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EVRG.N - Q2 2020 Evergy Inc Earnings and Sustainability Transformation Plan Call

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OVERVIEW:

Co. reported YTD GAAP earnings of $202m or $0.89 per share and 2Q20 GAAP EPS of $0.59. Expects 2020 GAAP EPS to be $2.66-2.86 and adjusted EPS to be $2.90-3.10.

CORPORATE PARTICIPANTS

Anthony D. Somma *Evergy, Inc. - Executive VP & CFO*

Charles A. Caisley *Evergy, Inc. - Senior VP of Marketing & Public Affairs and Chief Customer Officer*

Kevin E. Bryant *Evergy, Inc. - Executive VP & COO*

Lori A. Wright *Evergy, Inc. - VP of Corporate Planning, IR & Treasurer*

Terry D. Bassham *Evergy, Inc. - President, CEO & Director*

CONFERENCE CALL PARTICIPANTS

Durgesh Chopra *Evercore ISI Institutional Equities, Research Division - Associate*

Julien Patrick Dumoulin-Smith *BofA Merrill Lynch, Research Division - Director and Head of the US Power, Utilities & Alternative Energy Equity Research*

Michael Jay Lapides *Goldman Sachs Group, Inc., Research Division - VP*

Paul Patterson *Glenrock Associates LLC - Analyst*

Shahriar Pourreza *Guggenheim Securities, LLC, Research Division - MD and Head of North American Power*

Steven Isaac Fleishman *Wolfe Research, LLC - MD and Senior Utilities Analyst*

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Q2 2020 Evergy, Inc. Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded. I would now like to hand the conference over to your host, Ms. Lori Wright.

Lori A. Wright - *Evergy, Inc. - VP of Corporate Planning, IR & Treasurer*

Thank you. Good morning, everyone, and welcome to Evergy's Second Quarter call. Thank you for joining us this morning. Today's discussion will include forward-looking information. 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 and include additional information on non-GAAP financial measures. The releases issued this morning, along with today's webcast slides and supplemental financial information for the quarter, are available on the main page of our website at investors.evergy.com.

On the call today, we have Terry Bassham, Evergy's President and Chief Executive Officer; and Tony Somma, Executive Vice President and Chief Financial Officer. Other members of management are with us and will be available during the question-and-answer portion of the call.

I will now turn the call over to Terry.

Terry D. Bassham - *Evergy, Inc. - President, CEO & Director*

Thanks, Lori, and good morning, everybody. We've got a lot of positive news to discuss today, including our new sustainability transformation plan and solid second quarter results. So our new plan sets the stage for significant value creation and a strong future for Evergy and our stakeholders. We'll begin today's call with a deeper dive into the STP and its benefits, then move to the quarter and your questions.

Turning first to Slide 4. As you know, earlier this year, the Board established a new Strategic Review & Operations Committee to evaluate and recommend ways to enhance value for our shareholders and all of the company's stakeholders. Among the options considered were a potential strategic combination and a modified improved stand-alone operating plan and strategy. Both the committee and the Board, as a whole, were well advised in these efforts with each retaining independent financial advisers and consultants to assist in the review.

The work over the past 4 months has been extensive. The committee and our financial advisers engaged with a number of third parties who may have been interested in a combination. We also took a fresh look at each element of our operating plan, including our investment priorities, our opportunities for cost savings and operating efficiencies and how and where we allocate capital. Throughout the review, we were focused on 3 core objectives: maximizing long-term value for our shareholders; serving the best interest of all Evergy's stakeholders, including our customers, employees and communities; and continuing to advance our work to successfully create a forward-thinking, sustainable energy company.

The plan we are announcing today delivers on all of these objectives. Accordingly, the committee unanimously recommended and the Board unanimously approved, pursuing our sustainability transformation plan that we are excited to announce today.

Turning to Slide 5. Our plan creates a compelling value proposition for shareholders. Under our plan, we will meaningfully increase our earnings growth to 6% to 8% through 2024 compared to our previous guidance of 5% to 7%. And this increased growth rate places Evergy in the top quartile of all U.S. electric companies. Together with our growing dividend, Evergy will have a compelling shareholder return profile. This growth will be enabled by increased capital investment as well as continued operational cost efficiencies to minimize the impact on customer rates. Under our new plan, we expect approximately $8.9 billion of capital investments through 2024 in infrastructure upgrades, grid modernization technology and clean energy initiatives across Kansas and Missouri. The incremental $1.4 billion in capital investments compared to our prior plan, which we announced in March of this year, is expected to support an estimated 5% to 6% compound annual rate base growth through 2024.

I want to point out that there are additional opportunities related to decarbonization and renewables deployment that are not included in our STP, which could support further investment depending on outcomes from our stakeholder engagement process. This process is underway as we update our long-term energy plan. We believe these potential incremental investment opportunities are realistic and achievable, given the support for clean energy at the state local level in Kansas and Missouri and from our customers. As you know, through the realization of the benefits associated with our prior merger, we have enhanced our planning processes that support system investment. We've also demonstrated our ability to execute on our identified cost management initiatives, with the quantity and timing of merger savings well ahead of our initial targets. This execution drives our confidence in achieving continued cost reductions and the growth outlined here under a range of scenarios.

Slide 6 highlights the growth opportunity and our earnings and rate base that I just discussed and shows a 25% reduction in O&M expenses we expect to achieve through 2024.

Let me discuss each of these in greater detail, starting on Slide 7. Since completing our merger, we have regularly reviewed our capital investment plans to ensure that we are investing at levels and in areas that drive the greatest benefits for our customers and the greatest value for our shareholders. Over time, we have adjusted our investment plan accordingly. The work conducted by the Strategic Review & Operations Committee helped identify additional investment opportunities across our transmission, distribution and generation infrastructure, as well as our customer-focused investments. The STP's incremental $1.4 billion of CapEx to bring the 5-year total to approximately $8.9 billion results in an estimated 5% to 6% annual rate base growth.

Looking to Slide 8. Our capital plan is focused on additional investments to accelerate decarbonization and grid modernization, while continuing to be cost conscious, financially strong and people-first culture fundamentals that are core to Evergy's foundation. The result is greener, more reliable, affordable energy for our customers and line of sight to continued earnings growth and value creation for Evergy's shareholders.

Over the next 5 years, we expect to invest $4.8 billion in upgrades to transmission and distribution infrastructure and customer-facing platforms to improve reliability, provide further access to renewable energy and enhance the customer experience. Our new plan also contemplates approximately $500 million of asset hardening, grid automation and technology investments through 2024 to create the grid of the future. This includes expediting the evolution to a smarter, more reliable and more efficient grid.

Increasing our renewable footprint is a priority that we have discussed and that we had acted on. Since 2005, Evergy has retired more than 2,400 megawatts of fossil generation and added or contracted for over 4,600 megawatts of renewables, making Kansas #2 in the nation for wind generation as a percentage of total generation. Our new plan has the potential to expedite CO2 emission reductions, by pursuing constructive, regulatory mechanisms, economically retire coal-fired generation and expand Evergy's wind and solar footprint. Through these actions, we can drive lower fuel and purchase power costs as well as O&M savings, which help keep our customers' bills competitive in the region. While we're still targeting 80% reduction in CO2 emissions by 2050 compared to 2005 levels, under this plan, we have the potential to reduce CO2 emissions as much as 85% by 2030, a material improvement in our CO2 footprint over the next 10 years. The pace of this reduction will ultimately be defined in collaboration with stakeholders as we seek to find the most beneficial economic path forward for our customers.

We are excited about the opportunities ahead, and we are already well on our way to meet our goals. Nearly half the power to homes and businesses we serve comes from emission-free resources. And our clean charge network includes over 1,000 EV charging station and continues to expand.

Slide 9. Maintaining a solid financial foundation has always been front and center for us. As reviewed on Slide 9, our plan requires no equity issuances, and Evergy will continue to have a strong credit profile. Tony will review our liquidity and financial activities in greater detail in his remarks.

When we announced our review, we affirmed our commitment to serving the best interest of all Evergy's stakeholders, including Evergy's employees, customers and communities. This commitment is unwavering, and our plan delivers on it.

Slide 11 reviews our new growth plan as contrasted against our prior expectations, including growth in our capital investments, rate base and earnings as well as continued growth in Evergy's dividend. The result is an attractive investment outlook and meaningful shareholder value creation.

To sum up on Slide 12, we are confident in this plan and the opportunities it creates to drive significant value for our shareholders and stakeholders alike. It allows us to target top quartile shareholder returns, deliver on regulatory and merger commitments, invest in critical infrastructure and accelerate our transition to providing more affordable and cleaner energy and project jobs while enhancing economic development opportunities. We look forward to continuing to engage with our regulators as we execute on this plan.

Now let's turn to the quarter, where we delivered solid results and our outlook for the year. We reported second quarter GAAP earnings of $0.59 per share compared to $0.57 a share earned in the second quarter of 2019. Adjusted earnings per share were $0.68 in the second quarter of 2020 compared to adjusted $0.58 per share in the same period a year ago. On a period-over-period basis, these results were driven by favorable weather, cost reduction efforts and lower shares outstanding, partially offset by the negative sales impact of COVID-19 and a noncash income tax adjustment due to a new Kansas law that will eliminate state income taxes for electric utilities. Also, we initiated our 2020 EPS guidance which on a GAAP basis is $2.66 to $2.86. And on an adjusted non-GAAP basis, $2.90 to $3.10.

I'll let Tony give you more details on the outlook and drivers of this guidance. I am very proud of how our team has executed during these trying times. Delivering solid results during extenuating circumstances underscores our team's continued focus on safety, customer service and operational performance. As a response to the pandemic has evolved, we are seeing the economy starting to open up back over time, while some of our larger manufacturing companies may be working at slightly reduced operator shifts by and large they're operating at a much higher level than in April and May. Our electric sales are down year-on-year, but we saw an increase in demand towards the end of the quarter. And I'll let Tony give you more specifics on sales.

While pandemic precautions altered the legislative sessions in our states, there are 2 components of the recently passed Kansas House Bill 2585 relevant to Evergy. The first provides for special economic development rates in Kansas, similar to what is allowed in Missouri. The provision gives the KCC authority to approve rate contracts outside of the general proceeding that are based on a utility's incremental cost of service for customers that meet certain criteria.

It allows for rate incentives that could attract businesses to Kansas or encourage expansion of existing customers that otherwise may not be possible.

Second portion of the bill eliminates the Kansas state income tax for public electric utilities. This becomes effective on January 1, 2021. Both of these are very positive for customers and our communities. In July, and in line with expectations, part 2 of the Kansas Rate study was filed. Like Part 1, which was filed in January, the study provided thoughtful analysis of multiple issues impacting Kansas electric rates and how they compare to regional states. Much of the focus on the second Kansas rate study is on the competitiveness of rates, which is very much in line with the thesis underpinning our merger. The study demonstrates our strategy is working. And since closing the merger in 2018, our rates have declined at a faster pace than our neighboring states. Additionally, the study supports our investment in modernizing and expanding the transmission grid that serves Kansas, which improves electric liability, increases access to electricity generated from Kansas wind farms.

And moving to the regulatory front, we've continued to work closely and collaboratively with our regulators to ensure we are representing all stakeholders as we adapt to dealing with the impacts of COVID-19. We suspended disconnects through mid-July, and will continue to waive late fees for our customers in both Kansas and Missouri. Additionally, with commission approval, we have introduced additional payment plans to allow businesses additional payment flexibility and to provide residential customers with extended payment plan options. Kansas Corporation Commission approved our request for an accounting authority order that allows us to track expenses, lost revenue and any cost offsets associated with COVID-19 to be considered for recovery in our next rate cases. We have a similar request for an accounting authority order pending in Missouri. The MPSC has set a procedural schedule, and we expect a ruling by the end of the year. In June, the KCC approved an order to review our Strategic Review & Operations Committee. They also approved a joint motion filing by the company, along with the KCC staff, which aims to provide detail around certain timing and confidentiality concerns. Now that our Board has made a final determination in our process, we're working to submit a report back to the KCC in line with the requirements of the order.

I will now turn the call over to Tony.

Anthony D. Somma - *Evergy, Inc. - Executive VP & CFO*

Thanks, Terry. Good morning, everyone. I'll start with Slide 17. We reported second quarter 2020 GAAP earnings of $0.59 per share compared to $0.57 per share in the second quarter of 2019. The increase in EPS is primarily due to warmer weather, lower operation and maintenance expense and fewer shares outstanding, partially offset by the negative impacts of COVID-19 and the income tax legislation in Kansas. As Terry mentioned, effective January 1, 2021, public electric utilities in Kansas will become income tax exempt. As a result, in June, we booked $13.8 million of income tax expense from the impact of revaluation of deferred income tax assets and liabilities not recovered in rates from nonregulated operations and from the difference in the statutory tax rates recovered through rates and the consolidated income tax rate.

While we plan to file for a change in income tax expense reflecting the rates effective January 1, 2021, the new law allows for Kansas Utilities to recover in a regulatory account, any over or under collection of income tax expense as a result of a change in state or federal law.

Moving on to adjusted non-GAAP earnings, which were $0.68 per share compared to $0.58 per share in the same period a year ago. As shown in the chart on Slide 16, adjusted EPS was driven higher primarily due to favorable weather, lower O&M and fewer shares outstanding and was partially offset by lower weather-normalized sales primarily due to COVID-19, which we estimate cost us about $0.08.

Turning to weather. Compared to last year, we estimate weather favorably impacted earnings by $0.10 in the quarter. And compared to normal, we estimate earnings were helped by about $0.06.

Moving on to Slide 18, I'll touch on year-to-date results. Year-to-date GAAP earnings were $202 million or $0.89 per share compared to $239 million or $0.96 per share in the same period last year. Adjusted earnings were $248 million or $1.09 per share compared to year-to-date 2019 adjusted earnings of $251 million or $1.01 per share. Primary drivers compared to last year include lower sales primarily due to COVID-19, which we estimate cost us about $0.09, higher depreciation expense and increase in interest expense, partially offset by lower O&M expense and fewer shares outstanding.

Our team continues its focus on operational efficiency to lower operating costs and exceed our savings targets. In the second quarter, we reduced our adjusted O&M by $25 million and through the first half of the year by $62 million. That equates to more than a 10% reduction in adjusted operating costs for the first 6 months of operations in 2020 as compared to last year. As far as merger savings go, we remained ahead of schedule and expect to exceed our initial 2020 merger savings target. These savings were gained without sacrificing operating capabilities, and we recently announced another voluntary exit program for our employees. As for weather compared to last year, we estimate weather was $0.02 unfavorable year-to-date and compared to normal, we estimate earnings were flat.

On Slide 19, I'll give you some details on the sales impact from COVID-19. Commercial industrial sales declined, reached a trough in April and started to improve in May and June, all the while being partially offset by increased residential usage driven by folks staying at home. These trends are consistent with what we observed as businesses started to reopen throughout the quarter. For the second quarter and compared to the same period last year, our estimated weather-normalized total retail sales were about 7% lower, residential sales were up about 5%, while commercial and industrial sales declined 13% and 12%, respectively. We remain optimistic in terms of our local economy suddenly reopening, however, it's hard for us to predict if the situation will continue to improve or take a step back depending on the future impacts of the virus.

Moving on to Slide 20 in our latest financial activities and liquidity. As you may recall, we announced on April 2 that Evergy Kansas Central issued $500 million of 30-year first mortgage bonds at 3.54%. Proceeds were used to redeem $250 million of 5.1% of bonds that matured midyear.

In May, Evergy Metro issued $400 million of 10-year mortgage bonds at 2.25%. This financing activity allowed us to pay down short-term debt at very attractive longer-term rates and further bolster our liquidity position, bringing June with total liquidity of approximately $2 billion and do not expect new issuances or refinancing activity throughout the remainder of the year. As Terry discussed, we were able to fund our new plan without any new equity issuances and maintaining a solid investment-grade profile.

Now wrapping up on Slide 21. For reasons we stated on our year-end call, we did not issue any earning guidance for 2020. And accordingly, now, we're issuing 2020 GAAP EPS guidance of $2.66 to $2.86 and adjusted EPS guidance of $2.90 to $3.10. We are still expecting a decline in year-over-year weather-normalized sales, our outlook assumes a slow and steady recovery throughout the third and fourth quarter. Some of the additional drivers would include a reduction of 8% to 11% adjusted O&M expense compared to 2019, depreciation expense around $20 million to $30 million higher than last year, COLI proceeds of $20 million, and we've received roughly about $4 million through the end of June and an effective tax rate of 13% to 15%.

I'll now turn the call back to Terry.

Terry D. Bassham - *Evergy, Inc. - President, CEO & Director*

All right. Thank you, Tony. Now we will be happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from Shar Shahriar Pourreza from Guggenheim Partners.

Shahriar Pourreza - *Guggenheim Securities, LLC, Research Division - MD and Head of North American Power*

So a couple of questions here. First, it's obviously a very robust plan you put out there. Has there even been any partial vetting with Missouri and Kansas? And do you had any sort of conversations with the commissions? Obviously, you have a 5-year base rate freeze in Kansas and conversations we've had with both commissions in the past seems to center on them wanting a fully vetted regulatory process in place before enacting plans like this. So what's the right podium to seek recovery, the timing of when you think you'll seek recovery? And what sort of gives you this sense that the plan is going to be palatable for them? And any sense on the bill impact on this plan?

Terry D. Bassham - *Evergy, Inc. - President, CEO & Director*

Yes. So first of all, Shar, yes, we have been talking to our regulators. Recall, in particular, on the Kansas side, that the investigation, if you will, with the request by the staff to set up the docket was specifically addressing these issues. And if you recall, we actually supported confidential sharing of information with the staff only, but we have been talking to them along with this kind of dialogue for several weeks. And in fact, they've made it clear that they don't have a preference for a strategic versus stand-alone plan. They will evaluate both and in general and going through the materials that have obviously been worked on by the SRLC and the Board. They've made it clear that their filing was addressing -- the original filing was addressing the concerns over the public information that was in the Elliott letter and outlined their concerns there. We are very confident that the STP was prepared with those points in mind and that we will have them involved in what's expected to be a very good stakeholder process to discuss all these issues. We think the STP will meet each of their concerns going forward. What does the process look like? We've talked about a stakeholder process that would involve the kind of things you mentioned the regulators might want, which is long-term energy plan as a base for that conversation. But now obviously, we have the STP as well to discuss. We're excited about the opportunity that it provides us for not only additional O&M activity to drive cost, but also investment in things that will drive better reliability and more certainty for customers. And also provide us with the ability to move forward with our decarbonization efforts, and that stakeholder process will provide us with a lot of support when we go to work on regulatory and legislative support for that.

Finally, I think your last question was bill impact. I think we believe that the bill impact will be will be very low. And in fact, in Kansas, in particular, less than inflation, could be slightly higher in Missouri simply because of the piece of it. But it would be, again, lesser as well.

Anthony D. Somma - *Evergy, Inc. - Executive VP & CFO*

This is Tony. Shar, we're under the piece of caps.

Terry D. Bassham - *Evergy, Inc. - President, CEO & Director*

Yes, certainly under the piece of caps.

Shahriar Pourreza - *Guggenheim Securities, LLC, Research Division - MD and Head of North American Power*

Got it. Perfect. That's helpful. And then just this is going to take some time for you guys to go through this process. Can you just maybe talk a little bit about the profile of that 6% to 8%. Should we assume it's a little bit more back-end loaded as you seek recoveries. I mean, i.e. is the increase in that growth rate driven by the back half of '24? And then just on top of that, about $700 million of that capital growth opportunities is kind of predicated on LTIP spending, which may or may not transpire. So do you still feel that you kind of -- with the plan you have, you enough levers in place to sort of hit that 6% to 8% if the LTIP spending doesn't really transpire?

Anthony D. Somma - *Evergy, Inc. - Executive VP & CFO*

Shar, so as far as the profile filed the 6% to 8%, it's not going to be perfectly linear. As you mentioned, we have a little bit of back end lift just from the rate cases going into effect. Missouri rates would go under effect starting probably January 1 of '23, Kansas a year after that. So it's not going to be perfectly linear. As far as the LTIP spending goes, if we're not able to effectuate spending on those assets, we have plenty in the future that we could pull forward that we could spend money on of other investment opportunities, whether it be grid modernization and GRID hardening, et cetera.

Terry D. Bassham - *Evergy, Inc. - President, CEO & Director*

Shar, we've talked about before, having backlog there, but certainly the process we've been through over the course of the last 3 or 4 months has given us a lot more visual, if you will, to a 10-year plan of again, modernizing the grid and upgrading for reliability, technology and customer-focused programs.

Operator

Your next question comes from Durgesh Chopra from Evercore ISI.

Durgesh Chopra - *Evercore ISI Institutional Equities, Research Division - Associate*

Maybe to the extent that you can comment on this, can you maybe provide us a little bit more color on the strategic review process? Did you actually receive offers of combination? And if you did, then ultimately, you decided to go ahead with the stand-alone plan? I don't know I'm not sure if you can actually comment on that or not. But just any color on that process would be appreciated?

Terry D. Bassham - *Evergy, Inc. - President, CEO & Director*

Yes. What I would tell you that the committee conducted a robust and comprehensive process. We had advisers for both the committee and for the company. And yes, we did engage with a number of third parties. And without getting into a lot of the detail, in the end, the committee and the Board both agreed that based on that work and that review that our stand-alone plan produced a better long-term shareholder return profile and that was absolutely the best way to move forward.

Durgesh Chopra - *Evercore ISI Institutional Equities, Research Division - Associate*

Understood. Appreciate that. Appreciate that. And then maybe just real quick, and I'll jump back in the queue. You mentioned a couple of additional opportunities, including renewables on the renewable front outside of this current CapEx plan. What sort of -- what should we -- what are the time lines for those? What are the milestones that we should be looking out in terms of you getting approval for those kinds of expenditures?

Terry D. Bassham - *Evergy, Inc. - President, CEO & Director*

Yes. I'll let Kevin Bryant talk a minute about the opportunities. He worked on the -- that portion of the SRLC STP work.

Kevin E. Bryant - *Evergy, Inc. - Executive VP & COO*

Yes. So in terms of the opportunities, we laid out a slide from -- in the deck that's describes in more detail kind of grid mod. But it's all the things you'd expect, I mean updating conductors, coal circuit breakers, aging infrastructure. So time line-wise, we also plan to file our integrated resource plan in the first quarter next year. And so we also describe our long-term energy plan process that Terry mentioned, which is working with stakeholders through the balance of this year to build support and ultimately file that integrated resource plan, which will set the generation planning expectations for the foreseeable future. So that's probably the biggest, most notable milestone time line (inaudible).

Operator

Our next question comes from Julien Dumoulin-Smith.

Julien Patrick Dumoulin-Smith - *BofA Merrill Lynch, Research Division - Director and Head of the US Power, Utilities & Alternative Energy Equity Research*

Perhaps if I can jump in a little bit, I see a lot of discussion on distribution spending, et cetera. Can you talk a little bit more about coal retirements, securitization, specifically in the context of legislation in both states and how that might eventually fit into this plan? Both in terms of incremental opportunities as well as to what extent that is already reflected or assumed in order to make those generation renewable investments that you've identified?

Terry D. Bassham - *Evergy, Inc. - President, CEO & Director*

Yes. I'm going to ask Chuck Caisley who leads our community regulatory legislative process. So Chuck?

Charles A. Caisley - *Evergy, Inc. - Senior VP of Marketing & Public Affairs and Chief Customer Officer*

Yes. I mean, securitization has been an issue that has been filed both in Missouri and in Kansas over the last couple of years. And we have been in conversation with multiple stakeholders over the last 6 months. And believe that in the next year or so, passing securitization would be something that is achievable in both states. And in fact, as recently as this morning and yesterday, we've had conversations with legislative leaders in both Missouri and Kansas that we believe that stakeholder coalition exists to move that forward positively. Obviously, when you're talking about dealing with retiring coal assets, a mechanism for recovery on something like that would be a necessary precursor to be able to effectuate that part of the plan.

Julien Patrick Dumoulin-Smith - *BofA Merrill Lynch, Research Division - Director and Head of the US Power, Utilities & Alternative Energy Equity Research*

Just to clarify, your current plan does not assume legislation/securitization in terms of what that would lead to for the slated CapEx here?

Terry D. Bassham - *Evergy, Inc. - President, CEO & Director*

So on the very back end of the plan, it assumes a couple of year process to work through the securitization and ultimately, regulatory processes. It does assume retirement of some coal in the back end of the plan and investment in renewables. I think it's in the 2024 time period.

Charles A. Caisley - *Evergy, Inc. - Senior VP of Marketing & Public Affairs and Chief Customer Officer*

Thanks for clarifying that.

Julien Patrick Dumoulin-Smith - *BofA Merrill Lynch, Research Division - Director and Head of the US Power, Utilities & Alternative Energy Equity Research*

And if I can just clarify further, on the EPS CAGR, how do you think about how ratable that is against that specific target? I know that there could be some lumpiness. You obviously have some pretty ambitious O&M targets. I mean, should we expect to see this ratably, especially in the near years? Or do you think that this is more back-end weighted?

Anthony D. Somma - *Evergy, Inc. - Executive VP & CFO*

Julien, this is Tony. As I said earlier, it's not going to be perfectly linear. There will be a little bit of lift on back end simply because that's when new rates are going to go into effect. In the interim period, we will rely on reducing our O&M and that will improve our cash flows to help fund this investment thesis.

Operator

Your next question comes from Steve Fleishman with Wolfe Research.

Steven Isaac Fleishman - *Wolfe Research, LLC - MD and Senior Utilities Analyst*

The -- I guess, first question on the strategic decision. Maybe you could give some color from the standpoint of -- you mentioned that you think this plan gave the best value. But how much was kind of the risk of approval of a third-party plan, part of the decision-making. So there's value, but there's also a risk. How much was it risk versus value?

Terry D. Bassham - *Evergy, Inc. - President, CEO & Director*

Well, obviously, Steve, the -- probably the greater risk part of the process would have been on the bidder side. So obviously, they would look at their opportunity for success in making bids. In the end, as you look, it always affects both but there's -- certainly, we think the stand-alone plan, as we presented today, is less risky and more likely to be successful and create more value than a merger situation based on the information we gathered through the process we went through.

Steven Isaac Fleishman - *Wolfe Research, LLC - MD and Senior Utilities Analyst*

Okay. And then on the Kansas side, the review of the information that they ask for and the like, as you give them this new stand-alone plan, is there any process that's kind of expected after you give this to them in terms of kind of reviewing the stand-alone plan? Or is that just -- do you expect that they're just going to take the information and kind of move on from that?

Terry D. Bassham - *Evergy, Inc. - President, CEO & Director*

So what I would expect is -- I'm sorry, did I interrupt you?

Steven Isaac Fleishman - *Wolfe Research, LLC - MD and Senior Utilities Analyst*

No, no, no.

Terry D. Bassham - *Evergy, Inc. - President, CEO & Director*

No, what I would expect is, number one, as part of the investigation, we're required to provide a report once a decision is made. And so we'll be filing a report in the coming weeks that outlines the outcome of the process. So they'll receive that. And then what we expect is that the commission staff would participate with other parties in our stakeholder process that will be going through this plan as well as the long-term energy plan. And that's what we would expect to be able to talk about that. And as I said, obviously, they've already seen information that the Board and the SLRC saw. So we certainly are in front of them from that perspective. And I think based on all that, we would expect to see through the fall a review and input from stakeholders. One of the opportunities here that I mentioned in my comments is the ability to move up the carbonization in our fleet. And although there needs to be some legislative and regulatory work done there, we believe, based on our conversations that both fleets have been supportive of that conversation. So we would continue to have that with them as well as it applies to ultimate approval of the rate case part or recovery parts of the STP.

Steven Isaac Fleishman - *Wolfe Research, LLC - MD and Senior Utilities Analyst*

Got it. And then one last question, and I apologize to ask about the kind of ratability of the growth again. But -- so year 1 of the growth, 2020 is obviously well below the 6% to 8%, if you look at your 2020 guidance, I assume due to COVID. But just as you -- is it fair to say besides the year 1 are the other years all generally in that 6% to 8% range? I just want to get some sense of the extent of the hockey stick, so to speak?

Anthony D. Somma - *Evergy, Inc. - Executive VP & CFO*

Steve, this is Tony. There maybe on the lower end of the range in the first couple of years as we're ramping up spending and on the capital side and the offsets we would look to O&M to help obviously reduce that regulatory lag. And then on the back end, obviously, we're filing rate cases. And so you're going to get a bit of a lift for those rate cases going into effect in 2023 and 2024. I would not characterize it as a hockey stick, though.

Steven Isaac Fleishman - *Wolfe Research, LLC - MD and Senior Utilities Analyst*

Right, okay. So it's kind of the 6% to 8% and just maybe in the lower half at the beginning and then upper half at the end or something like that, roughly?

Anthony D. Somma - *Evergy, Inc. - Executive VP & CFO*

Yes. That's the trajectory, if you will.

Operator

Your next question comes from Michael Lapides with Goldman Sachs.

Michael Jay Lapides - *Goldman Sachs Group, Inc., Research Division - VP*

Congratulations on a good quarter. I have an easy one, which is when you think about where within the business, for 2021, maybe 2022, the biggest opportunities for O&M or G&A cost reduction or cost management are off of the level you're going to hit in 2020. I don't want to look back to 2018. That was a long time ago. I want to use this year. Where do you think the biggest cost reduction opportunities for year 1 or year 2 of this plan really lie within the business?

Anthony D. Somma - *Evergy, Inc. - Executive VP & CFO*

Michael, this is Tony. From the STP plan perspective, roughly 30% of the savings will come on the generation side, another 30% on the T&D side, about 20% coming from the G&A and then 10% from IT and 10% coming from roughly customer care. Those are kind of the approximate breakout percentages of O&M reduction.

Michael Jay Lapides - *Goldman Sachs Group, Inc., Research Division - VP*

And that's over the 5 years? Or is that in the next year or so? Is that a...

Anthony D. Somma - *Evergy, Inc. - Executive VP & CFO*

That's over the 5-year horizon.

Michael Jay Lapides - *Goldman Sachs Group, Inc., Research Division - VP*

Okay. What about the first couple of years? 5 years is a long time away, well, the world is going to change 10x in 5 years. So I'm just trying to think about what happens in the next 1 to 2?

Anthony D. Somma - *Evergy, Inc. - Executive VP & CFO*

Well, we'll be executing on that plan. And I don't know that in any particular period, one functional area is going to outdo the other as far as cost savings go.

Terry D. Bassham - *Evergy, Inc. - President, CEO & Director*

Part of the work over this process is that we've done a deep benchmarking and spent time reviewing those areas. So it gives us a lot of clarity around where those things would come from.

Michael Jay Lapides - *Goldman Sachs Group, Inc., Research Division - VP*

Got it. And when you think about plant retirements, do you see material plant retirements in the next, call it, 2 to 3 years? Or is that more kind of back-end loaded?

Terry D. Bassham - *Evergy, Inc. - President, CEO & Director*

Yes. The plant retirements we would be talking about are obviously, coal plants will -- that address CO_2 issues, and that fits in with the discussion around securitization and regulatory processes. That would support that process being moved up. So it would not be closures in the next couple of years.

Michael Jay Lapides - *Goldman Sachs Group, Inc., Research Division - VP*

Got it. And one last question and a little just kind of detail oriented stuff. Any plan regarding what you want the level of holding company debt versus operating company debt to look like over time? And kind of where you are today versus where you would like to be?

Anthony D. Somma - *Evergy, Inc. - Executive VP & CFO*

So Michael, we'd like to kind of stay around that 20% holding company debt compared to the total debt outstanding. That's kind of a Moody's metric, and we're below that today.

Operator

(Operator Instructions) Your next question comes from Paul Patterson with Glenrock Associates.

Paul Patterson - *Glenrock Associates LLC - Analyst*

Just a few quick follow-ups. What was the gating factor that -- I mean, obviously, you guys have always been looking at CapEx and modernizing the grid and opportunities in that area and what have you. But what was the gating factor that said, hey, we can do this and increase our earnings and everything, what -- was there any crucial factor, I guess, that sort of led you to this? Or could you give us a little bit more of a flavor as to what the strategic review did in terms of illuminating these opportunities for you?

Terry D. Bassham - *Evergy, Inc. - President, CEO & Director*

Yes. So there's no one single factor. Obviously, first and foremost, we have commitments we've made under the merger approvals in both our states. And so that was a beginning spot that we were absolutely going to be sure we could meet under any revised plan scenario. Secondly, we continue to work to make our cost to customers more competitive and continue to reduce when compared to our regional peers, that's through our, again, commitment around the freeze in the merger. And so those 2 things were extremely important. We also wanted, though, to be able to -- within that context to be able to drive additional investment, which would allow us, number one, to grow the business for shareholders benefit, but also begin to update the grid and decarbonize at a quicker pace.

So I know I've given you more than a several, but they all had to fit together. And I think that's what the key is that the work was, how do we bring those together and do it in a fashion which improves upon our ability to invest our growth rate but yet doesn't raise rates for customers, as I said, above inflation in Kansas takes advantage of PISA, which was there as an avenue that Missouri supports and then when you put all that together to be able to see how that might compare to other options. And we were very confident that this STP is absolutely the better option in front of us today for long-term shareholder value.

Paul Patterson - *Glenrock Associates LLC - Analyst*

Okay. Fair enough. The inflation rate, so when we're talking about the customer impact, in Kansas, we're expecting something in the neighborhood of what inflation is and that's what, is that -- what's that -- is that 2%? Is that what you guys are looking at? Or is it something else?

Anthony D. Somma - *Evergy, Inc. - Executive VP & CFO*

It's kind of CPI, Paul, I mean, in that ZIP code, 2 to 2.5 or so.

Paul Patterson - *Glenrock Associates LLC - Analyst*

Okay. And then finally, the 90-day -- the information-sharing agreement, could you elaborate a little bit on what that -- what that's about, I guess?

Terry D. Bassham - *Evergy, Inc. - President, CEO & Director*

Yes. If you look at how the plan was originally put together, we were moving forward with both path 1 and path 2, if you will, as they were called, but we extended the time for a review of strategic options when COVID occurred. And so we began our work and completed our work on the STP opportunity. And once we came to a conclusion on the strategic opportunity, we thought it's best to make the announcement to shareholders. There's still a piece of the SRLC charter which discusses their continued work with the Board to make recommendations around benchmark and KPIs for tracking success of the STP and to assist and collaborate with the Board on the optimal management team. And so those things had not been done yet. And so we agreed to -- with Elliot around a 90-year period for that to be done.

Operator

I am showing no further questions at this time. I would like to turn the conference back to Mr. Terry Bassham.

Terry D. Bassham - *Evergy, Inc. - President, CEO & Director*

Thank you, and thank you, everybody, for joining. Obviously, we're excited to be moving forward with the STP. We look forward to working with our regulators and our stakeholders, and we look forward to talking to each of you more as we continue to progress down our path. So thank you very much for joining. Look forward to talking to you in the future.

Operator

Ladies and gentlemen, this does conclude today's conference call. Thank you for participating. You may now disconnect.

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