Cygne environmental upgrade and we achieved full recovery of our project costs.

While we view the traditional elements of the orders as constructive, we are disappointed by the allowed ROEs. We recognize that the 9.5% ROE allowed in Missouri and the 9.3% allowed in Kansas are consistent with recent ROEs awarded in those states. However, those ROEs are in the low end of what is being awarded nationally. We are also disappointed by the Missouri Commission's continued denial and even removal of what we view as pragmatic regulatory mechanisms to deal with lag that is increasingly impacting our industry.

Absent broader policy change in Missouri, the Commission indicated a preference to use general rate cases to address the issues driving lag for the gas and electric utilities in the state. In response, we plan to file much more frequent rate cases. However, we believe this is not the optimal long-term solution for our customers and we are actively working with the other utilities toward more progressive policy change.

Our hope is that we can work with others in our region to advance progressive reforms that are more responsive to the dynamic environment we operate in today.

As we look forward to 2016 and beyond, our earnings growth will be driven by targeted investments and a regulated utility infrastructure and continued disciplined cost in capital management. In addition, investment in national transmission and a growing regional economy support a solid earnings growth profile. Consistent with our annual planning timeline, we will provide EPS guidance for 2016 on our year-end call.

In addition, we plan to provide longer-term earnings growth targets and cash distribution plans. With the completion of our La Cygne environmental project, slide 6 highlights our simple and clear strategic approach as we move forward. As a leading provider of electricity in the Midwest, we focus on closely managing our existing business, promoting economic growth and improving our customer experience. We remain focused on operational excellence and meeting the changing needs of our customers. Our recently completed information technology projects that include an automated meter infrastructure upgrade, metered data management installation, and an outage management system replacement, are part of our broader strategic focus in providing top-tier customer satisfaction and operational excellence.

The installation and operation of our Clean Charge Network, which includes over 1,000 electric vehicle charging stations, is helping build Kansas City's reputation as an innovative and sustainable place to live and work, a reputation that helps attract companies and talent. The key element of our strategy is the advancement of regulatory policy report reform.

To continue making investments that strengthen our infrastructure and meet the changing needs of our customers, we must have a regulatory framework that allows us a reasonable opportunity to earn our allowed return. In the coming year, we plan to be active in multiple venues to advocate for specific energy policy advancements and improve the regulatory frameworks in both Missouri and Kansas.

We know that effectuating the type of change we think is necessary will not happen overnight. It will require hard work, significant stakeholder education, and rigorous coalition building. However, we believe that now is the time to work together toward longer-term solutions that benefit both customers and shareholders.

In late October, the EPA published the Clean Power Plan in the federal registry. While we have previously worked to improve the emission profile of our generation with nearly 72% of our coal fleet scrubbed, we continue to evaluate the implications of the recently finalized rules. Although the state targets for carbon reduction in both Missouri and Kansas increased significantly, we will likely utilize a combination of strategies, including optimization of the operation of our existing generation fleet, investments in new renewable resources, and shutdown of our older, less efficient units to comply with the rule and to mitigate the cost impact to our customers.

The investments we have made over the last several years have afforded us flexibility in this regard. Ultimately, we will continue to evaluate the rule's impact, but will balance the need to transition to a cleaner energy profile with mitigating the cost impact to our customers.

Now on slide 7, earlier this week, our Board approved a 7.1% annualized dividend increase from $0.98 to $1.05 per share. This action represents an annualized increase of approximately 7% from 2013 to 2015, exceeding our target of 4% to 6% growth. In addition, this marks the fifth consecutive year we have raised the dividend and reflects continued confidence in our long-term plans.

We remain committed to narrowing our target dividend payout ratio to 60% to 70% and, as I mentioned earlier, we will lay out our long-term cash distribution strategy in February. With a decade long strategic investment cycle behind us, an increasing focus on improving our regulatory environment, investment flexibility, and improving cash flows to support dividend growth, we are in a much stronger position moving forward.

We are excited to deliver the opportunities in front of us and have a clear focus for strengthening our utility infrastructure to promote regional growth, innovate and adapt to customer expectations, while delivering dependable shareholder returns.

With that, I will now turn the call over to Kevin Bryant.

Kevin Bryant - *Great Plains Energy - CFO and SVP-Finance and Strategy*

Thank you, Terry, and good morning, everyone. I will begin with an overview of our financial performance for the quarter and year to date. As you can see on slide 9, earnings for the third quarter were $0.82 per share compared with $0.95 a year ago. Year-to-date, earnings were $1.22 per share compared to $1.44 per share last year. As detailed on the slide, the $0.13 decline for the quarter was driven by increased O&M, depreciation and amortization expense, and lower AFUDC. The increased O&M was consistent with our plan, driven by higher Wolf Creek nuclear unit expenses and an increase in distribution expense.

Additionally, the third quarter of 2014 included a tax benefit that did not recur this year. These impacts were partially offset by favorable weather, resulting from 18% more cooling degree days than the third quarter of last year. The $0.22 decrease for the year to date period was driven by several of the same factors impacting the quarter, including the impact from a decline in wholesale margin, due to lower natural gas prices for KCP&L Missouri.

However, as Terry indicated, the fuel recovery mechanisms approved in the recent Missouri rate case will minimize risk around wholesale margin moving forward.

Year-to-date weather normalized demand was flat through September, in line with our full-year projection of flat to 0.5%, net of the estimated impact of our energy efficiency programs. I will also highlight that this past September was the warmest since 1980.

While traditional weather normalization estimates incorporate the typical response to weather variations versus normal, we believe customer behavior contributed to our estimated third-quarter decline in demand of 1.1%, given the distribution of cooling degree days during the month.

More globally, we continue to be encouraged by the economic growth in the Kansas City region. And improving residential real estate and jobs market is leading to continue customer growth. Year-to-date through September, single-family residential real estate permits were the highest in eight years and the unemployment rate declined to 4.4% compared to 5.4% a year ago and the national average of 4.9%. In fact, the third quarter of 2015 marked 18 consecutive quarters of customer growth on our system and 51 months in a row where the region has experienced job growth.

While we recognize that the impact of our energy efficiency programs, new energy efficiency standards and population shifts to smaller homes and multifamily housing are driving lower average use per customer, we continue to actively work with our local economic development partners to tout the merits of our region and to support continued economic growth moving forward.

Turning to slide 10 for a view of the fourth quarter and full year 2015. In terms of what is in store for the rest of the year when compared to 2014, we will have new retail rates and cost recovery mechanisms in KCP&L's Missouri and Kansas jurisdictions. We project full-year weather normalized demand growth of flat to 0.5% again, net of the estimated impact of our energy efficiency programs.

Our team continues to diligently manage our business. Through disciplined cost management, we now expect a full year O&M increase of only 2% to 3%, including regulatory amortizations and items with direct revenue offsets. This compares to our initial projection for the year of 3% to 4% growth.

Exclusive of those items and demonstrative of our focus on cost discipline, we expect O&M for the full year 2015 to be flat versus our previously disclosed 1% to 2%. Once again, effective cost control remains a key focus. And, as the last bullet on slide 10 highlights, we will see an uptick in interest expense resulting from KCP&L's $350 million senior unsecured notes issuance that was successfully completed in mid-August.

Turning to slide 11, Terry has already mentioned that we will provide EPS guidance for 2016 along with longer-term earnings growth target and cash distribution plans on our year-end call in February. However, I would like to comment briefly on key drivers for 2016 and 2017.

For 2016, the primary earnings drivers include new retail rates that reflect true-ups to KCP&L's cost of service. In addition, we are assuming weather normalized demand growth of flat to 0.5%, net of the estimated impact of our energy efficiency programs. The results of the recent rate cases, including the allowed ROEs and our lack of ability to implement many of the trackers that were sought in Missouri to address future expense lag, will tend to drive us to the lower end of our previously communicated EPS growth target of 4% to 6% through 2016.

However, when combined with the above target dividend increase we declared earlier this week, and flexibility for continued dividend growth moving forward, we believe we are well positioned to deliver solid total shareholder return in 2016 and beyond. We are committed to earning closer to our allowed return and will exercise discipline on where and how we spend our dollars to best meet the increasing expectations of both our customers and shareholders. And, as Terry mentioned, we will respond accordingly in the short term to address regulatory lag by more actively filing rate cases, but will aggressively work with our regulators, policymakers, and other utilities across the state towards more comprehensive policy changes.

We expect to file a GMO rate case in the first quarter of 2016 with an abbreviated rate case for KCP&L Kansas by November 2016 to true up our cost for La Cygne. Recall we received authorization by the KCC to include budget costs in our current rates. We are in the planning stages for the next series of rate cases at KCP&L Missouri and KCP&L Kansas. As a reminder, the rate case process in Missouri is 11 months, while Kansas is approximately 8 months.

Finally, our future income tax benefits from NOLs and tax credits will allow us to avoid paying significant cash taxes through approximately 2023, which mitigates the need for additional equity in the foreseeable future. Details of the NOLs and tax credits can be found in the appendix. And, on the capital markets front, we have no plans to issue equity.

Turning to slide 12, in summary, our strategy for delivering long-term, consistent shareholder return is straightforward. We are well-positioned to execute on our plan to deliver solid total shareholder returns from a combination of both dependable earnings and increasing dividend growth. And, on a personal note, I have had a chance to visit with a number of you this fall, but I do want to emphasize just how excited I am in my new role and look forward to having a constructive and transparent dialogue with you at EEI and to delivering dependable results for many quarters to come.

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 Aga, SunTrust.

Ali Agha - *SunTrust Robinson Humphrey - Analyst*

Terry, in the past, you talked about when you come out from a rate case and get the full first year impact that your target has been to get within 50 to 100 basis points of regulatory lag all authorized ROE. Is that still sort of the way we should look at calendar 2016 over the first full year of these rate cases coming in?

Kevin Bryant - *Great Plains Energy - CFO and SVP-Finance and Strategy*

I will take that. I think that has generally been our plan in the past, but you should remember, though, this year we still have not filed cases for GMO so with our plan to file GMO in the first quarter of next year, we will likely have continued lag in the GMO's jurisdiction. But, as a generic target, we do plan for that level of lag coming out of rate cases, but last time we saw that was coming out of our 2012 rate cases of which we had all three jurisdictions rate cases timed at the same time. So we will see continued lag in 2016 from GMO.

Ali Agha - *SunTrust Robinson Humphrey - Analyst*

Got it. Then, related to that, also, given that a lot of these riders that ask for did not come through, again, past practice has been that in the second year following the rate case that lag actually goes up. I know you will have GMO rates coming in, but not for the bigger utility. So is that still a trend we should think about the 2017 when the lag probably goes up somewhat from 2016?

Kevin Bryant - *Great Plains Energy - CFO and SVP-Finance and Strategy*

Yes. The areas where we saw riders and trackers that we didn't have success in the cases is primarily property tax and transmission, will continue to see lag in those areas. With transmission potentially flattening out as the build out in SPP starts to level out, but certainly property tax lag will continue to grow with our earnings. So yes, we will continue to see that lag grow the second year out of rate cases.

Ali Agha - *SunTrust Robinson Humphrey - Analyst*

Okay. And my last question, again, related to that, you alluded to the fact that you are going to be filing rate cases more frequently. At this stage, when should we expect the next filings coming from the bigger utilities?

Kevin Bryant - *Great Plains Energy - CFO and SVP-Finance and Strategy*

Yes. So certainly in GMO, we will file sometime likely in the first quarter. We are in active, as Terry mentioned, in active planning stages for KCP&L Missouri. We have an abbreviated case in Kansas we will file by the end of the year next year. But for KCP&L Missouri, we are in the planning stages. But, as Terry mentioned, we will try to file that as quickly as possible.

Ali Agha - *SunTrust Robinson Humphrey - Analyst*

But not in calendar 2016, though?

Kevin Bryant - *Great Plains Energy - CFO and SVP-Finance and Strategy*

Not ruling out calendar 2016.

Operator

Shar Pourreza, Guggenheim Partners.

Shar Pourreza - *Guggenheim Partners - Analyst*

Terry, in your prepared remarks, you highlighted that you are sort of looking at working with other utilities in their region to sort of review the construct down there. It has certainly been a little bit challenging. Can you elaborate on what you are looking at changing?

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

Yes. I think we have always worked together, but I think given the timing of all our rate cases, both Ameren, Empire, we have now all had rate cases in the same year which got several similar rulings on issues. We also have worked with our gas and water utilities in that regard as well.

So I think we all going to work together to look at the issues that are similar to us on a very simple basis. Something that we have talked about before, like property taxes and, this now, these cases transmission, which has been removed from the fuel factor, we have very aligned interest in that regard. And that, at a minimum, would be something we would be talking about. I think we have been talking about this for two or three years now, though, and sometimes that is what it takes.

So we will also be talking about potentially broader changes. We will see how those conversations go, but certainly we will be moving on several fronts to see what the opportunity is in this session and potentially sessions to come.

Shar Pourreza - *Guggenheim Partners - Analyst*

Got it. And just to touch on that, I think on the second-quarter call you highlighted that you could be interested in pursuing that ROE adjustment mechanism in a more general proceeding. Is that an option, still?

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

Yes. I mean, obviously, if the Commission looks at new opportunities or different ways to manage those things, we will participate in those as well. We believe that the Commission has authority to do several things that they have been less or more conservative on. So if they are willing to consider those, we will work with them. To the extent that they don't believe they have as much flexibility, we will be talking to the legislature about opportunities to give them that flexibility.

Shar Pourreza - *Guggenheim Partners - Analyst*

Got it. Then, just lastly, on overall strategy and the trends we are seeing here, obviously, there has been a bit of an M&A move, companies your size valuation levels have been a target for a multitude of buyers. It would be really good to get your refresh view on how you think about M&A. If you are a willing seller or buyer? And then is your Board aware of some of these premiums that are being paid for utilities your size?

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

Yes. So on a generic basis, I would say what we have said before and that is that we are confident in our plan. We like our strategic plan. We really like our territory and our opportunity for investment, given our generation profile and the things we have in front of us.

Having said that, certainly, our duty as a Board is to be aware of what is happening in the marketplace. We talk about it at every meeting. Obviously, and so we are very self-aware of what is happening and I think what we have said before remains true, which is we will maintain our knowledge of the market and we will be opportunistic for things that are good for shareholders. We have shown in the past we are willing to do that and I think we will continue to do that as we move forward. Certainly, a lot of activity in the market right now.

Shar Pourreza - *Guggenheim Partners - Analyst*

Kevin, great that you are on board.

Operator

Brian Chen, Bank of America.

Brian Chin - *BofA Merrill Lynch - Analyst*

Going over to the dividend, if we think about it, I understand that the comment on the payout ratio, but if we think about the compound annual growth rate, clearly the 7% was a little bit higher than the band that we saw from 2014 through 2016. If we are thinking about the 4% to 6% band, CAGR rate going forward, should we think about that as being based off of the newer dividend per share level that was just established? Or should we continue to base off of the original 2014 dividend per share trajectory going forward?

Kevin Bryant - *Great Plains Energy - CFO and SVP-Finance and Strategy*

I would base it off the level just established, Brian.

Brian Chin - *BofA Merrill Lynch - Analyst*

Okay. Great. And then --

Kevin Bryant - *Great Plains Energy - CFO and SVP-Finance and Strategy*

Just a reminder, we plan to come out in February on our year-end call with updated thoughts around both earnings and dividends as we move forward.

Brian Chin - *BofA Merrill Lynch - Analyst*

No. That makes sense. And it sounds like you are shifting the strategy a little more towards a dividend component of the total shareholder return so I think that message was pretty clear to everybody. I guess the second question is, you made some comments about the weather impact and in the prepared remarks, you talked about how customer behavior may have exacerbated the weather impact above and beyond the normal heating, cooling-degree-days.

In the press release, it says that the unfavorable weather for the third quarter relative to normal was negative $0.01 year over year. Was that customer behavior something above and beyond that $0.01 and, if so, can we quantify that? Or can you give a little more clarity there?

Kevin Bryant - *Great Plains Energy - CFO and SVP-Finance and Strategy*

That $0.01 was related to normal weather. We also described in the press release that we had 18% more cooling-degree-days year-over-year. But I think the comment in the prepared remarks will really related to the weather pattern we had this year. Where we had a bit of a cool August, and then it warmed up for a couple of weeks intermittently in September, and so what we were trying to say is, when you look at the 1.1% decline in demand, just based on the traditional weather normalization calculations, it would attribute a big piece of that to demand.

Although, if you think about how customers respond, when it was cool, they kept their air conditioners off and didn't turn them back on those couple of days when it warmed up. And so that feels a lot like customer behavior, but based on the normal calculations, it would attribute that to demand.

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

So that was the point we were trying to make with respect to that 1.1% decline. We think some of that is demand, but a big piece of that could have been driven by the weather pattern for the quarter.

Brian Chin - *BofA Merrill Lynch - Analyst*

So then, stated another way, if we are looking at modeling to normal weather for next year, should we basically be adding back $0.01 for unfavorable weather or should we be adding back more to get back to normal customer behavior sales growth -- you get what I'm saying.

Kevin Bryant - *Great Plains Energy - CFO and SVP-Finance and Strategy*

For the quarter, you could add back that $0.01 to get back to normal.

Brian Chin - *BofA Merrill Lynch - Analyst*

Thanks for clearing that up, I appreciate it.

Operator

Chris Turnure, JPMorgan.

Chris Turnure - *JPMorgan - Analyst*

Could you give us a little bit of the updated series of thoughts on your capital plan for the next five years? It is still at a pretty high level, especially in 2016 and 2017. I just wanted to hear your thoughts post the regulatory outcomes there.

And then, also, I wanted to hear your plans there. But then also your plans in light of the clean power plant and any changes that that might drive, especially in the near term.

Kevin Bryant - *Great Plains Energy - CFO and SVP-Finance and Strategy*

Sure. On that CapEx plan, we are still -- we still have our disclosure that is in our 10K and in our investor materials where we are projecting CapEx to peak in 2015 with La Cygne. It falls off a bit in 2016, $180 million or so. We will update that CapEx with this disclosure as we file our 10K, but I think the broad takeaway is -- and as we have talked about with our dividend flexibility, we expect our CapEx to moderate as we move forward, which creates flexibility for this cash distribution topics that we discussed in our prepared remarks.

And then in the context of clean power plant, we continue to evaluate the impact of the clean power plant, our states have filed stays and we will be working on filing our state implementation plan. But, that said, I think a combination of optimizing our plant performance, renewables, and shutdown of older units really is the path towards CPP compliance longer term.

We are working to figure out what all that means. We will give you an update in February, but there is a number of moving parts as we planned for CPP compliance.

Chris Turnure - *JPMorgan - Analyst*

Okay. And you are kind of finished with conversations there. Do you feel like early next year, there will be a time where you're going to have enough information to be able to make significant announcements on the clean power plant front? Or is it going to take longer than that?

Kevin Bryant - *Great Plains Energy - CFO and SVP-Finance and Strategy*

It will likely be past our year-end update. We will be working on planning throughout the summer. We will give you the best we got in February, but I suspect that we will have a lot better clarity in terms of our CPP compliance path later on in the year.

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

Yes. Remember, the way the process will work, we will work hopefully this first year to make progress and get the extension for the additional couple of years in that progress. And so we will not have final ideas around it until that continued work happens, but I would say that the work we have done over the last several years and the opportunity for renewables locally gives us a lot of flexibility looking at when the plans are finalized.

Chris Turnure - *JPMorgan - Analyst*

Thank you very much.

Operator

Charles Fishman, Morningstar.

Charles Fishman - *Morningstar - Analyst*

Congratulations on the rails and the question is on the Kansas -- the 9.3%, you say you're disappointed, yet it was a settlement. Why didn't you run it out?

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

No. So you may have mixed us with Westar. We did not settle ROE. We settled almost the entire case, but for a couple of issues. And the primary issue that we ended up litigated was ROE. So we ended up litigating that actually.

Charles Fishman - *Morningstar - Analyst*

Oh, okay. Then I misunderstood.

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

No worries.

Charles Fishman - *Morningstar - Analyst*

Maybe I am misunderstanding -- now, you were the one that had Commissioner Apple saying the 9.3% was extremely generous? Am I correct on that?

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

Yes. His issue really was not with ROE. His issue was with a small group of customers that had a rate adjustment about four years ago. Three cases ago. And because ultimately there was not a resolution to his satisfaction on that issue, he thought ROE was a way to address it. He didn't really address ROE in a traditional rate base manner. It was almost single issue related.

Charles Fishman - *Morningstar - Analyst*

Okay. So there was something going on there besides what the order in his comments. Sounded like there was some leftover baggage.

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

No. It was very specific to a unique situation and had nothing really to do with the marketplace or the appropriate ROE for utility in a rate case like that.

Charles Fishman - *Morningstar - Analyst*

Terry, it seems like with the CPP and the fact that you straddle Missouri and Kansas, that you have an opportunity here to maybe use compliance to work on some of these regulatory lag issues as well as ROE and Kansas. Well, for that matter, both states. Is that on the agenda?

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

Yes. I would agree with that. I think we are going to be spending time with our Commissioners, with our legislators, and with our -- the environmental departments of both states to work on these kind of plans. One thing is clear, is the CPP is going to require investment. The timeframe, as it is, will require potentially significant investment.

And our ability to work with those parties to manage that investment in a way which has the least or best impact on customers, I think, is in front of us. And we will have the ability to talk about ways to do that because, regardless of the outcome unless the rules are rolled back, we're going to have to invest in potentially a lot of renewals.

Charles Fishman - *Morningstar - Analyst*

Okay. I had a few others, but I will wait for EEI. Thank you.

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

Sounds good. Look forward to seeing you there.

Operator

Michael Lapides, Goldman Sachs.

Michael Lapides - *Goldman Sachs - Analyst*

First of all, congrats, Kevin, on your new role. One question for you. I want to make sure what trackers -- outside of fuel, what trackers do you have that will impact revenues and offset some cost in 2016? And how material are these? I'm kind of thinking pension, property tax, kinda the works, everything but the fuel side of it.

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

Okay. We will tag team this. It is a bit of a test.

Kevin Bryant - *Great Plains Energy - CFO and SVP-Finance and Strategy*

I'm right behind you.

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

Obviously, the most obvious and the one we're the pleased with the most is for this last case is it getting the final fuel factor, if you want to call it that, for KCP&L Missouri. So that was really important.

We already have, obviously, a pension tracker in both states, which we have had for quite a while. We had a property tax rider in Kansas, but Missouri did not agree to that. So we don't have a property tax rider in Missouri, but we do Kansas. We have an energy efficiency cost rider in Kansas. Missouri Energy Efficiency Investment Act, MEEIA, is what we have in Missouri on that front and it is a larger program, if you will.

We have the abbreviated rate case, which is not really a tracker or a rider, but it will true up things on the La Cygne project in Kansas. And we still have transmission in fuel in Kansas, but obviously, with the latest rulings, that will not be in Missouri. And then the additional pickup this year in Kansas was also a CIPS/Cyber Security Tracker, in Kansas and, again, Missouri declined that. I think that is the list. Kevin?

Kevin Bryant - *Great Plains Energy - CFO and SVP-Finance and Strategy*

Did you mention the renewable energy track (multiple speakers)?

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

I missed that one, I guess.

Kevin Bryant - *Great Plains Energy - CFO and SVP-Finance and Strategy*

So we also have a renewable energy standard rate adjustment, we affectionately call RESRAM in Missouri at GMO.

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

I think that is the list.

Michael Lapides - *Goldman Sachs - Analyst*

Help us just -- when we think about what the revenue benefit you could use nine months or this year or you could use -- expectation is 2016, how big of a revenue uptake has that been? Or more importantly, when I think about the tracked items that are in O&M, how much of that is being offset with incremental revenue? The year-over-year growth.

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

Well, a lot of that drives this discussion around 50 to 100 basis points in the very first year. So to the extent we have lagged at GMO related to any of those things, that will continue next year. Obviously, the riders and trackers really are helpful as the year goes on -- years go on and as we come out of a case, those costs all get reset.

And so the level of increase for each one of those things, we have had sharp increases in property tax in certain years. So I would say that there is a lower impact on everything but GMO in the very first year -- next year. That is what would drive that lesser lag there. GMO will continue to have that and then 2017, without acquiring a rider or tracker, 2017 you start to see that percolate back up, depending on increases in cyber security, property tax and transmission, in particular.

Kevin Bryant - *Great Plains Energy - CFO and SVP-Finance and Strategy*

Michael, another way to think about it on the O&M side, we have talked about flat O&M this year, versus flat assuming the items that exclude the items that have regulatory offset. With 1% to 2% in terms of total O&M. So that 1% to 2% could give you a proxy for the items that have regulatory offsets on the O&M side.

Michael Lapides - *Goldman Sachs - Analyst*

Hey, guys, you all faded out there for the last couple of minutes. The last thing I think folks heard on the call was likely around the renewable. So had a little bit of a telecom issue there. I just want to make sure -- let me simplify the question.

Year over year, what was the -- or what do you think the revenue uptick or with a margin uptick is that it's related to trackers that help offset costs?

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

We describe kind of our O&M expectations for the year. Of 1% to 2% -- revised O&M expectation of 1% to 2% increase, including the items that have regulatory offset, but being flat if you exclude those items. So you could do the math and that 1% to 2% difference would be the items for which we have regulatory offsets on the O&M side of the equation.

Michael Lapides - *Goldman Sachs - Analyst*

Got it. Okay. So up 1% to 2% with trackers, flat without.

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

Correct.

Michael Lapides - *Goldman Sachs - Analyst*

Got it. Last question. The ARC, what is -- what are the big drivers of the ARC that you file at the end of next year and when would those rates go into effect?

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

You are talking about the abbreviated case in Kansas, right?

Michael Lapides - *Goldman Sachs - Analyst*

Yes.

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

Yes. So the big driver there is the fact that the way we filed that case, we were filing on budget because of where we were in the process with the project. And so it will be truing-up actual costs.

In this instance, we actually came in under budget, on time and under budget, and so that true up actually they involve some throwback from that perspective. But it will be a true up of actual cost as we complete the project.

Michael Lapides - *Goldman Sachs - Analyst*

Thank you.

Operator

Paul Ridzon, KeyBanc.

Paul Ridzon - *KeyBanc Capital Markets - Analyst*

I think she is talking about me. What is the year to date weather impact versus normal?

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

For the quarter, it was $0.01. Year to date -- let me find that. I don't have that at my fingertips, Paul. Let me track that down.

Kevin Bryant - *Great Plains Energy - CFO and SVP-Finance and Strategy*

We will have it for you in a minute.

Paul Ridzon - *KeyBanc Capital Markets - Analyst*

And then, the weather-adjusted Q3 load was a negative 1.1%? Did I pick that up right?

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

That is correct for the quarter.

Paul Ridzon - *KeyBanc Capital Markets - Analyst*

But that is sketchy because there was some weird weather.

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

That is correct. That is, that whole August to September weather event with it being cooler in August and warmer in September. And I think the year to date, I think with that Of the year to date, the year to date effect from the weather was about $0.03.

Paul Ridzon - *KeyBanc Capital Markets - Analyst*

Below normal.

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

Below normal.

Paul Ridzon - *KeyBanc Capital Markets - Analyst*

And then, just on your last question, you probably had some O&M commentary about being flat with the trackers. That is for 2016, correct?

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

That is for 2015.

Paul Ridzon - *KeyBanc Capital Markets - Analyst*

2015.

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

Correct.

Paul Ridzon - *KeyBanc Capital Markets - Analyst*

And where do you expect O&M to be in 2016?

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

We will provide 2016 guidance on our February call.

Operator

Brian Russo, Ladenburg.

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

Th$0.08 decrease in the midpoint of your 2015 guidance, you attribute it to weather, wholesale market conditions, and regulatory outcomes. Can you break that down, I guess, whether it is $0.03 out of the $0.08? And then at least $0.05 for wholesale and regulatory outcomes. Just curious, the EPS -- the decline in EPS associated the regulatory outcomes, that is probably structural whereas the wholesale market conditions will be mitigated through the fuel adjustment clause. I'm just trying to get a more accurate picture of the EPS sensitivity.

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

So certainly, they move from ROEs from where we were previously in Missouri from 9.7 to 9.5, and from 9.5 to 9.3 in Kansas, if I am doing the math right, it is $0.02. Then, obviously, to the extent we did not get the riders and attackers, there is a quarter impact on the year from that perspective as well. The fourth quarter, not getting the impact of those property tax and transmission tracker. So I think those are the pieces that kind of guide us to the bottom end of that range. You mentioned wholesale.

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

Okay. So wholesale is probably $0.02 also.

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

Yes. Wholesale, being a big piece of it, that got fixed with getting the fuel adjustment clause in Missouri.

Kevin Bryant - *Great Plains Energy - CFO and SVP-Finance and Strategy*

That would also be drivers.

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

That would also be a driver for our lower O&M to help offset some of those impacts.

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

Got it. And then, on slide 11, the 4% to 6% EPS growth from 2014 to 2016 based off of the initial 2014 EPS guidance range of $1.60 to $1.75. Should I be using the midpoint of that initial 2014 guidance or should I be using your actual 2014 earnings? I just want to get a better picture of the base.

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

So the base was that $1.60 to $1.75, which was our initial guidance range way back in 2014. That we were growing 4% to 6% through 2016 off of the top and bottom side of that original 2014 guidance range. Does that make sense?

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

Okay. I guess it does. I mean, should we just take the midpoint of that guidance and grow it by 4% to 6% or grow the low end at 4% and the high end at 6%? How should we treat that?

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

Growing the low end at 4% and the high end at 6% would give you the end of the range through 2016. Not the midpoint.

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

Okay. Got it. And if I heard you correctly, you're kind of forecasting the low-end of that 4% to 6% CAGR through 2016?

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

Yes. Based on the outcomes from these rate cases. Drives us to the lower end of that implied range, but we will come out and give you that for the full meal deal in February.

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

Thank you.

Operator

Steve Fleischmann, with Wolfe Research.

Steve Fleishman - *Wolfe Research - Analyst*

That was my question, but I just wanted to kind of re-clarify it. The low end -- you have the growth rate of 4% to 6% and then you have the initial range of $1.60, $1.75. So that commentary of tracking at the low end, is that the low end of both? The growth rate and the beginning range?

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

We have always talked about taking that range and growing the 4% off the bottom end and the 6% off the top. So we will be updating and what we are talking about here is we are trending to the low end of that implied range that maps out from that.

Steve Fleishman - *Wolfe Research - Analyst*

Got it. Okay. Thank you.

Operator

(Operator Instructions)

Steve Fleishman - *Wolfe Research - Analyst*

The low-end of the low-end of the line was like $1.73?

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

Steve, is that you?

Steve Fleishman - *Wolfe Research - Analyst*

Yes.

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

You are still live.

Steve Fleishman - *Wolfe Research - Analyst*

Okay. Well, I am just calculating with you guys, then.

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

Yes. Yes. (laughter) We can do that math and you are correct.

Kevin Bryant - *Great Plains Energy - CFO and SVP-Finance and Strategy*

Your calculator is working.

Operator

Paul Patterson, Glenrock.

Paul Patterson - *Glenrock Associates - Analyst*

I think you guys clarified that question, but I was wondering, though, in general, how should we think about the longer term outlook if you don't get these fixes legislatively to that you see the regulatory problems as being? As you mentioned earlier, we have seen -- seems like every year we hear about these initiatives and it is difficult to predict legislation, but it hasn't happened in the past so I am sure you guys have thought about this, what is the contingency of -- if we don't get a legislative fix?

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

Yes. So obviously what you have seen from us in the past several years is that we had very large projects that had to be added into the rate base, based upon our conference of energy plan, EPA regulations, et cetera. And so our earnings were very stairstep. And obviously, we don't like that. Shareholders don't like that. We want to smooth that out.

Two things, I would say, is, number one, we don't have the huge single project kind of additions that would make that stairstep as dramatic, but, secondly, we want to eliminate it as much as possible altogether. And so we will, number one, continue to work on legislature in other ways to manage the flowthrough, if you will, but, in addition, we will continue to watch our O&M. We will continue to look at our investment.

If we are unable to get help from some of that investment timing wise, we will have to watch when we make it and we will be working hard to make that stairstep-ish type earnings profile less pronounced moving forward. And that would be the plan.

I hope -- a combination of some of the things we're looking for and good management gives us a great opportunity there for steady growth. But, with the cash flow we now have and the fewer large projects, we also have the ability to provide more dividend flexibility to manage that total shareholder return number.

Paul Patterson - *Glenrock Associates - Analyst*

Do you think -- without legislation, how should we think about regulatory lag? You mentioned, obviously, that will vary from year to year, but just in general, if you are unable to get it -- but, of course, you have got a different CapEx profile going forward and you have got cost initiatives, et cetera, how should we think about the regulatory lag potential, post 2016?

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

So I think we talked about in the very first year out of the gate from a rate case where everything is trued up, we still think on each of those cases and jurisdictions, a 50 to 100 basis point makes a lot of sense. I think what you will see some us in the future, lesser lag, less dramatic lag than you have seen in the past because of the lower CapEx profile. And so it will grow, but it will be dependent on our ability to manage some costs and what kind of demand growth we have on the kind of projects we ultimately have to invest in from a CPP perspective.

But the notion would be, although it will grow until we can file another case, we should be able to manage it to some degree better than we have in the past. When you are putting in $1 billion projects, it is very time-sensitive to the case that allows it in rates.

Paul Patterson - *Glenrock Associates - Analyst*

The Missouri Commission, in the last rate case during their deliberative process, the commissioners talked about a management audit and they also discussed, among other things, a merger between subs as potentially something that could be beneficial to the Company in rate payers. But could you elaborate maybe the potential or the thoughts or issues associated with a merger between subs and what have you?

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

Yes. So when we first acquired Aquila, they had purchased St. Jo Light & Power a few years before we acquired them and there was a pretty large disparity between the St. Jo rates and the -- what is known as MOPUB -- Missouri Public Service -- primarily because no generation had been added to St. Jo for many years.

In a couple of our cases since then, they have acquired a piece, if you will, or allocated a piece of Iatan 2. And as a result, their rates are much closer than they were and so we think there is an opportunity to consolidate those jurisdictions. The main benefit is processing multiple cases, dealing with multiple communication, and being able, from an accounting perspective, to streamline our work with the Commission, which is rate case expenses, those kinds of things.

We had seen synergies available through the merger, but we have been able to effectuate all of those. This is really just the process of filing the case as operations and other financial synergies we have actually achieved since then.

Paul Patterson - *Glenrock Associates - Analyst*

Okay. So should we think about any potential there is being rather modest in terms of what the earnings savings of the cost savings could be?

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

Yes. I would say, from an earnings perspective, that is not dramatic. It would just streamline our process of filing cases and get us some internal and customer benefit. Earnings wise, I don't know that we -- we do not believe that we had a lot of synergies that would be gained in addition to that right now.

Operator

Showing a follow-up question from the line of Michael Lapides, Goldman Sachs.

Michael Lapides - *Goldman Sachs - Analyst*

One of these earnings calls, she will get the last name right. (multiple speakers). It is more fun.

Question for you. When you are thinking about cash flow and capital allocation and cash uses, and you mentioned you will update those on the fourth-quarter call, if I use the payout range, the drive through a truck of $1.73 to $1.97, and use your current dividend level, you are still at a reasonably low payout ratio level, even on the low end of that.

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

Yes.

Michael Lapides - *Goldman Sachs - Analyst*

With you not being a cash tax payer, are there opportunities for either debt reduction at the holding company level, or debt refinancing and just paying any make holes with some of the extra cash flow or even other forms of capital allocation that might be viewed as shareholder friendly?

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

Yes. So Michael, I will give you the universe of things that you will consider in that regard. So you are right. We could look at that paydown debt. Dividend is obvious and we will come out with our thoughts in February. What is in the mix is share repurchases, but you have to balance that in the context of our current regulatory filing structure.

If you remember, the equity ratio in our most recent rate cases has been impacted by our CapEx profile. And so we may have opportunities to shore that up a little bit as we go into this active rate case filing profile. So all of those things are the things that we would balance in terms of what the trade-off is in terms of either earnings potential or value distributed to shareholders.

Michael Lapides - *Goldman Sachs - Analyst*

Got it. And are there things, if I think about the cash flow statement, kind of net income we can take the implied guidance depreciation, CapEx, assume the dividend growth level, no income taxes, what cash drags or headwinds are there outside of some of the items that are embedded in what I just mentioned?

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

I think -- CapEx is a big mover. You have got -- you mentioned the big piece in cash from operations. You can adjust based on demand and do retail rates. You mentioned D&A but the big mover would be CapEx and that is where we expect our CapEx profile to moderate versus where we have been for, candidly, 10 years.

Michael Lapides - *Goldman Sachs - Analyst*

How should we think about cash attention requirements? How should we think about cash in the key requirements? Is working cap a source, a use, or nothing? You are about to become less of an earnings a story and more of a cash flow story. I'm just trying to get my arms around some of the other puts and takes on cash flow.

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

Yes. In terms of pension, our expense is really close to our contribution level so I wouldn't expect that to move around a whole lot. Our NDT contribution are pretty consistent so you can certainly use history to model that cash impact, but I don't necessarily -- I wouldn't disagree with your takeaway in terms of the profile obviously, with potential to invest in rate base moving forward, but balancing the customer impact. So that is where, as we have talked about this cash flexibility, it gives us the ability to either invest or it makes the right sense or to find ways to better deploy that to shareholders.

Michael Lapides - *Goldman Sachs - Analyst*

Thank you.

Operator

I am showing no further questions at this time and I would like to turn the conference back over to Mr. Terry Bassham for any closing remarks.

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

Yes. Thanks for all the questions. Appreciate you being on the call. I know you have got other calls to get to and I know we will see many of you here starting on Monday. So appreciate it and look forward to talking to you soon. Thanks.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program and you may all disconnect. Everyone, have a great day.
