

Evergy Missouri West, Inc.

**Unaudited Consolidated Financial Statements for the Three Months Ended
and Year to Date June 30, 2020 and 2019**

EVERGY MISSOURI WEST, INC.

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GLOSSARY OF TERMS

The following is a glossary of frequently used abbreviations or acronyms that are found throughout this report.

<u>Abbreviation or Acronym</u>	<u>Definition</u>
ACE	Affordable Clean Energy
AROs	Asset retirement obligations
BSER	Best system of emission reduction
CAA	Clean Air Act Amendments of 1990
CCRs	Coal combustion residuals
CO₂	Carbon dioxide
CPP	Clean Power Plan
CWA	Clean Water Act
D.C. Circuit	U.S. Court of Appeals for the D.C. Circuit
ELG	Effluent limitations guidelines
EPA	Environmental Protection Agency
Evergy	Evergy, Inc.
Evergy Kansas Central	Evergy Kansas Central, Inc., a wholly-owned subsidiary of Evergy
Evergy Metro	Evergy Metro, Inc., a wholly-owned subsidiary of Evergy
Evergy Missouri West	Evergy Missouri West, Inc., a wholly-owned subsidiary of Evergy
GAAP	Generally Accepted Accounting Principles
GHG	Greenhouse gas
NAAQS	National Ambient Air Quality Standards
NAV	Net Asset Value
NSR	New source review

EVERGY MISSOURI WEST, INC.
Consolidated Balance Sheets
(Unaudited)

	June 30	December 31
	2020	2019
ASSETS	(millions, except share amounts)	
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1.2	\$ 1.2
Receivables, net of allowance for credit losses of \$4.1 and \$2.2, respectively	60.5	39.5
Related party receivables	1.6	1.6
Accounts receivable pledged as collateral	48.0	50.0
Fuel inventory and supplies	57.3	52.1
Income taxes receivable	60.1	38.2
Regulatory assets	15.3	35.0
Prepaid expenses and other assets	3.2	4.0
Total Current Assets	247.2	221.6
PROPERTY, PLANT AND EQUIPMENT, NET	2,545.1	2,522.0
OTHER ASSETS:		
Regulatory assets	325.2	328.4
Goodwill	351.6	351.6
Other	32.2	32.6
Total Other Assets	709.0	712.6
TOTAL ASSETS	\$ 3,501.3	\$ 3,456.2

The accompanying Notes to Unaudited Consolidated Financial Statements are an integral part of these statements.

EVERGY MISSOURI WEST, INC.
Consolidated Balance Sheets
(Unaudited)

	June 30 2020	December 31 2019
LIABILITIES AND EQUITY		
(millions, except share amounts)		
CURRENT LIABILITIES:		
Current maturities of long-term debt	\$ 1.1	\$ 1.1
Notes payable and commercial paper	167.0	93.4
Collateralized note payable	48.0	50.0
Accounts payable	50.3	91.8
Related party payables	98.7	99.2
Accrued taxes	29.9	7.5
Accrued interest	6.7	6.8
Regulatory liabilities	2.4	7.8
Asset retirement obligations	11.1	11.9
Other	7.0	8.1
Total Current Liabilities	<u>422.2</u>	<u>377.6</u>
LONG-TERM LIABILITIES:		
Long-term debt, net	1,070.4	1,071.4
Deferred income taxes	297.7	329.0
Unamortized investment tax credits	2.6	2.6
Regulatory liabilities	299.1	328.2
Pension and post-retirement liability	22.1	22.2
Asset retirement obligations	19.9	21.2
Other	19.5	22.6
Total Long-Term Liabilities	<u>1,731.3</u>	<u>1,797.2</u>
Commitments and Contingencies (Note 7)		
EQUITY:		
Common shareholder's equity		
Common stock-1,000 shares authorized, \$0.01 par value, 10 shares issued, stated value	1,257.7	1,276.9
Retained earnings	91.7	6.2
Accumulated other comprehensive loss	(1.6)	(1.7)
Total Shareholder's Equity	<u>1,347.8</u>	<u>1,281.4</u>
TOTAL LIABILITIES AND EQUITY	\$ 3,501.3	\$ 3,456.2

The accompanying Notes to Unaudited Consolidated Financial Statements are an integral part of these statements.

EVERGY MISSOURI WEST, INC.
Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months Ended June 30		Year to Date June 30	
	2020	2019	2020	2019
	(millions)			
OPERATING REVENUES	\$ 191.0	\$ 199.5	\$ 373.1	\$ 394.2
OPERATING EXPENSES:				
Fuel and purchased power	55.9	67.9	123.5	140.4
Operating and maintenance	46.9	50.6	96.9	103.8
Depreciation and amortization	26.5	26.1	52.7	52.1
Taxes other than income tax	12.6	11.3	24.2	23.9
Total Operating Expenses	141.9	155.9	297.3	320.2
INCOME FROM OPERATIONS	49.1	43.6	75.8	74.0
OTHER INCOME (EXPENSE):				
Investment earnings	1.9	1.1	2.6	1.9
Other income	0.1	0.1	0.2	0.2
Other expense	(3.4)	(3.9)	(7.4)	(7.9)
Total Other Expense, Net	(1.4)	(2.7)	(4.6)	(5.8)
Interest expense	14.4	14.6	28.8	29.1
INCOME BEFORE INCOME TAXES	33.3	26.3	42.4	39.1
Income tax expense (benefit)	(58.8)	5.6	(58.9)	1.1
NET INCOME	\$ 92.1	\$ 20.7	\$ 101.3	\$ 38.0
COMPREHENSIVE INCOME				
NET INCOME	\$ 92.1	\$ 20.7	\$ 101.3	\$ 38.0
OTHER COMPREHENSIVE INCOME:				
Defined benefit pension plans				
Amortization of net losses included in net periodic benefit costs	0.1	0.2	0.2	0.3
Income tax expense	(0.1)	(0.1)	(0.1)	(0.1)
Amortization of net losses included in net periodic benefit costs, net of tax	—	0.1	0.1	0.2
Change in unrecognized pension expense, net of tax	—	0.1	0.1	0.2
Total other comprehensive income	—	0.1	0.1	0.2
COMPREHENSIVE INCOME	\$ 92.1	\$ 20.8	\$ 101.4	\$ 38.2

The accompanying Notes to Unaudited Consolidated Financial Statements are an integral part of these statements.

EVERGY MISSOURI WEST, INC.
Consolidated Statements of Cash Flows
(Unaudited)

Year to Date June 30	2020	2019
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES	(millions)	
Net income	\$ 101.3	\$ 38.0
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	52.7	52.1
Net deferred income taxes and credits	(37.0)	37.4
Payments for asset retirement obligations	(2.2)	(0.3)
Other	—	0.3
Changes in working capital items:		
Accounts receivable	(22.8)	(3.0)
Accounts receivable pledged as collateral	2.0	—
Fuel inventory and supplies	(5.2)	3.6
Prepaid expenses and other current assets	19.2	(0.5)
Accounts payable	(40.0)	(86.7)
Accrued taxes	0.6	5.4
Other current liabilities	(6.5)	(27.0)
Change in other assets	10.1	(0.6)
Changes in other liabilities	8.3	(0.2)
Cash Flows from Operating Activities	80.5	18.5
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:		
Additions to property, plant and equipment	(116.0)	(76.8)
Other investing activities	—	(1.4)
Cash Flows used in Investing Activities	(116.0)	(78.2)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:		
Short term debt, net	73.6	25.3
Collateralized short-term borrowings, net	(2.0)	—
Proceeds from long-term debt	—	99.9
Retirements of long-term debt	(1.1)	(1.1)
Cash dividends paid	(35.0)	(65.0)
Cash flows from Financing Activities	35.5	59.1
NET CHANGE IN CASH AND CASH EQUIVALENTS	—	(0.6)
CASH AND CASH EQUIVALENTS:		
Beginning of period	1.2	1.6
End of period	\$ 1.2	\$ 1.0

The accompanying Notes to Unaudited Consolidated Financial Statements are an integral part of these statements.

EVERGY MISSOURI WEST, INC.
Consolidated Statements of Changes in Equity
(Unaudited)

	Common stock shares	Common stock	Retained earnings	AOCI - Defined benefit pension plans	Total equity
	(millions, except share amounts)				
Balance as of December 31, 2018	10	\$ 1,276.9	\$ 84.7	\$ (1.0)	\$ 1,360.6
Net income	—	—	17.3	—	17.3
Change in unrecognized pension expense, net of tax	—	—	—	0.1	0.1
Balance as of March 31, 2019	10	1,276.9	102.0	(0.9)	1,378.0
Net income	—	—	20.7	—	20.7
Dividend declared on common stock	—	—	(65.0)	—	(65.0)
Change in unrecognized pension expense, net of tax	—	—	—	0.1	0.1
Balance as of June 30, 2019	10	\$ 1,276.9	\$ 57.7	\$ (0.8)	\$ 1,333.8
Balance as of December 31, 2019	10	\$ 1,276.9	\$ 6.2	\$ (1.7)	\$ 1,281.4
Net income	—	—	9.2	—	9.2
Change in unrecognized pension expense, net of tax	—	—	—	0.1	0.1
Balance as of March 31, 2020	10	1,276.9	15.4	(1.6)	1,290.7
Net income	—	—	92.1	—	92.1
Dividend declared on common stock	—	(19.2)	(15.8)	—	(35.0)
Balance as of June 30, 2020	10	\$ 1,257.7	\$ 91.7	\$ (1.6)	\$ 1,347.8

The accompanying Notes to Unaudited Consolidated Financial Statements are an integral part of these statements.

EVERGY MISSOURI WEST, INC.

Notes to Unaudited Consolidated Financial Statements

The term "Evergy Missouri West" is used throughout this report and refers to Evergy Missouri West, Inc. and its consolidated subsidiaries, unless otherwise indicated. Evergy Missouri West is a wholly-owned subsidiary of Evergy, Inc. (Evergy). Evergy also owns Evergy Metro, Inc. (Evergy Metro) and Evergy Kansas Central, Inc. (Evergy Kansas Central), both integrated, regulated electric utilities.

1. ORGANIZATION AND BASIS OF PRESENTATION

Organization

Evergy Missouri West is an integrated, regulated electric utility that provides electricity to customers in the state of Missouri. Evergy Missouri West conducts business in its service territory using the name Evergy.

Basis of Presentation

These unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for interim financial information. Accordingly, these unaudited consolidated financial statements do not include all of the information and notes required by GAAP for annual financial statements and should be read in conjunction with Evergy Missouri West's audited consolidated financial statements for the years ended December 31, 2019 and 2018.

These unaudited consolidated financial statements, in the opinion of management, reflect all adjustments necessary to fairly present the unaudited consolidated financial statements of Evergy Missouri West for these interim periods. In preparing financial statements that conform to GAAP, management must make estimates and assumptions that affect the reported amounts of assets and liabilities, the reported amounts of revenues and expenses, and the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Principles of Consolidation

Evergy Missouri West's unaudited consolidated financial statements include the accounts of its subsidiaries. Undivided interests in jointly-owned generation facilities are included on a proportionate basis. Intercompany transactions have been eliminated.

Subsequent events have been evaluated through August 12, 2020, the date the unaudited consolidated financial statements were available to be issued.

Fuel Inventory and Supplies

Evergy Missouri West records fuel inventory and supplies at average cost. The following table separately states the balances for fuel inventory and supplies.

	June 30 2020	December 31 2019
	(millions)	
Fuel inventory	\$ 22.1	\$ 20.1
Supplies	35.2	32.0
Fuel inventory and supplies	\$ 57.3	\$ 52.1

Property, Plant and Equipment

The following table summarizes Evergy Missouri West's property, plant and equipment.

	June 30 2020	December 31 2019
	(millions)	
Electric plant in service	\$ 3,668.5	\$ 3,546.8
Accumulated depreciation	(1,186.1)	(1,121.3)
Plant in service, net	2,482.4	2,425.5
Construction work in progress	62.7	96.5
Property, plant and equipment, net	\$ 2,545.1	\$ 2,522.0

Other Income (Expense), Net

The table below shows the detail of other expense for Evergy Missouri West.

	Three Months Ended June 30		Year to Date June 30	
	2020	2019	2020	2019
	(millions)			
Non-service cost component of net benefit cost	\$ (3.2)	\$ (3.7)	\$ (7.0)	\$ (7.5)
Other	(0.2)	(0.2)	(0.4)	(0.4)
Other expense	\$ (3.4)	\$ (3.9)	\$ (7.4)	\$ (7.9)

Supplemental Cash Flow Information

Year to Date June 30	2020	2019
Cash paid for (received from):	(millions)	
Interest, net of amounts capitalized	\$ 28.6	\$ 27.7
Income taxes, net of refunds	—	(19.5)
Non-cash investing transactions:		
Property, plant and equipment additions	20.5	4.4

2. REVENUE

Evergy Missouri West's revenues disaggregated by customer class are summarized in the following table.

	Three Months Ended June 30		Year to Date June 30	
	2020	2019	2020	2019
Revenues	(millions)			
Residential	\$ 96.3	\$ 90.2	\$ 183.6	\$ 185.5
Commercial	61.3	70.2	122.8	135.5
Industrial	19.6	21.5	38.0	40.5
Other retail	2.2	1.8	4.6	3.8
Total electric retail	\$ 179.4	\$ 183.7	\$ 349.0	\$ 365.3
Wholesale	3.8	6.1	6.8	9.8
Transmission	4.3	4.7	8.6	9.1
Industrial steam and other	3.6	7.9	8.1	8.1
Total revenue from contracts with customers	\$ 191.1	\$ 202.4	\$ 372.5	\$ 392.3
Other	(0.1)	(2.9)	0.6	1.9
Operating revenues	\$ 191.0	\$ 199.5	\$ 373.1	\$ 394.2

3. RECEIVABLES

Evergy Missouri West's receivables are detailed in the following table.

	June 30 2020	December 31 2019
	(millions)	
Customer accounts receivable - billed	\$ 7.7	\$ 4.1
Customer accounts receivable - unbilled	46.1	27.8
Other receivables	10.8	9.8
Allowance for credit losses	(4.1)	(2.2)
Total	\$ 60.5	39.5

As of June 30, 2020 and December 31, 2019, receivables for Evergy Missouri West included receivables from contracts with customers of \$2.9 million and \$3.1 million, respectively.

Allowance for Credit Losses

Historical loss information generally provides the basis for Evergy Missouri West's assessment of expected credit losses. Evergy Missouri West uses an aging of accounts receivable method to assess historical loss information. When historical experience may not fully reflect Evergy Missouri West's expectations about the future, it will adjust historical loss information, as necessary, to reflect the current conditions and reasonable and supportable forecasts not already reflected in the historical loss information. Evergy Missouri West has made an insignificant adjustment to its allowance for credit losses as of June 30, 2020, to reflect its belief that historical loss information does not reflect current conditions that have resulted from the economic slowdown resulting from the Coronavirus (COVID-19) pandemic.

Receivables are charged off when they are deemed uncollectible, which is based on a number of factors including specific facts surrounding an account and management's judgment.

The change in Evergy Missouri West's allowance for credit losses is summarized in the following table.

	2020	2019
	(millions)	
Beginning balance January 1	\$ 2.2	\$ 1.4
Credit loss expense	3.0	2.3
Write-offs	(2.6)	(3.5)
Recoveries of prior write-offs	1.5	1.3
Ending balance June 30	\$ 4.1	\$ 1.5

Sale of Accounts Receivable

Evergy Missouri West sells an undivided percentage ownership interest in its retail and steam accounts receivable to an independent outside investor. This sale is accounted for as a secured borrowing with accounts receivable pledged as collateral and a corresponding short-term collateralized note payable recognized on the balance sheets. At June 30, 2020 and December 31, 2019, Evergy Missouri West's accounts receivable pledged as collateral and the corresponding short-term collateralized note payable were \$48.0 million and \$50.0 million, respectively. Evergy Missouri West's receivable sales facility expires in September 2020 and allows for \$50.0 million in aggregate outstanding principle amount of borrowings from mid-November through mid-June and then \$65.0 million from mid-June through the expiration date of the facility. Evergy Missouri West expects to renew this agreement for at least one year.

4. RATE MATTERS AND REGULATION

Other Regulatory Proceedings

In December 2018, the Office of the Public Counsel (OPC) and the Midwest Energy Consumers Group (MECG) filed a petition with the Public Service Commission of the State of Missouri (MPSC) requesting an Accounting Authority Order (AAO) that would require Evergy Missouri West to record a regulatory liability for all revenues collected from customers for return on investment, non-fuel operations and maintenance costs, taxes including accumulated deferred income taxes, and all other costs associated with Sibley Station following the station's retirement in November 2018.

In October 2019, the MPSC granted OPC's and MECG's request for an AAO and required Evergy Missouri West to record to a regulatory liability the revenues discussed above for consideration in Evergy Missouri West's next rate case, which is expected to be completed no later than 2022. Depending on the MPSC's decision in this next rate case, Evergy Missouri West could be required to refund to customers all or a portion of amounts collected in revenue for Sibley Station since December 2018 or, alternatively, could be required to make no refunds.

As a result of the MPSC order, Evergy Missouri West has recorded a regulatory liability of \$15.6 million as of June 30, 2020 for the estimated amount of revenues that Evergy Missouri West has collected from customers for Sibley Station since December 2018 that Evergy Missouri West has determined is probable of refund. Evergy Missouri West expects that it will continue to defer such amounts as collected from customers until new rates become effective in its next rate case.

The accrual for the estimated amount does not include certain revenues collected related to Sibley Station that Evergy Missouri West has determined to not be probable of refund in the next rate case based on the relevant facts and circumstances. While Evergy Missouri West has determined these additional revenues to not be probable of refund, the ultimate resolution of this matter in Evergy Missouri West's next rate case is uncertain and could result in an estimated loss of up to approximately \$12 million per year in excess of the amount accrued until Evergy Missouri West's new rates become effective. Evergy Missouri West's regulatory liability for probable refunds as of June 30, 2020 and estimated loss in excess of the amount accrued represent estimates that could change significantly based on ongoing developments including as a result of an appeal of the MPSC order, decisions in other regulatory proceedings that establish precedent applicable to this matter and positions of parties on this issue in a future Evergy Missouri West rate case.

COVID-19 AAO Request

In May 2020, Evergy Missouri West filed a request for an AAO with the MPSC that would allow for the extraordinary costs and lost revenues incurred by Evergy Missouri West, net of any COVID-19-related savings, as a result of the COVID-19 pandemic to be considered for future recovery from customers as part of its next rate case. A decision by the MPSC regarding the AAO request is expected in the fourth quarter of 2020.

5. SHORT-TERM BORROWINGS AND SHORT-TERM BANK LINES OF CREDIT

Evergy's \$2.5 billion master credit facility expires in 2023. Evergy Missouri West has borrowing capacity under the master credit facility with a sublimit of \$450.0 million. This sublimit can be unilaterally adjusted by Evergy provided the sublimit remains within minimum and maximum sublimits as specified in the facility. A default by Evergy Missouri West or any of its significant subsidiaries on other indebtedness totaling more than \$100.0 million constitutes a default by Evergy Missouri West under the facility. Under the terms of this facility, Evergy Missouri West is required to maintain a total indebtedness to capitalization ratio, as defined in the facility, of not greater than 0.65 to 1.00 at all times. As of June 30, 2020, Evergy Missouri West was in compliance with this covenant.

At June 30, 2020, Evergy Missouri West had \$167.0 million of commercial paper outstanding at a weighted-average interest rate of 0.46%, had issued letters of credit totaling \$2.0 million and had no outstanding cash borrowings under the master credit facility. At December 31, 2019, Evergy Missouri West had \$93.4 million of commercial paper outstanding at a weighted-average interest rate of 2.02%, had issued letters of credit totaling \$2.1 million and had no outstanding cash borrowings under the master credit facility.

6. FAIR VALUE MEASUREMENTS

GAAP establishes a hierarchical framework for disclosing the transparency of the inputs utilized in measuring assets and liabilities at fair value. Management's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the classification of assets and liabilities within the fair value hierarchy levels. In addition, Evergy Missouri West measures certain investments that do not have a readily determinable fair value at net asset value (NAV), which are not included in the fair value hierarchy. Further explanation of these levels and NAV is summarized below.

Level 1 - Quoted prices are available in active markets for identical assets or liabilities. The types of assets and liabilities included in Level 1 are highly liquid and actively traded instruments with quoted prices, such as equities listed on public exchanges.

Level 2 - Pricing inputs are not quoted prices in active markets, but are either directly or indirectly observable. The types of assets and liabilities included in Level 2 are certain marketable debt securities, financial instruments traded in less than active markets or other financial instruments priced with models using highly observable inputs.

Level 3 - Significant inputs to pricing have little or no transparency. The types of assets and liabilities included in Level 3 are those with inputs requiring significant management judgment or estimation.

NAV - Investments that do not have a readily determinable fair value are measured at NAV. These investments do not consider the observability of inputs and, therefore, they are not included within the fair value hierarchy. Evergy Missouri West includes in this category investments that do not have a readily determinable fair value.

Evergy Missouri West records cash and cash equivalents, accounts receivable and short-term borrowings on its balance sheets at cost, which approximates fair value due to the short-term nature of these instruments.

Fair Value of Long-Term Debt

Evergy Missouri West measures the fair value of long-term debt using Level 2 measurements available as of the measurement date. The book value and fair value of Evergy Missouri West's long-term debt is summarized in the following table.

	June 30, 2020		December 31, 2019	
	Book Value	Fair Value	Book Value	Fair Value
	(millions)			
Long-term debt ^(a)	\$ 1,071.5	\$ 1,157.6	\$ 1,072.5	\$ 1,138.1

^(a)Includes current maturities.

Supplemental Executive Retirement Plan

At June 30, 2020 and December 31, 2019, Evergy Missouri West's Supplemental Executive Retirement Plan (SERP) rabbi trusts included \$13.0 million and \$13.3 million, respectively, of fixed income funds valued at NAV per share (or its equivalent) that are not categorized in the fair value hierarchy. The fixed income fund invests primarily in intermediate and long-term debt securities, can be redeemed immediately and is not subject to any restrictions on redemptions.

7. COMMITMENTS AND CONTINGENCIES

Environmental Matters

Set forth below are descriptions of contingencies related to environmental matters that may impact Evergy Missouri West's operations or its financial results. Management's assessment of these contingencies, which are based on federal and state statutes and regulations, and regulatory agency and judicial interpretations and actions, has evolved over time. These laws and regulations can also change, restrict or otherwise impact Evergy Missouri West's operations or financial results in many ways, including the handling or disposal of waste material and the planning for future construction activities. The failure to comply with these laws and regulations could result in the assessment of administrative, civil and criminal penalties and/or the imposition of remedial requirements. Evergy

Missouri West believes that all of its operations are in substantial compliance with current federal, state and local environmental standards.

There are a variety of final and proposed laws and regulations that could have a material adverse effect on Evergy Missouri West's operations and consolidated financial results. Due in part to the complex nature of environmental laws and regulations, Evergy Missouri West is unable to assess the impact of potential changes that may develop with respect to the environmental contingencies described below.

Cross-State Air Pollution Update Rule

In September 2016, the Environmental Protection Agency (EPA) finalized the Cross-State Air Pollution (CSAPR) Update Rule. The final rule addresses interstate transport of nitrogen oxides emissions in 22 states including Kansas, Missouri and Oklahoma during the ozone season and the impact from the formation of ozone on downwind states with respect to the 2008 ozone National Ambient Air Quality Standards (NAAQS). In December 2018, the EPA finalized a determination, known as the CSAPR Close-Out Rule, demonstrating the CSAPR Update Rule fully addressed certain upwind states' 2008 ozone NAAQS interstate transport obligations. Various states and others have challenged both the CSAPR Update Rule and the CSAPR Close-Out Rule in the U.S. Court of Appeals for the D.C. Circuit (D.C. Circuit). In the fourth quarter of 2019, the D.C. Circuit granted these petitions and remanded a portion of the CSAPR Update Rule back to the EPA and vacated the CSAPR Close-Out Rule in its entirety. The impact of any future CSAPR Rules on Evergy Missouri West's operations or consolidated financial results cannot be determined and could be material.

Greenhouse Gases

Burning coal and other fossil fuels releases carbon dioxide (CO₂) and other gases referred to as greenhouse gases (GHG). Various regulations under the federal Clean Air Act Amendments of 1990 (CAA) limit CO₂ and other GHG emissions, and in addition, other measures are being imposed or offered by individual states, municipalities and regional agreements with the goal of reducing GHG emissions.

In August 2018, the EPA published in the Federal Register proposed regulations, which contained (1) emission guidelines for GHG emissions from existing electric utility generating units (EGUs), (2) revisions to emission guideline implementing regulations and (3) revisions to the new source review (NSR) program. These emission guidelines are better known as the Affordable Clean Energy (ACE) Rule. In July 2019, the EPA published in the Federal Register the final ACE Rule with one significant change from the proposal. The NSR program revisions were not included in the final version of the ACE Rule and are expected to be addressed in a future rulemaking. The ACE Rule establishes emission guidelines for states to use in the development of plans to reduce GHG emissions from existing coal-fired EGUs. This rule defines the "best system of emission reduction" (BSER) for GHG emissions from existing coal-fired EGUs as on-site, heat-rate efficiency improvements. The final rule also provides states with a list of candidate technologies that can be used to establish standards of performance and incorporate these performance standards into state plans. In order for the states to be able to effectively implement the emission guidelines contained in the ACE Rule, the EPA is finalizing new regulations under Section 111(d) of the CAA to help clarify this process. The ACE Rule became effective in September 2019. In conjunction with the finalization of the ACE Rule, the EPA repealed its previously adopted Clean Power Plan (CPP). Also, in September 2019, the D.C. Circuit granted motions to dismiss challenges to the CPP and challenges to EPA's denial of reconsideration of the CPP.

Due to uncertainty regarding what future state implementation plans will require for compliance with the ACE Rule as well as legal challenges that have been filed, Evergy Missouri West cannot determine the impact of the rule on its operations or consolidated financial results, but the cost to comply with the ACE Rule, should it be upheld and implemented in its current or a substantially similar form, could be material.

Water

Evergy Missouri West discharges some of the water used in generation and other operations containing substances deemed to be pollutants. A November 2015 EPA rule establishes effluent limitations guidelines (ELG) and standards for wastewater discharges, including limits on the amount of toxic metals and other pollutants that can be discharged. Implementation timelines for this 2015 rule vary from 2018 to 2023. In April 2019, the U.S. Court of

Appeals for the 5th Circuit (5th Circuit) issued a ruling that vacates and remands portions of the original ELG rule. Due to this ruling, future ELG modifications for the best available technology economically achievable for the discharge of legacy wastewater and leachate are likely.

In November 2019, the EPA published a proposed modification to the ELG rule. The proposed rule modifies numeric limits for flue gas desulfurization (FGD) wastewater and added a 10% volumetric purge limit for bottom ash transport water. The timeline for final FGD wastewater compliance was also delayed by two years to December 31, 2025. Evergy Missouri West is in the process of reviewing the proposed rule and the costs to comply with these changes could be material.

In October 2014, the EPA's final standards for cooling water intake structures at power plants to protect aquatic life took effect. The standards, based on Section 316(b) of the federal Clean Water Act (CWA), require subject facilities to choose among seven best available technology options to reduce fish impingement. In addition, some facilities must conduct studies to assist permitting authorities to determine whether and what site-specific controls, if any, would be required to reduce entrainment of aquatic organisms. Evergy Missouri West's current analysis indicates this rule will not have a significant impact on its coal plants that employ cooling towers or cooling lakes that can be classified as closed cycle cooling and do not expect the impact from this rule to be material. Plants without closed cycle cooling are under evaluation for compliance with these standards and may require additional controls, the costs of which could be material.

In April 2020, the U.S. District Court for the District of Montana (District Court of Montana) ruled that the U.S. Army Corps of Engineers' (Corps) reissuance of Nationwide Permit 12 (NWP 12) in 2017 violated the Endangered Species Act (ESA). The District Court of Montana determined that the Corps failed to initiate consultation under ESA to ensure that discharge activities under NWP 12 complied with the ESA. As a result, the District Court of Montana remanded NWP 12 to the Corps, vacated NWP 12 pending completion of the ESA consultation process and enjoined the Corps from authorizing any dredge or fill activities under NWP 12. Evergy Missouri West utilizes NWP 12 in the regulatory approval of various types of projects and the ruling and resulting actions of the Corps could have a material impact on Evergy Missouri West's operations and consolidated financial results. In May 2020, the District Court of Montana amended the previous ruling such that the vacatur only applies to new oil and gas pipelines and that NWP 12 remains in place for non-pipeline activities, which would include activities performed by Evergy Missouri West. The Corps followed that action with a request to the U.S. Supreme Court (Supreme Court) to stay the District Court of Montana's order. In July 2020, the Supreme Court granted in part and denied in part the Corps' request to stay. The Supreme Court ruled that the request was granted and the order stayed except as it applies to the Keystone XL pipeline. As such, the original NWP 12 ruling would no longer apply to Evergy Missouri West's activities and it is not believed that the ruling will have a material impact on Evergy Missouri West's operations and consolidated financial results.

Regulation of Coal Combustion Residuals

In the course of operating its coal generation plants, Evergy Missouri West produces coal combustion residuals (CCRs), including fly ash, gypsum and bottom ash. The EPA published a rule to regulate CCRs in April 2015, that requires additional CCR handling, processing and storage equipment and closure of certain ash disposal units.

In March 2019, the D.C. Circuit issued a ruling to grant the EPA's request to remand the Phase I, Part I CCR rule in response to a prior court ruling requiring the EPA to address un-lined surface impoundment closure requirements. In July 2020, the EPA issued a pre-publication version of the Part A CCR Rule. This proposal reclassified clay-lined surface impoundments from "lined" to "un-lined" and established a deadline of April 11, 2021 to initiate closure. The prior rule included a deadline of October 31, 2020 for unlined impoundments to initiate closure. In March 2020, the EPA published a proposed rule called the Part B CCR Rule. This proposal includes a process to allow unlined impoundments to continue to operate if a demonstration is made to prove that the unlined impoundments are not adversely impacting groundwater, human health or the environment. The proposal also includes clarification regarding ash used in the closure of landfills and surface impoundments. Evergy Missouri West is in the process of reviewing the Part A and Part B CCR rules and the costs to comply with these changes could be material.

Evergy Missouri West has recorded asset retirement obligations (AROs) for its current estimates for the closure of ash disposal ponds, but the revision of these AROs may be required in the future due to changes in existing CCR regulations, the results of groundwater monitoring of CCR units or changes in interpretation of existing CCR regulations or changes in the timing or cost to close ash disposal ponds. If revisions to these AROs are necessary, the impact on Evergy Missouri West's operations or consolidated financial results could be material.

8. RELATED PARTY TRANSACTIONS AND RELATIONSHIPS

In the normal course of business, Evergy Missouri West, Evergy Kansas Central and Evergy Metro engage in related party transactions with one another. A summary of these transactions and the amounts associated with them is provided below.

Jointly-Owned Plants and Shared Services

Evergy Missouri West has no employees of its own. Evergy Metro and Evergy Kansas Central employees manage Evergy Missouri West's business and operate its facilities at cost, including Evergy Missouri West's 8% ownership interest in Evergy Kansas Central's Jeffrey Energy Center (JEC) and an 18% ownership interest in Evergy Metro's Iatan Nos. 1 and 2. Evergy Metro and Evergy Kansas Central employees provide Evergy Missouri West with shared service support, including costs related to human resources, information technology, accounting and legal services.

The following table summarizes the operating expenses and capital costs billed for jointly-owned plants and shared services.

	Three Months Ended June 30		Year to Date June 30	
	2020	2019	2020	2019
	(millions)			
Evergy Metro billings to Evergy Missouri West	\$ 36.0	\$ 42.2	\$ 75.3	\$ 84.2
Evergy Kansas Central billings to Evergy Missouri West	10.0	6.4	14.3	12.7

Money Pool

Evergy Missouri West is authorized to participate in the Evergy, Inc. money pool, which is an internal financing arrangement in which funds may be lent on a short-term basis to Evergy Missouri West from Evergy, Inc. and between Evergy Metro and Evergy Missouri West. As of June 30, 2020 and December 31, 2019, Evergy Missouri West had no outstanding receivables or payables under the money pool.

Related Party Net Receivables and Payables

The following table summarizes Evergy Missouri West's related party net receivables and payables.

	June 30 2020	December 31 2019
	(millions)	
Net payable to Evergy Metro	\$ 62.8	\$ 78.7
Net payable to Evergy Kansas Central	3.0	3.1
Net payable to Evergy	31.3	15.8

Tax Allocation Agreement

Evergy files a consolidated federal income tax return as well as unitary and combined income tax returns in several state jurisdictions with Kansas and Missouri being the most significant. Income taxes for consolidated or combined subsidiaries are allocated to the subsidiaries based on separate company computations of income or loss. As of June 30, 2020 and December 31, 2019, Evergy Missouri West had income taxes receivable from Evergy of \$60.1 million and \$53.9 million, respectively.

9. TAXES

Components of income tax expense are detailed in the following table.

	Three Months Ended June 30		Year to Date June 30	
	2020	2019	2020	2019
Current income taxes	(millions)			
Federal	\$ 8.7	\$ (28.8)	\$ (23.2)	\$ (34.1)
State	1.3	(0.8)	1.3	(2.2)
Total	10.0	(29.6)	(21.9)	(36.3)
Deferred income taxes				
Federal	13.1	33.1	44.8	33.5
State	(81.9)	2.2	(81.8)	4.0
Total	(68.8)	35.3	(37.0)	37.5
Investment tax credit amortization	—	(0.1)	—	(0.1)
Income tax expense (benefit)	\$ (58.8)	\$ 5.6	\$ (58.9)	\$ 1.1

Effective Income Tax Rates

Effective income tax rates reflected in the financial statements and the reasons for the differences from the statutory federal rates are detailed in the following table.

	Three Months Ended June 30		Year to Date June 30	
	2020	2019	2020	2019
Federal statutory income tax rate	21.0 %	21.0%	21.0 %	21.0%
Effect of:				
State income taxes	2.8	3.9	2.5	3.5
Flow through depreciation for plant-related differences	(6.3)	(6.5)	(9.9)	(8.7)
Federal tax credits	(0.1)	(0.1)	(0.2)	(0.1)
Amortization of federal investment tax credits	(0.1)	(0.1)	(0.1)	(0.2)
Changes in uncertain tax positions, net	—	(0.5)	—	(0.3)
State tax rate change	(194.2)	—	(152.5)	—
Valuation allowance	—	—	—	(14.8)
Other	0.1	3.7	0.2	2.5
Effective income tax rate	(176.8)%	21.4%	(139.0)%	2.9%

Tax Reform

In May 2020, the Kansas Legislature passed and Governor Laura Kelly signed House Bill 2585 (HB 2585), which exempts certain public utilities, including Evergy Kansas Central and Evergy Metro, from Kansas corporate income tax beginning in 2021 and allows the KCC to approve changes in rates related to increases or decreases in federal or state income tax rates. Evergy Missouri West is a member of Evergy's consolidated tax group and files consolidated tax returns with Evergy. Evergy allocates to Evergy Missouri West its pro rata portion of consolidated income taxes based on Evergy Missouri West's contribution to consolidated taxable income.

As a result of the exemption from Kansas corporate income tax of certain members of the Evergy consolidated tax group, Evergy Missouri West revalued its deferred income tax assets and liabilities in May 2020. Evergy Missouri West decreased its net deferred income tax liabilities by \$64.6 million offset by an income tax benefit primarily related to the revaluation of deferred income taxes that will not be refunded to customers in future rates.

The amount of income tax benefit related to the revaluation of deferred income taxes that will not be refunded to customers in future rates primarily pertains to deferred tax adjustments related to the difference between Evergy's

consolidated tax rate and the statutory tax rates used for setting rates at Evergy Missouri West as well as deferred income tax adjustments related to non-regulated operations.