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GXP - Q4 2015 Great Plains Energy Inc Earnings Call

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CORPORATE PARTICIPANTS

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

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

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

CONFERENCE CALL PARTICIPANTS

Charles Fishman *Morningstar - Analyst*

Brian Russo *Ladenburg Thalmann & Co. - Analyst*

Gregg Orrill *Barclays Capital - Analyst*

Paul Ridzon *KeyBanc Capital Markets - Analyst*

Chris Turnure *JPMorgan - Analyst*

Andy Levi *Avon Capital - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Great Plains Energy Inc. fourth-quarter year end 2015 earnings conference 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 call is being recorded.

I would now like to introduce your host for today's conference, Ms. Lori Wright, Vice President of Investor Relations and Treasurer. Ma'am, you may begin.

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

Thank you, operator, and good morning. Welcome to Great Plains Energy's year-end 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 is 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 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 2015 10-K after market close yesterday. These items are available along with today's webcast slides and supplemental financial information regarding the fourth-quarter and full-year 2015 on the main page of our website at GreatPlains.com.

Summarized on slide three are the topics that will be covered in today's presentation. Terry will provide a financial overview and an update of our legislative and regulatory priorities followed by a discussion of our strategic plans. Kevin will discuss our financial results as well as our long-term targets.

With that I will now hand the call to Terry.

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

Thanks Lori, and good morning, everybody. I will start on slide five. Yesterday we announced fourth-quarter and full-year 2015 results. Earnings for the quarter were $0.15 per share compared to $0.12 per share in 2014. Full-year earnings per share were $1.37 compared to $1.57 a year ago. Our results were within our communicated guidance range of $1.35 to $1.45. Our 2015 results reflect continued discipline management of our business while absorbing the regulatory lag typical of a Missouri electric utility prior to new retail rates going into effect.

Also weather when compared to normal, negatively impacted earnings by approximately $0.09 for the year. During the quarter we saw the impact of a recently concluded KCP&L Missouri and Kansas rate cases. We also put in place several new riders and trackers including a fuel recovery mechanism in Missouri in both the transmission delivery charge rider and a CIPS cybersecurity tracker in Kansas. Kevin will discuss quarter and year-end to date drivers in his remarks.

Looking forward, we are introducing our 2016 earnings guidance range of $1.65 to $1.80 per share in our long-term expectations and commitment to drive continued dependable shareholder returns through a combination of earnings and dividend growth. As reflected in our press release last night, we are targeting annualized earnings growth of 4.5% through 2020 off the year's guidance range. This growth will be consistent with our regulatory frameworks and will be driven by targeted investment and customer and grid operations, continued environmental compliance and disciplined cost management.

In addition, continued investment in national transmission and a growing regional economy support our earnings growth rate.

With a decade-long investment cycle behind us, increased investment flexibility and improving cash flows, we are in a stronger position to grow our dividend moving forward. This confidence is reflected in an increased long-term annualized dividend growth target of 5% to 7% through 2020 and a narrow dividend payout ratio target of 60% to 70%.

Turning now to slide six. As we reflect on 2015, there is no doubt the outcomes resulting from the traditional elements of our 2015 Missouri and Kansas KCP&L rate proceedings were constructive with virtually no disallowances and allowed returns consistent with regional precedence. However, we continue to be disappointed by the inability to gain traction on some of the more responsive and commonly accepted regulatory reforms we pursued in our Missouri case to better respond to the current environment in which we operate.

Bottom line, there is also no doubt the current regulatory construct that has been in place for the last century is in need of a refresh. As a result, we are working with others to bring about comprehensive performance-based statewide energy legislation in Missouri that will enable us important energy infrastructure investments and evolve our regulatory construct to one that meets the needs of all stakeholders.

These reforms will provide robust customer protections, support modernization of the grid to address aging infrastructure, improve reliability, enhance infrastructure security and facilitate the transition to a cleaner, more diverse mix of energy resources. We believe those common sense reforms will create and help retain thousands of jobs and will competitively position Missouri for economic growth.

Effectuating this type of regulatory reform requires hard work, significant stakeholder education and rigorous coalition building. We continue to work with other Missouri utilities, our customers and other stakeholders to advocate for energy policy advancements in order to bring longer term solutions that benefit customers and shareholders. We will keep you posted as these efforts advance throughout the year.

While we are encouraged by the prospects for real regulatory perform, we continue to also plan to invest consistent with our regulatory frameworks and make active general rate case filings until such changes materialize. To that end, two days ago we filed a general rate case at our GMO jurisdiction requesting an increase of $59.3 million on a rate base of approximately $1.9 billion using a return on equity of 9.9%.

The primary drivers of this requested increase include new infrastructure investments and continued increases in transmission costs and property taxes. New rates are anticipated to be effective early 2017 and a summary of the key components of the case can be found in the appendix.

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We are also in the planning stages for the next round of rate cases at KCP&L. In Kansas, we are required to file an abbreviated rate case by November 2016 to true up our costs for the La Cygne environmental project. In Missouri, we are evaluating a timing of our next case which will be likely during the second half of 2016. As a reminder, the rate case process in Missouri is 11 months while Kansas is approximately 8 months.

Finally, as you know recently the US Supreme Court granted a stay of the Clean Power Plan pending judicial review of the rule. The stay will remain in effect pending Supreme Court review if such review is sought. While we have previously worked to improve the emission profile of our generation with nearly 75% of our coal fleet scrubbed, we continue to evaluate the implications of the recent court action.

Investments we have made over the last several years have afforded us flexibility to respond to a combination of strategies including optimization of the operation of our existing generation fleet, investments in new renewable resources and the shutdown of our older, less efficient units. We will continue to monitor these developments and we will balance the need to transition to a cleaner energy portfolio with managing the cost impact to our customers.

Slide seven highlights our simple and clear strategy as predicated in 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. For the past several years, we have implemented information technology projects that include an automated meter infrastructure upgrade, meter data management installation and an outage management system replacement. All are part of our broader strategic focus of providing top-tier customer satisfaction and operational excellence.

We recently initiated a project to replace our Customer Information System that will further enhance our interactions with our customers. The installation and operation of our Clean Charge Network, one of the nation's first major electric vehicle charging networks has make Kansas City one of the best places to own an electric vehicle and as you will hear from Kevin, economic activity in our region continues to improve.

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

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

Thank you, Terry, and good morning, everyone. I will begin with an overview of our financial performance on slide nine.

As you can see, earnings for the fourth quarter were $0.15 per share compared with $0.12 a year ago. Full-year earnings were $1.37 per share compared to $1.57 per share last year. As detailed on the slide, the $0.03 increase for the quarter was driven by new KCP&L retail rates in Kansas and Missouri and an increase in other margins resulting from a change in customer mix, lower fuel and purchased power expenses that do not flow through our fuel recovery mechanism and an increase in transmission cost recovered through a transmission recovery mechanism.

An increase in weather normalized demand also contributed to the increase. These impacts were partially offset by milder weather, increased O&M, depreciation and amortization expense and lower AFUDC.

For the full year, the $0.20 decrease was driven by mild weather, lower AFUDC, higher depreciation and amortization expense, and a tax benefit impacting 2014 that did not reoccur in 2015.

The decline in wholesale margin due to lower gas prices in KCP&L Missouri where our fuel clause recovery mechanism was implemented late in the year also contributed to the decline. However, we were pleased to implement the fuel recovery mechanism in the quarter as it minimizes margin risk moving forward.

These negative impacts were partially offset by new retail rates, an increase in weather normalized demand, lower fuel and purchase power cost and higher other margin.

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We continue our laser focus on managing costs. For the year O&M exclusive of items with direct revenue offsets declined approximately 1%. Over the last five years as a result of our continued commitment to cost management, annualized O&M growth exclusive of those same items increased less than 1% despite increased pressure from emerging regulatory grid security requirements such as CIPS and cybersecurity.

Demand growth also remains a key focus area. 2015 weather normalized demand grew 0.4% net of our energy efficiency programs marking our third consecutive year of demand growth. We play an active role in supporting this growth through competitive retail rates, providing customers with Tier 1 service and by partnering with our communities to offer tools that promote the economic strength of the region. More globally, we continue to be encouraged by the broader economic climate in the Kansas City region.

Year to date, December 2015, the unemployment rate in Kansas City is 3.8%, well below the national average of 4.8%. The residential real estate market remains strong. The number of single-family residential real estate permits issued in 2015 increased 10% over 2014. Including multifamily permits, the total for 2015 increased 7% over the same prior year period.

Turning to slide 10, as Terry mentioned, we are introducing our 2016 EPS guidance range of $1.65 to $1.80. The primary drivers of this range include a full year of new retail rates in our KCP&L Missouri and Kansas jurisdictions, weather normalized demand growth consistent with recent trends of flat to 0.5% net of the estimated impact of our energy efficiency program, and continued disciplined cost and capital management.

While we will likely see a bit of an increase in O&M for the year due to our strong actions and performance in 2015, we continue our laser focus on managing our business in the current environment. And on the weather front, the year is off to a bit of a mild start but we have the rest of the year ahead of us and are confident in our ability to manage the year.

In the capital markets area supported by our strong NOL position, we have no activity planned in 2016 and have no equity needs for the foreseeable future.

Turning to slide 11, we are excited about our long-term opportunity to grow our business while meeting the increasing needs of our customers. As we look forward, we are targeting annualized earnings growth of 4% to 5% through 2020 off of this year's guidance range of $1.65 to $1.80. This earnings growth will be driven by annualized rate base growth of 2% to 3% resulting from more targeted investment to empower customers and optimize our grid.

I won't belabor the point but we will remain disciplined in our cost and capital management. As we look at our O&M profile over the next five years, we will be working hard to manage our annualized growth rate to be in line with or below the historical rate of inflation. As evidenced by our modest rate base growth plan, we will intentionally be focusing our investment consistent with our regulatory frameworks for regulatory lag as a material ongoing challenge.

In addition, we will continue to develop our national transmission business and our regional economy is healthy and supports our earnings growth profile.

At a higher level and as you can likely glean from our comments this morning, our focus remains on minimizing regulatory lag. As Terry mentioned, we are actively working with a broad stakeholder group towards regulatory policy change in Missouri and are committed to evolving the regulatory construct.

That said, change is not always easy and we are proactively responding to the existing regulatory construct by filing more frequent rate case. Bottom line is that our team is actively working to eliminate the dips in earnings we have historically experienced and believe this is our current best tool along with tightly managing our investment activities to minimize lag. However, there are limits to this strategy as Missouri is based on a historical test year and 11-month rate case process.

So, given our plans for more frequent and sometimes staggered rate cases over the next few years, we do not expect a smooth upward earnings trajectory through 2020 absent material regulatory reform but we will continue to see material revenue ?steps? when new rates in the various jurisdictions become effective offsetting lag from jurisdictions where any rate has not gone into effect.

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Slide 12 contains a list of considerations for 2017 through 2020, much of which we have covered in our presentation today. I would also like to highlight one additional item, the extension of bonus depreciation while dampening our rate base growth rate did increase future income tax benefits to nearly $1 billion at year-end 2015. As a result, we do not anticipate paying significant cash income taxes through approximately 2024 which eliminates the need for additional equity in the foreseeable future.

The details of our NOLs and tax credits can be found in the appendix. And again, our expectations for demand growth moving forward are consistent with recent trends and we will continue our focus on operational excellence through tight cost management -- there is that phrase again -- and active management of the rate case calendar to minimize lag.

As we wrap up on slide 13, I note that with a decade-long investment cycle behind us and increasing cash flexibility, we are in a much stronger position for the next decade. Our confidence drives our increased long-term annualized dividend growth target of 5% to 7% with emphasis towards the top side of the range. This strong dividend growth target will lead to a dividend payout ratio of 60% to 70% with the flexibility for potential share repurchases in the later years of the target window.

We are excited to deliver the opportunities in front of us and have a clear commitment to strengthen our utility infrastructure and regulatory frameworks to promote regional growth and exceed customer expectations while delivering dependable shareholder returns.

Thanks for your time this morning. We are now happy to answer any questions you might have.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Charles Fishman, Morningstar.

Charles Fishman - *Morningstar - Analyst*

Thank you. Terry, the partnering that you are talking about doing with other stakeholders in Missouri, is that the Senate Bill 1028 House Bill 2495?

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

Yes, that is what I was talking about.

Charles Fishman - *Morningstar - Analyst*

And then I am sorry, are you getting the feedback like I am in my phone?

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

I am not but you are a little fuzzy.

Charles Fishman - *Morningstar - Analyst*

I am on a headset but let me keep trying. Just one other question I guess. There was an aluminum smelter in the southern part of the state and my impression was they never saw a rate increase or a tracker, they never saw one they liked and they always voted against it or at least had their

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legislative representative vote against it and they were pretty influential. With their bankruptcy, it is unfortunately certainly for the employees, for the region, but does that give this thing -- the new legislation a higher probability than we have seen in the past?

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

Certainly. You are talking about Noranda, which happened to be the largest user of electricity in the state of Missouri and is an Ameren customer and certainly that has been one of our challenges in the past. And I would just say that with the current process we are working through, we were partnering with them as well, (inaudible) obviously. But yes, I would say they are with us in terms of a final solution that would help solve several issues and that is one of the things that is different about this session and has been probably in the last four or five sessions.

Charles Fishman - *Morningstar - Analyst*

If my impression is accurate that they were very influential and if they are out of the process, that sort of sucks the oxygen out of the opposition?

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

More than out of the process, they are actually in the process in support of what we are trying to do here. So it is a definite change to what has been happening in the past.

Charles Fishman - *Morningstar - Analyst*

Okay. Thank you very much. That was it.

Operator

Brian Russo, Ladenburg Thalmann.

Brian Russo - *Ladenburg Thalmann & Co. - Analyst*

Good morning. Just on slide 11, you note a rate base long-term growth rate of (inaudible) to 2% but an EPS growth rate of 4% to 5%. How do you capture the incremental EPS growth versus the rate base growth?

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

So Brian, that comes in a couple of forms. One is continued cost management but more importantly, I mean as you look at us towards the end of an investment cycle, our equity ratios for regulated purposes have dipped a bit. We expect for our cash position to create an opportunity for us to improve our equity ratios as we come out of that sizable build cycle length so that combination with solid management and load growth we think leads to a solid 4% to 5% earnings growth trajectory.

Brian Russo - *Ladenburg Thalmann & Co. - Analyst*

Okay, got it. And just the midpoint of your 2016 guidance, it looks like in line below 8% earned ROE. Is that accurate?

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

Yes, it is about 150 basis points of regulatory lag.

Brian Russo - *Ladenburg Thalmann & Co. - Analyst*

Okay. And you mentioned potential share repurchase flexibility in the future. Maybe you could just elaborate on that a little bit.

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

Yes, that is something we wanted to just put out there publicly. As we get to the end of a five-year cycle with an improving cash flow and a moderating CapEx profile consistent with our regulatory construct, we think we will have cash flexibility and so amongst other things not only improving our equity ratio but we think there may be potential for share repurchases in the latter edge of that timeframe. So it is something we wanted to make sure we talked to folks about. Obviously the several years away but something that could be utilization of cash.

Brian Russo - *Ladenburg Thalmann & Co. - Analyst*

Okay. Just lastly, what is next on the legislative calendar that we should be looking out for on the Senate Bill and the House Bill on utility regulations?

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

This is Terry. The next step would be Senate hearings. So that will be happening in the coming weeks and it will probably work through that process before the house picks up and does anything but we would expect Senate to have hearings in the coming weeks.

Brian Russo - *Ladenburg Thalmann & Co. - Analyst*

Okay, great. Thank you.

Operator

Gregg Orrill, Barclays.

Gregg Orrill - *Barclays Capital - Analyst*

Thank you. Do you have year-end rate base numbers for KCP&L jurisdictions?

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

I don't think we have that broken out in this presentation. I mean it would still be consistent with what we were talking about in the third and the fourth quarter after we finalized our cases last year, the total to the $6.6 billion of rate base in total.

Gregg Orrill - *Barclays Capital - Analyst*

Barclays^

Got it. Thank you.

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Operator

Paul Ridzon, KeyBanc.

Paul Ridzon - *KeyBanc Capital Markets - Analyst*

Thanks. My question has been answered. I thought I had queued out. Thanks.

Operator

Chris Turnure, JPMorgan.

Chris Turnure - *JPMorgan - Analyst*

Good morning, Terry and Kevin. I just wanted to get some color on the later years of your CapEx forecast. There's a lot of environmental spend in there and a couple of other drivers that kind of increase it in the later years. How can we think about that plan changing at all in response to success in the legislative arena or failure there -- pardon me? And kind of the same question on the ability for you guys to do a little bit better or get more constructive outcomes in your current rate cases, rate case now and then the one later this year?

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

This is Terry and I will let Kevin jump in here as well. I mean the focus for us on this legislation is first and foremost earning our allowed return on our current investments and being able to fully earn the ROE that the commission awards. Certainly if we had more certainty around a process, we would be able to invest additional dollars on certain things but that would be based on need and potentially additional other legislation in case issues. The CPP from that perspective remember doesn't have any specific dollars in our CapEx yet and so we wouldn't remove anything based on that ruling but it could be additive if in fact we got a specific ruling so there is opportunities there as well.

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

The only other thing I might add is that toward the back end of this CapEx disclosure and we have extended it out obviously an additional year, what you see in that environmental line includes investment to comply with the Clean Water Act so potentially for equipment associated with some of our river plants. Obviously we think we have a little bit of flexibility, that CapEx has kind of shifted out in the 2018, 2019 timeframe but that forms the basis of the majority of the environmental CapEx in that timeframe.

Chris Turnure - *JPMorgan - Analyst*

Got you. And then on the dividend as we look toward November of this year, you could potentially be in two rate cases at that time in Missouri depending on your strategy going forward. How can we think about your comfort level giving an increase at the same level that you did last year and kind of creeping up within the payout ratio guidance if you are in fact kind of fully steeped in regulatory activity at that time?

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

You know, I think we have been clear and in fact have done year after year now for many years, we have taken the position that a healthy utility with a growing dividend is important for our state, shareholders and all stakeholders and we are not bothered by the fact that we might have a

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dividend increase fall within the time period we are also considering a rate case. And we have had good response. Nobody has suggested that that is not appropriate.

So our guidance here obviously around the dividend recognizes the fact you just mentioned and when time comes we will evaluate that with the Board but the rate case wouldn't stop us from doing the right thing.

Chris Turnure - *JPMorgan - Analyst*

Okay, great to hear. Thanks.

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

And I might real quick, I think Gregg from Barclays, your question I got my act together and got the answer. It is about $4.7 billion of rate base at year end for KCP&L Missouri. Hopefully that answers the previous question.

Operator

(Operator Instructions). Andy Levi, Avon Capital.

Andy Levi - *Avon Capital - Analyst*

Good morning, gentlemen. Just a quick question. There is a background. You ought to get your money back on that phone. So on the growth rate, did you say -- I wasn't sure if I heard correctly that it is not linear, that it could be choppy or --?

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

Yes, that is right, Andy. We are trying to remind folks that with historical test years and 11 month process, you are still going to see dips in regulatory lag which creates the need for rate cases. What our current plan contemplates is more frequent rate cases to smooth out those dips. But again, it is not going to be just a smooth 4% to 5% growth from this point through 2020. We are still going to have to manage that current regulatory process unless we get a change in the regulatory mechanism as Terry discussed.

Andy Levi - *Avon Capital - Analyst*

So how should we think about this. I'm sorry, were you going to say something, Terry?

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

No.

Andy Levi - *Avon Capital - Analyst*

I'm sorry because this background thing. Just to understand so we take your 2016 $1.73 I guess it is end point and then we grow that 4% to 5% off the $1.73 through 2020 which gives you a number. I'm not sure what that number is and that is where you plan to get. But in between that it could be choppy but ultimately by 2020 that is the number we should focus on? Is that what you are trying to say?

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

That is right. I wouldn't say choppy. It just won't be a straight line because for example now we've got our GMO case that we are getting ready to file. We have got four years of lag built up at the GMO jurisdictions so when those new rates come into effect next year, we will see those new rates. But remember, we will have ongoing lag from KCP&L Missouri primarily due to transmission expense and property tax in the interim. And as Terry mentioned, we will file a case likely targeting the second half of this year and then those new rates will come in sometime after that case is filed. So we are trying to eliminate that choppy thing but it is not going to be a smooth straight line through 2020.

Andy Levi - *Avon Capital - Analyst*

Okay, got it. Thank you, guys.

Operator

I'm showing no further questions at this time. I would now like to turn the call over to Terry Bassham for closing remarks.

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

Thank you everybody for joining the call. Thank you for your questions and obviously we will keep you updated along the way as things progress. Have a good day.

Operator

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

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