KCP&L Greater Missouri Operations Company

Financial Statements as of December 31, 2018 and 2017 and for the Years Ended December 31, 2018 and 2017 and Independent Auditors' Report

KCP&L GREATER MISSOURI OPERATIONS COMPANY
Consolidated Statements of Comprehensive Income (Loss)

	2018	2017
	(millions)	
OPERATING REVENUES	$ 836.9	$ 818.1
OPERATING EXPENSES:		
Fuel and purchased power	264.4	234.2
Operating and maintenance	238.4	230.6
Depreciation and amortization	108.2	104.8
Taxes other than income tax	47.6	46.6
Total Operating Expenses	658.6	616.2
INCOME FROM OPERATIONS	178.3	201.9
OTHER INCOME (EXPENSE):		
Investment earnings	0.7	0.4
Other income	0.5	0.6
Other expense	(17.1)	(28.1)
Total Other Income (Expense), Net	(15.9)	(27.1)
Interest expense	57.2	58.7
INCOME BEFORE INCOME TAXES	105.2	116.1
Income tax expense	48.2	140.5
NET INCOME (LOSS)	$ 57.0	$ (24.4)
COMPREHENSIVE INCOME		
NET INCOME (LOSS)	$ 57.0	$ (24.4)
OTHER COMPREHENSIVE INCOME		
Defined benefit pension plans		
Net gain (loss) arising during period	1.4	(0.7)
Income tax (expense) benefit	(0.4)	(0.2)
Net gain (loss) arising during period, net of tax	1.0	(0.9)
Amortization of net losses included in net periodic benefit costs	0.8	0.7
Income tax expense	(0.2)	(0.3)
Amortization of net losses included in net periodic benefit costs, net of tax	0.6	0.4
Change in unrecognized pension expense, net of tax	1.6	(0.5)
Total other comprehensive income (loss)	1.6	(0.5)
COMPREHENSIVE INCOME (LOSS)	$ 58.6	$ (24.9)

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

KCP&L GREATER MISSOURI OPERATIONS COMPANY
Consolidated Balance Sheets

	December 31	
	2018	2017
ASSETS	(millions, except share amounts)	
CURRENT ASSETS:		
Cash and cash equivalents	**$ 1.6**	$ 3.4
Receivables, net	**46.4**	42.8
Related party receivables	**1.2**	1.3
Accounts receivable pledged as collateral	**50.0**	50.0
Fuel inventory and supplies	**56.5**	77.2
Income taxes receivable	**27.2**	-
Regulatory assets	**63.6**	36.9
Prepaid expenses and other assets	**5.1**	4.2
Total	**251.6**	215.8
PROPERTY, PLANT AND EQUIPMENT, NET	**2,424.7**	2,559.1
OTHER ASSETS:		
Regulatory assets	**339.8**	185.1
Goodwill	**351.6**	351.6
Other	**28.4**	26.4
Total Other Assets	**719.8**	563.1
TOTAL ASSETS	**$ 3,396.1**	$ 3,338.0

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

KCP&L GREATER MISSOURI OPERATIONS COMPANY
Consolidated Balance Sheets

	December 31	
	2018	2017
LIABILITIES AND EQUITY	(millions, except share amounts)	
CURRENT LIABILITIES		
Current maturities of long-term debt	**$ 1.1**	$ 1.1
Notes payable and commercial paper	**150.0**	209.3
Collateralized note payable	**50.0**	50.0
Accounts payable	**85.2**	86.2
Related party payables	**108.3**	94.7
Accrued taxes	**7.3**	10.7
Accrued interest	**5.6**	8.2
Regulatory liabilities	**36.1**	8.3
Asset retirement obligations	**3.4**	3.7
Other	**8.3**	9.0
Total Current liabilities	**455.3**	481.2
LONG-TERM LIABILITIES:		
Long-term debt, net	**972.5**	1,077.0
Deferred income taxes	**205.6**	43.2
Unamortized investment tax credits	**2.8**	3.2
Regulatory liabilities	**328.0**	318.8
Retirement benefits	**20.8**	22.6
Asset retirement obligations	**28.9**	31.1
Other	**21.6**	18.9
Total Long-Term Liabilities	**1,580.2**	1,514.8
Commitments and Contingencies (Note 12)		
EQUITY:		
Common shareholder's equity		
Common stock-1,000 shares authorized, $0.01 par value		
10 shares issued, stated value	**1,276.9**	1,276.9
Retained earnings	**84.7**	67.7
Accumulated other comprehensive loss	**(1.0)**	(2.6)
Total Shareholder's Equity	**1,360.6**	1,342.0
TOTAL LIABILITIES AND EQUITY	**$ 3,396.1**	$ 3,338.0

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

KCP&L GREATER MISSOURI OPERATIONS COMPANY
Consolidated Statements of Cash Flows

Year Ended December 31		2018		2017
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:		(millions)		
Net income (loss)	$	57.0	$	(24.4)
Adjustments to reconcile income (loss) to net cash from operating activities:				
Depreciation and amortization		108.2		104.8
Net deferred income taxes and credits		182.2		133.4
Payments for asset retirement obligations		(3.8)		(3.0)
Other		0.5		1.1
Changes in working capital items:				
Accounts receivable		(3.7)		(18.5)
Accounts receivable pledged as collateral		-		12.4
Related party receivables		(2.2)		(0.7)
Fuel inventory and supplies		20.7		1.9
Prepaid expenses and other current assets		(19.1)		(6.8)
Accounts payable		0.2		(0.6)
Related party payables		13.9		19.8
Accrued taxes		(30.6)		(0.1)
Other current liabilities		(4.0)		(4.4)
Changes in other assets		6.1		13.1
Changes in other liabilities		25.9		(10.6)
Cash Flows from Operating Activities		351.3		217.4
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:				
Additions to property, plant and equipment		(148.8)		(150.6)
Other investing activities		1.2		2.5
Cash Flows used in Investing Activities		(147.6)		(148.1)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:				
Short term debt, net		(60.4)		7.4
Collateralized short-term borrowings, net		-		(12.4)
Retirements of long-term debt		(105.1)		(1.1)
Cash dividends paid		(40.0)		(63.0)
Cash Flows used in Financing Activities		(205.5)		(69.1)
NET CHANGE IN CASH AND CASH EQUIVALENTS		(1.8)		0.2
CASH AND CASH EQUIVALENTS:				
Beginning of period		3.4		3.2
End of period	$	1.6	$	3.4

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

KCP&L GREATER MISSOURI OPERATIONS COMPANY
Consolidated Statements of Changes in Equity

	Common stock shares	Common stock	Retained earnings	AOCI - Defined benefit pension plans	Total equity
		(millions, except share amounts)			
Balance as of December 31, 2016	10	$ 1,276.9	$ 155.4	$ (2.1)	$ 1,430.2
Net loss			(24.4)		(24.4)
Cumulative effect of adoption of ASU 2016-09			(0.3)		(0.3)
Dividend declared on common stock			(63.0)		(63.0)
Change in unrecognized pension expense, net of tax			-	(0.5)	(0.5)
Balance as of December 31, 2017	10	1,276.9	67.7	(2.6)	1,342.0
Net income			**57.0**		**57.0**
Dividend declared on common stock			**(40.0)**		**(40.0)**
Change in unrecognized pension expense, net of tax				**1.6**	**1.6**
Balance as of December 31, 2018	**10**	**$ 1,276.9**	**$ 84.7**	**$ (1.0)**	**$ 1,360.6**

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

GLOSSARY OF TERMS

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

Abbreviation or Acronym	Definition
ARO	Asset retirement obligation
ASU	Accounting Standards Update
Company	KCP&L Greater Missouri Operations Company and its consolidated subsidiaries
EPA	Environmental Protection Agency
Evergy	Evergy, Inc. and its consolidated subsidiaries
FASB	Financial Accounting Standards Board
FERC	The Federal Energy Regulatory Commission
GAAP	Generally Accepted Accounting Principles
GMO	KCP&L Greater Missouri Operations Company, a wholly owned subsidiary of Evergy
Great Plains Energy	Great Plains Energy Incorporated
KCP&L	Kansas City Power & Light Company, a wholly owned subsidiary of Evergy, and its consolidated subsidiaries
kWh	Kilowatt hour
MPSC	Public Service Commission of the State of Missouri
MW	Megawatt
MWh	Megawatt hour
SERP	Supplemental Executive Retirement Plan
SPP	Southwest Power Pool, Inc.
TCJA	Tax Cuts and Jobs Acts
Westar Energy	Westar Energy, Inc., a wholly owned subsidiary of Evergy, and its consolidated subsidiaries

KCP&L GREATER MISSOURI OPERATIONS COMPANY
Notes to Consolidated Financial Statements

The terms "GMO" and "Company" are used throughout this report and refer to KCP&L Greater Missouri Operations Company and its consolidated subsidiaries, unless otherwise indicated. GMO is a wholly owned subsidiary of Evergy, Inc. (Evergy). Evergy also owns Kansas City Power & Light Company (KCP&L) and Westar Energy, Inc. (Westar Energy), both integrated, regulated electric utilities. Evergy was incorporated in 2017 as Monarch Energy Holding, Inc. (Monarch Energy), a wholly-owned subsidiary of Great Plains Energy Incorporated (Great Plains Energy), in order to effectuate the merger transaction between Great Plains Energy and Westar Energy. On June 4, 2018, Evergy merged into Great Plains Energy with Evergy surviving the merger, and King Energy, Inc., a wholly owned subsidiary of Evergy, merged into Westar Energy with Westar Energy surviving the merger. These merger transactions resulted in Evergy becoming the parent entity of Westar Energy and the direct subsidiaries of Great Plains Energy, including KCP&L and GMO.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

Principles of Consolidation

GMO's consolidated financial statements include the accounts of its subsidiaries. Intercompany transactions have been eliminated.

Subsequent events have been evaluated through March 15, 2019, the date the consolidated financial statements were available to be issued.

GMO elected not to apply "push-down accounting" related to the Great Plains Energy and Westar Energy merger, whereby the adjustments of assets and liabilities to fair value and the resulting goodwill would be recorded on the financial statements of the acquired subsidiary. GMO's recorded goodwill of $351.6 million as of December 31, 2018 and 2017 is related to Great Plains Energy's acquisition of GMO in 2008.

Certain changes in classification and corresponding reclassification of prior period data were made in GMO's consolidated balance sheet, statements of comprehensive income and statement of cash flows for comparative purposes. These reclassifications did not affect GMO's net income or cash flows from operations, investing or financing. Most significantly for GMO's consolidated balance sheets as of December 31, 2017, current regulatory assets and liabilities have been presented separately from the non-current portion in the balance sheet where recovery or refund is expected within the next 12 months.

The table below summarizes GMO's reclassifications related to operating and investing activities for its consolidated statement of cash flows for 2017.

	2017	
	As Previously Filed	As Recast
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:	(millions)	
Adjustments to reconcile income to net cash from operating activities:		
Amortization of other	$ 7.6	$ -
Deferred income taxes, net	133.7	-
Investment tax credit amortization	(0.3)	-
Net deferred income taxes and credits	-	133.4
Payments for asset retirement obligations	-	(3.0)
Other	1.5	1.1
Changes in working capital items:		
Fuel inventory and supplies	-	1.9
Fuel inventories	3.8	-
Materials and supplies	(1.9)	-
Prepaid expenses and other current assets	-	(6.8)
Other current liabilities	-	(4.4)
Changes in other assets	-	13.1
Changes in other liabilities	-	(10.6)
Fuel recovery mechanisms	(19.7)	-
Total reclassifications	$ 124.7	$ 124.7
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:		
Additions to property, plant and equipment	$ -	$ (150.6)
Utility capital expenditures	(135.8)	-
Allowance for borrowed funds used during construction	(1.2)	-
Other investing activities	(11.1)	2.5
Total reclassifications	$ (148.1)	$ (148.1)

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles (GAAP) requires the use of estimates and assumptions that affect the reported amounts of certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Cash and Cash Equivalents

Cash equivalents consist of highly liquid investments with original maturities of three months or less at acquisition.

Fuel Inventory and Supplies

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

	December 31	
	2018	2017
	(millions)	
Fuel inventory	$ 23.3	$ 32.1
Supplies	33.2	45.1
Fuel inventory and supplies	$ 56.5	$ 77.2

Property, Plant and Equipment

GMO records the value of property, plant and equipment at cost. For plant, cost includes contracted services, direct labor and materials, indirect charges for engineering and supervision and an allowance for funds used during construction (AFUDC). AFUDC represents the allowed cost of capital used to finance utility construction activity. AFUDC equity funds are included as a non-cash item in other income and AFUDC borrowed funds are a reduction of interest expense. AFUDC is computed by applying a composite rate to qualified construction work in progress. The rates used to compute gross AFUDC are compounded semi-annually and averaged 2.9% in 2018 and 1.9% in 2017.

The amounts of GMO's AFUDC for borrowed and equity funds are detailed in the following table.

	2018	2017
	(millions)	
AFUDC borrowed funds	$ 2.2	$ 1.2
AFUDC equity funds	-	-
Total	$ 2.2	$ 1.2

When property units are retired or otherwise disposed, the original cost net of salvage is charged to accumulated depreciation. Repair of property and replacement of items not considered to be units of property are expensed as incurred.

Depreciation and Amortization

Depreciation and amortization of utility plant is computed using the straight-line method over the estimated lives of depreciable property based on rates approved by state regulatory authorities. Annual depreciation rates average approximately 3%. See Note 7 for more details.

The depreciable lives of GMO's property, plant and equipment are detailed in the following table.

		(years)	
Generating facilities	19	to	60
Transmission facilities	49	to	62
Distribution facilities	14	to	66
Other	5	to	50

Plant to be Retired, Net

When GMO retires utility plant, the original cost, net of salvage, is charged to accumulated depreciation. However, when it becomes probable an asset will be retired significantly in advance of its original expected useful life and in the near term, the cost of the asset and related accumulated depreciation is recognized as a separate asset and a probable abandonment. If the asset is still in service, the net amount is classified as plant to be retired, net on the consolidated balance sheets. If the asset is no longer in service, the net amount is classified as a regulatory asset on the consolidated balance sheets.

GMO must also assess the probability of full recovery of the remaining net book value of the abandonment. The net book value that may be retained as an asset on the balance sheet for the abandonment is dependent upon amounts that may be recovered through regulated rates, including any return. An impairment charge, if any, would equal the difference between the remaining net book value of the asset and the present value of the future revenues expected from the asset.

In June 2017, GMO announced the expected retirement of certain older generating units, including GMO's Sibley No. 3 Unit, over the next several years. GMO determined that Sibley No. 3 Unit met the criteria to be considered probable of abandonment. GMO retired Sibley Station, including the No. 3 Unit, in November 2018. As of December 31, 2018, GMO had classified the remaining Sibley No. 3 Unit net book value of $159.9 million as retired generation facilities within regulatory assets on its consolidated balance sheet. GMO is currently allowed a full recovery of and a full return on Sibley No. 3 Unit in rates and has concluded that no impairment is required as of December 31, 2018.

Regulatory Accounting
Accounting standards are applied that recognize the economic effects of rate regulation. Accordingly, regulatory assets and liabilities have been recorded when required by a regulatory order or based on regulatory precedent. See Note 4 for additional information concerning regulatory matters.

Revenue Recognition
GMO recognizes revenue on the sale of electricity to customers over time as the service is provided in the amount it has the right to invoice. Revenues recorded include electric services provided but not yet billed by GMO. Unbilled revenues are recorded for kWh usage in the period following the customers' billing cycle to the end of the month. This estimate is based on net system kWh usage less actual billed kWhs. GMO's estimated unbilled kWhs are allocated and priced by regulatory jurisdiction across the rate classes based on actual billing rates. GMO's unbilled revenue estimate is affected by factors including fluctuations in energy demand, weather, line losses and changes in the composition of customer classes. See Note 4 for the balance of unbilled receivables for GMO as of December 31, 2018 and 2017.

GMO also collects sales taxes and franchise fees from customers concurrent with revenue-producing activities that are levied by state and local governments. These items are excluded from revenue, and thus are not reflected on GMO's consolidated statements of comprehensive income.

See Note 3 for additional details regarding revenue recognition from sales of electricity by GMO.

Allowance for Doubtful Accounts
GMO determines its allowance for doubtful accounts based on the age of its receivables. 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.

Property Gains and Losses
Net gains and losses from the sale of assets and businesses and from asset impairments are recorded in operating expenses.

Asset Impairments
Long-lived assets and finite-lived intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the sum of the undiscounted expected future cash flows from an asset to be held and used is less than the carrying value of the asset, an asset impairment must be recognized in the financial statements. The amount of impairment recognized is the excess of the carrying value of the asset over its fair value.

Goodwill and indefinite lived intangible assets are tested for impairment annually and when an event occurs indicating the possibility that an impairment exists. The annual test must be performed at the same time each year. The goodwill impairment test consists of comparing the fair value of a reporting unit to its carrying amount, including goodwill, to identify potential impairment. In the event that the carrying amount exceeds the fair value of the reporting unit, an impairment loss is recognized for the difference between the carrying amount of the reporting unit and its fair value.

Income Taxes

Income taxes are accounted for using the asset/liability approach. Deferred tax assets and liabilities are determined based on the temporary differences between the financial reporting and tax bases of assets and liabilities, applying enacted statutory tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized.

GMO recognizes tax benefits based on a "more-likely-than-not" recognition threshold. In addition, GMO recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses.

Evergy and its subsidiaries, including GMO, file 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. GMO's income tax provisions include taxes allocated based on its separate company income or loss.

GMO has established a net regulatory liability for future refunds to be made to customers for the over-collection of income taxes in rates. Tax credits are recognized in the year generated except for certain investment tax credits that have been deferred and amortized over the remaining service lives of the related properties.

Other Income (Expense), Net

The table below shows the detail of other expense for GMO.

	2018	2017
	(millions)	
Non-service cost component of net benefit cost	$ (15.3)	$ (22.6)
Other	(1.8)	(5.5)
Other expense	$ (17.1)	$ (28.1)

Supplemental Cash Flow Information

Year Ended December 31	2018	2017
Cash paid for (received from):	(millions)	
Interest on financing activities, net of amounts capitalized	$ 59.1	$ 57.9
Income taxes, net of refunds	(102.1)	7.0
Non-cash investing transactions:		
Property, plant and equipment additions	5.5	12.3

New Accounting Standards

Compensation - Retirement Benefits

In March 2017, the FASB issued ASU No. 2017-07, *Compensation-Retirement Benefits*, which requires an employer to disaggregate the service cost component from the other components of net benefit cost. The service cost component is to be reported in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The non-service cost components are to be reported separately from service costs and outside of a subtotal of income from operations. The amendments in this update allow only the service cost component to be eligible for capitalization as part of utility plant. The non-service cost components that are no longer eligible for capitalization as part of utility plant will be recorded as a regulatory asset. The new guidance is to be applied retrospectively for the presentation of service cost and non-service cost components in the income statement and prospectively for the capitalization of the service cost component and is effective for interim and annual periods beginning after December 15, 2017. GMO adopted ASU No. 2017-07 on January 1, 2018, and accordingly has retrospectively adjusted prior periods.

The following table reflects the retrospective adjustments in the line items of GMO's consolidated statement of comprehensive income associated with the adoption of ASU No. 2017-07.

2017	As Previously Reported [a]	Effect of Change	As Reported
		(millions)	
Operating and maintenance expense	$ 253.2	$ (22.6)	$ 230.6
Total operating expenses	638.8	(22.6)	616.2
Income from operations	179.3	22.6	201.9
Other expense	(5.5)	(22.6)	(28.1)
Total other income (expense), net	(4.5)	(22.6)	(27.1)

[a] Certain GMO as previously reported amounts have been adjusted to reflect reclassification adjustments made for comparative purposes as discussed further in Principles of Consolidation above and that have no impact on net income.

Revenue Recognition

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. In August 2015, the FASB issued ASU No. 2015-14, deferring the effective date of ASU No. 2014-09 one year, from January 1, 2017, to January 1, 2018. The ASU replaced most existing revenue recognition guidance in GAAP when it became effective. The Company adopted ASU No. 2014-09 and its related amendments (ASC 606) on January 1, 2018 using the modified retrospective transition method for all contracts not completed as of the date of adoption. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606 while historical periods have not been adjusted and continue to be reported in accordance with the legacy guidance in ASC 605 - *Revenue Recognition*.

There was no cumulative effect adjustment to the opening balance of retained earnings in 2018 for GMO as a result of the adoption of the new guidance.

2. REVENUE

GMO's revenues disaggregated by customer class are summarized in the following table.

		2018
Customer class		(millions)
Residential	$	405.6
Commercial		282.7
Industrial		82.1
Other		7.6
Total electric retail	$	778.0
Wholesale		18.3
Transmission		18.2
Industrial steam and other		19.1
Total revenue from contracts with customers	$	833.6
Other revenue		3.3
Operating revenues	$	836.9

Retail Revenues

GMO's retail revenues are generated by the regulated sale of electricity to GMO's residential, commercial and industrial customers within its franchised service territory. GMO recognizes revenue on the sale of electricity to its customers over time as the service is provided in the amount it has a right to invoice. Retail customers are billed on a monthly basis at the tariff rates approved by the Public Service Commission of the State of Missouri (MPSC) based on customer kWh usage.

Revenues recorded include electric services provided but not yet billed by GMO. Unbilled revenues are recorded for kWh usage in the period following the customers' billing cycle to the end of the month. GMO's estimate is based on net system kWh usage less actual billed kWhs. GMO's estimated unbilled kWhs are allocated and priced by regulatory jurisdiction across the rate classes based on actual billing rates.

GMO also collects sales taxes and franchise fees from customers concurrent with revenue-producing activities that are levied by state and local governments. These items are excluded from revenue and thus not reflected on GMO's statements of comprehensive income.

Wholesale Revenues

GMO's wholesale revenues are generated by the sale of wholesale power and capacity in circumstances when the power that GMO generates is not required for customers in its service territory. These sales primarily occur within the Southwest Power Pool, Inc. (SPP) Integrated Marketplace. GMO also purchases power from the SPP Integrated Marketplace and records sale and purchase activity on a net basis in wholesale revenue or fuel and purchased power expense. In addition, GMO sells wholesale power and capacity through bilateral contracts to other counterparties, such as electric cooperatives, municipalities and other electric utilities.

For both wholesale sales to the SPP Integrated Marketplace and through bilateral contracts, GMO recognizes revenue on the sale of wholesale electricity to its customers over time as the service is provided in the amount it has a right to invoice.

Wholesale sales within the SPP Integrated Marketplace are billed weekly based on the fixed transaction price determined by the market at the time of the sale and the MWh quantity purchased. Wholesale sales from bilateral contracts are billed monthly based on the contractually determined transaction price and the kWh quantity purchased.

Transmission Revenues

GMO's transmission revenues are generated by the use of its transmission networks by the SPP. To enable optimal use of the diverse generating resources in the SPP region, GMO, as well as other transmission owners, allow the SPP to access and operate their transmission networks. As new transmission lines are constructed, they are included in the transmission network available to the SPP. In exchange for providing access, the SPP pays GMO consideration determined by formula rates approved by FERC, which include the cost to construct and maintain the transmission lines and a return on investment. The price for access to GMO's transmission network is updated annually based on projected costs. Projections are updated to actual costs and the difference is included in subsequent year's prices.

GMO recognizes revenue on the sale of transmission service to its customers over time as the service is provided in the amount it has a right to invoice. Transmission service to the SPP is billed monthly based on a fixed transaction price determined by FERC formula transmission rates along with other SPP-specific charges and the MW quantity purchased.

Industrial Steam and Other Revenues

GMO's industrial steam and other revenues are generated by the regulated sale of industrial steam to steam customers. GMO recognizes revenue on the sale of industrial steam to its customers over time as the service is provided in the amount that it has the right to invoice. Steam customers are billed on a monthly basis at the tariff rate approved by the MPSC based on customer MMBtu usage.

Optional Exemption

GMO does not disclose the value of unsatisfied performance obligations on certain bilateral wholesale contracts with an original expected duration of greater than one year for which the Company recognizes revenue in the amount it has the right to invoice.

3. RECEIVABLES

GMO's receivables are detailed in the following table.

	December 31	
	2018	2017
	(millions)	
Customer accounts receivable - billed	$ 8.9	$ 2.1
Customer accounts receivable - unbilled	31.7	35.6
Allowance for doubtful accounts	(1.4)	(2.5)
Other receivables	7.2	7.6
Total	$ 46.4	$ 42.8

As of December 31, 2018, other receivables for GMO included $4.4 million of receivables from contracts with customers. GMO's bad debt expense related to contracts with customers was $2.6 million and $3.0 million for 2018 and 2017, respectively.

Sale of Accounts Receivable

GMO sells an undivided percentage ownership interest in its retail and steam accounts receivable to an independent outside investor. This sale of the undivided percentage ownership interest in accounts receivable to the independent outside investor 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 December 31, 2018 and 2017, GMO's accounts receivable pledged as collateral and the corresponding short-term collateralized note payable were $50.0 million. GMO's receivable sale facility expires in September 2019 and allows for $50.0 million in aggregate outstanding principal amount of borrowings from mid-November through mid-June and then $65.0 million from mid-June through the expiration date of the facility.

4. RATE MATTERS AND REGULATION

Missouri 2018 Rate Case Proceedings

In January 2018, GMO filed an application with the MPSC to request a decrease to its retail revenues of $2.4 million before rebasing fuel and purchased power expense, with a return on equity of 9.85% and a rate-making equity ratio of 54.4%. The request reflects the impact of the Tax Cuts and Jobs Act (TCJA) and increases in infrastructure investment costs and transmission related costs. GMO also requested a $21.7 million increase associated with rebasing fuel and purchased power expense.

In September 2018, GMO, MPSC staff and other intervenors in the case reached several non-unanimous stipulations and agreements to settle all outstanding issues in the case. The stipulations and agreements provide for a decrease to retail revenues of $24.0 million and a one-time bill credit of $29.3 million (on an annualized basis) for customer benefits related to the impacts of the TCJA. The final amount of the one-time customer bill credit related to the impact of the TCJA was $27.4 million, as its calculation was dependent on the effective date of new rates.

In October 2018, the MPSC issued an order approving the non-unanimous stipulations and agreements. The rates established by the order took effect on December 6, 2018.

Merger Proceedings

In May 2018, the MPSC approved Great Plains Energy's, KCP&L's, GMO's and Westar Energy's joint application for approval of the Great Plain Energy and Westar Energy merger, including two stipulations and agreements between these companies, MPSC staff, and certain other intervenors in the case. Through the joint application and stipulations and agreements, GMO, as a joint applicant to the merger proceeding, agreed to the conditions and obligations listed below, in addition to other organizational, financing, customer service and civic responsibility commitments that were agreed to by GMO and the other joint applicants.

- Provide a total of $14.2 million of one-time bill credits to electric retail customers within 120 days following the close of the merger.
- Commit that GMO's retail base electric rates will not increase as a result of the merger.
- Recover a total of $7.2 million of merger transition costs in GMO's 2018 rate case. GMO recorded this amount as a regulatory asset and it will be recovered over a ten-year period.

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 MPSC requesting an accounting authority order (AAO) that would require GMO 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. GMO already records depreciation expense to a regulatory liability for Sibley Station following its retirement pursuant to GMO's rate order from its 2018 Missouri rate case.

GMO opposes OPC's and MECG's petition on various grounds, including the value of costs that OPC and MECG allege are no longer existent due to the retirement of Sibley Station and the fact that the retirement of Sibley Station was a long-planned event that was contemplated as part of the stipulations and agreements in GMO's 2018 rate case.

While the value of the contested amounts has not been determined, the MPSC issued an order adopting a procedural schedule to resolve OPC's and MECG's petition in March 2019. A hearing in the case is scheduled for July 2019 with an order expected in the second half of 2019.

Regulatory Assets and Liabilities

GMO has recorded assets and liabilities on its consolidated balance sheets resulting from the effects of the ratemaking process, which would not otherwise be recorded if GMO was not regulated. Regulatory assets represent incurred costs that are probable of recovery from future revenues. Regulatory liabilities represent future reductions in revenues or refunds to customers.

Management regularly assesses whether regulatory assets and liabilities are probable of future recovery or refund by considering factors such as decisions by the MPSC or FERC in GMO's rate case filings; decisions in other regulatory proceedings, including decisions related to other companies that establish precedent on matters applicable to GMO; and changes in laws and regulations. If recovery or refund of regulatory assets or liabilities is not approved by regulators or is no longer deemed probable, these regulatory assets or liabilities are recognized in the current period results of operations. GMO's continued ability to meet the criteria for recording regulatory assets and liabilities may be affected in the future by restructuring and deregulation in the electric industry or changes in accounting rules. In the event that the criteria no longer applied to any or all of GMO's operations, the related regulatory assets and liabilities would be written off unless an appropriate regulatory recovery mechanism were provided. Additionally, these factors could result in an impairment on utility plant assets.

GMO's regulatory assets and liabilities are detailed in the following table.

	December 31 2018	December 31 2017
	(millions)	
Regulatory Assets		
Pension and post-retirement costs	$ 103.0	$ 108.2
Debt reacquisition costs	1.2	1.2
Asset retirement obligations	30.8	24.2
Iatan No. 1 and common facilities	4.5	4.7
Iatan No. 2 construction accounting costs	13.3	13.7
Deferred customer programs	4.9	19.4
Fuel recovery mechanism	42.4	12.0
Solar rebates	31.3	37.0
Pension and other post-retirement benefit non-service costs	3.6	-
Retired generation facility	159.9	-
Merger transition costs	7.1	-
Other regulatory assets	1.4	1.6
Total	403.4	222.0
Less: current portion	63.6	36.9
Total noncurrent regulatory assets	$ 339.8	$ 185.1
Regulatory Liabilities		
Taxes refundable through future rates	$ 241.2	$ 220.6
Pension and post-retirement costs	-	8.2
Cost of removal	48.1	57.4
Refund of tax reform benefits	27.4	-
Other regulatory liabilities	47.4	40.9
Total	364.1	327.1
Less: current portion	36.1	8.3
Total noncurrent regulatory liabilities	$ 328.0	$ 318.8

The following summarizes the nature and period of recovery for each of the regulatory assets listed in the table above.

Pension and post-retirement costs: Represents unrecognized gains and losses, prior service and transition costs that will be recognized in future net periodic pension and post-retirement costs, pension settlements amortized over various periods and financial and regulatory accounting method differences that will be eliminated over the life of the pension plans. Of these amounts, $67.2 million are not included in rate base and are amortized over various periods.

Debt reacquisition costs: Includes costs incurred to reacquire and refinance debt. These costs are amortized over the term of the new debt or the remaining lives of the old debt issuances if no new debt was issued and are not included in rate base.

Asset retirement obligations (AROs): Represents amounts associated with AROs as discussed further in Note 5. These amounts are recovered over the life of the related plant and are not included in rate base.

Iatan No. 1 and common facilities: Represents depreciation and carrying costs related to Iatan No. 1 and common facilities. These costs are included in rate base and amortized through 2038.

Iatan No. 2 construction accounting costs: Represents the construction accounting costs related to Iatan No. 2. These costs are included in rate base and amortized through 2059.

Deferred customer programs: Represents costs related to various energy efficiency programs that have been accumulated and deferred for future recovery.

Fuel recovery mechanism: Represents the actual cost of fuel consumed in producing electricity and the cost of purchased power in excess of the amounts collected from customers. This difference is expected to be recovered over a one-year period and is not included in rate base.

Solar rebates: Represents costs associated with solar rebates provided to retail electric customers. These amounts are not included in rate base and are amortized through 2020.

Pension and other post-retirement benefit non-service costs: Represents the non-service component of pension and post-retirement net benefit costs that are capitalized as authorized by regulators. The amounts are included in rate base and are recovered over the life of the related asset.

Retired generation facilities: Represents amounts to be recovered for facilities that have been retired and are probable of recovery.

Merger transition costs: Represents recoverable transition costs related to the merger. The amounts are not included in rate base and are recovered from retail customers through 2028.

Other regulatory assets: Includes various regulatory assets that individually are small in relation to the total regulatory asset balance. These amounts have various recovery periods and are not included in rate base.

The following summarizes the nature and period of amortization for each of the regulatory liabilities listed in the table above.

Taxes refundable through future rates: Represents the obligation to return to customers income taxes recovered in earlier periods when corporate income tax rates were higher than current income tax rates. A large portion of this amount is related to depreciation and will be returned to customers over the life of the applicable property.

Pension and post-retirement costs: Includes pension and post-retirement benefit obligations and expense recognized in setting prices in excess of actual pension and post-retirement expense.

Cost of removal: Represents amount collected, but not yet spent, to dispose of plant assets. This liability will be discharged as removal costs are incurred.

Refund of tax reform benefits: Represents amounts collected from customers in 2018 related to federal income tax in excess of the income tax owed by GMO as a result of the lower federal income tax rate enacted by the TCJA. Amounts will be refunded to customers in 2019.

Other regulatory liabilities: Includes various regulatory liabilities that individually are relatively small in relation to the total regulatory liability balance. These amounts will be credited over various periods.

5. ASSET RETIREMENT OBLIGATIONS

AROs associated with tangible long-lived assets are legal obligations that exist under enacted laws, statutes and written or oral contracts, including obligations arising under the doctrine of promissory estoppel. These liabilities are recognized at estimated fair value as incurred with a corresponding amount capitalized as part of the cost of the related long-lived assets and depreciated over their useful lives. Accretion of the liabilities due to the passage of time is recorded to a regulatory asset and/or liability. Changes in the estimated fair values of the liabilities are recognized when known.

GMO has AROs related to asbestos abatement and closure and post-closure of ponds and landfills containing coal combustion residuals (CCRs).

The following table summarizes the change in GMO's AROs.

	2018	2017
	(millions)	
Beginning balance	$ 34.8	$ 38.0
Revision in timing and/or estimates	-	(1.6)
Settlements	(3.8)	(3.0)
Accretion	1.3	1.4
Total	$ 32.3	$ 34.8
Less: current portion	(3.4)	(3.7)
Total noncurrent asset retirement obligation	$ 28.9	$ 31.1

6. PROPERTY, PLANT AND EQUIPMENT

The following table summarizes the property, plant and equipment of GMO.

	December 31 2018	2017
	(millions)	
Electric plant in service	$ 3,396.1	$ 3,460.9
Accumulated depreciation	(1,075.5)	(1,153.7)
Plant in service	2,320.6	2,307.2
Construction work in progress	104.1	108.3
Plant to be retired, net	-	143.6
Net property, plant and equipment	$ 2,424.7	$ 2,559.1

See Note 1 for additional information concerning plant to be retired, net.

GMO's depreciation expense was $106.6 million for 2018 and $102.3 million for 2017.

7. GOODWILL

Accounting rules require goodwill to be tested for impairment annually and when an event occurs indicating the possibility that an impairment exists. The annual impairment test for the $351.6 million of GMO acquisition goodwill was conducted on September 1, 2018. The goodwill impairment test consists of comparing the fair value of a reporting unit to its carrying amount, including goodwill, to identify potential impairment. In the event that the carrying amount exceeds the fair value of the reporting unit, an impairment loss is recognized for the difference between the carrying amount of the reporting unit and its fair value. GMO's regulated electric utility operations are considered one reporting unit for assessment of impairment, as they have similar economic characteristics. The determination of fair value of the reporting unit consisted of two valuation techniques: an income approach consisting of a discounted cash flow analysis and a market approach consisting of a determination of reporting unit invested capital using market multiples derived from the historical revenue; earnings before interest, income taxes, depreciation and amortization; net utility asset values and market prices of stock of peer companies. The results of the two techniques were evaluated and weighted to determine a point within the range that management considered representative of fair value for the reporting unit. Fair value of the reporting unit exceeded the carrying amount, including goodwill; therefore, there was no impairment of goodwill.

8. RETIREMENT BENEFITS

GMO maintains a noncontributory defined benefit SERP for certain former executives. The SERP is unfunded; however, GMO has approximately $13.2 million of assets in a non-qualified trust for the SERP as of December 31, 2018, and expects to fund future benefit payments from these assets. Benefits paid by GMO in each of 2018 and 2017 were $1.3 million and $1.4 million, respectively.

The following table reflects benefit obligation information regarding the GMO SERP.

	December 31	
	2018	**2017**
	(millions)	
Projected benefit obligation	$ 22.1	$ 23.9
Funded status	$ (22.1)	$ (23.9)
Accumulated benefit obligation	$ 22.1	$ 23.9
Amounts recognized in the consolidated balance sheets		
Current retirement benefits liability	$ (1.3)	$ (1.3)
Noncurrent retirement benefits liability	(20.8)	(22.6)
Net amount recognized before Other Comprehensive Income (OCI)	(22.1)	(23.9)
Accumulated OCI	1.4	3.4
Net amount recognized	$ (20.7)	$ (20.5)
Amounts in accumulated OCI not yet recognized as a component of net periodic benefit cost:		
Actuarial loss	$ 1.4	$ 3.4
Assumptions used for benefit obligations:		
Discount rate	4.35%	3.60%

The following table reflects information regarding the net periodic benefit costs of the GMO SERP.

Year Ended December 31	2018	2017
	(millions)	
Net periodic benefit costs	$ 1.5	$ 1.7
Other changes in plan assets and benefit obligations recognized in OCI		
Current year net (gain) loss	$ (1.3)	$ 0.7
Amortization of loss	(0.7)	(0.7)
Total recognized in OCI	(2.0)	-
Total recognized in net periodic benefit costs and OCI	$ (0.5)	$ 1.7
Expense assumptions:		
Discount rate	3.60%	4.20%

For 2019, the estimated net loss to be amortized from accumulated OCI is $0.6 million.

GMO's projected benefit payments related to the SERP are $1.3 million per year for 2019 through 2023 and total $7.6 million for the years 2024 to 2028.

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

In September 2018, Evergy entered into a $2.5 billion master credit facility which expires in 2023. GMO has borrowing capacity under the master credit facility with an initial 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 GMO or any of its significant subsidiaries on other indebtedness totaling more than $100.0 million constitutes a default under the facility. Under the terms of this facility, GMO is required to maintain a total indebtedness to total capitalization ratio, as defined in the facility, of not greater than 0.65 to 1.00 at all times. As of December 31, 2018, GMO was in compliance with this covenant. In connection with Evergy's entry into the master credit facility, GMO terminated its existing $450.0 million credit facility in September 2018.

At December 31, 2018, GMO had $150.0 million of commercial paper outstanding at a weighted-average interest rate of 3.00%, had issued letters of credit totaling $2.1 million and had no outstanding cash borrowings under the master credit facility. At December 31, 2017, GMO had $209.3 million of commercial paper outstanding at a weighted-average interest rate of 1.85%, had issued letters of credit totaling $2.1 million and had no outstanding cash borrowings under its previous $450.0 million revolving credit facility.

10. LONG-TERM DEBT

GMO's long-term debt is detailed in the following table.

	Year Due	December 31 2018	December 31 2017
		(millions)	
First Mortgage Bonds 9.44% Series	2019-2021	$ 3.4	$ 4.6
Senior Notes			
8.27% Series	2021	80.9	80.9
3.49% Series A	2025	36.0	125.0
4.06% Series B	2033	60.0	75.0
4.74% Series C	2043	150.0	150.0
Medium Term Notes			
7.33% Series	2023	3.0	3.0
7.17% Series	2023	7.0	7.0
Affiliated Notes Payable to Evergy/Great Plains Energy			
4.97% Series	2021	347.4	347.4
5.15% Series	2022	287.5	287.5
Unamortized debt issuance cost		(1.6)	(2.3)
Current maturities		(1.1)	(1.1)
Total excluding current maturities		$ 972.5	$ 1,077.0

Mortgage Bonds

GMO has issued mortgage bonds under the General Mortgage Indenture and Deed of Trust dated April 1, 1946, as supplemented, which creates a mortgage lien on a portion of GMO's utility plant.

Senior Notes

Under the terms of the note purchase agreement for GMO's Series A, B and C Senior Notes, GMO is required to maintain a consolidated indebtedness to consolidated capitalization ratio, as defined in the agreement, not greater than 0.65 to 1.00 at all times. In addition, GMO's priority debt, as defined in the agreement, cannot exceed 15% of consolidated tangible net worth, as defined in the agreement. At December 31, 2018, GMO was in compliance with these covenants.

As a result of the consummation of the Great Plains Energy and Westar Energy merger transaction, a change in control provision in GMO's Series A, B and C Senior Notes was triggered that allowed holders a one-time option to elect for early repayment of their notes at par value, plus accrued interest. Several holders of GMO's Series A and B Senior Notes elected this option and in July 2018, GMO redeemed $89.0 million of its Series A Senior Notes and $15.0 million of its Series B Senior Notes.

In March 2019, GMO issued $100.0 million of 3.74% Senior Notes, maturing in 2022, under a note purchase agreement.

Affiliated Notes Payable

In connection with the Great Plains Energy and Westar Energy merger transaction, the 4.97% Series and 5.15% Series of Affiliated Notes Payable issued by Great Plains Energy to GMO were assumed by Evergy from Great Plains Energy.

Scheduled Maturities

GMO's long-term debt maturities for the next five years are $1.1 million in each of 2019 and 2020, $429.4 million in 2021, $287.5 million in 2022 and $10.0 million in 2023.

11. 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, GMO measures certain investments that do not have a readily determinable fair value at 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. GMO includes in this category investments that do not have a readily determinable fair value.

GMO records cash and cash equivalents, accounts receivable and short-term borrowings on the balance sheet at cost, which approximates fair value due to the short-term nature of these instruments.

GMO measures the fair value of long-term debt using Level 2 measurements available as of the measurement date. At December 31, 2018, the book value and fair value of GMO's long-term debt, including current maturities, were $973.6 million and $1,007.0 million, respectively. At December 31, 2017, the book value and fair value of GMO's long-term debt, including current maturities, were $1,080.4 million and $1,150.3 million, respectively.

Supplemental Executive Retirement Plan

At December 31, 2018 and 2017, GMO's Supplemental Executive Retirement Plan (SERP) rabbi trusts included $13.2 million and $14.7 million, respectively, of fixed income funds valued at net asset value 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.

12. COMMITMENTS AND CONTINGENCIES

Environmental Matters

Set forth below are descriptions of contingencies related to environmental matters that may impact GMO'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. There are a variety of final and proposed laws and regulations that could have a material adverse effect on GMO's operations and consolidated financial results. Due in part to the complex nature of environmental laws and regulations, GMO 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 Update Rule (CSAPR). 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). Starting with the 2017 ozone season, the final rule revised the existing ozone season allowance budgets for Missouri and Oklahoma and established an ozone season budget for Kansas. In December 2018, the EPA finalized the CSAPR Close-Out Rule, which determined that the existing CSAPR Update Rule fully addresses applicable states' interstate pollution transport obligations for the 2008 ozone NAAQS. Therefore, the EPA is proposing no additional reduction in the current ozone season allowance budgets in order to address obligations for the 2008 ozone NAAQS. Various states and others are challenging the rule in the U.S. Court of Appeals for the D.C. Circuit (D.C. Circuit), but the rule remains in effect. It is not expected that this rule will have a material impact on GMO's operations and consolidated financial results.

National Ambient Air Quality Standards

Under the Clean Air Act Amendments of 1990 (CAA), the EPA set NAAQS for certain emissions known as the "criteria pollutants" considered harmful to public health and the environment, including two classes of particulate matter (PM), ozone, nitrogen dioxide (NO_2) (a precursor to ozone), carbon monoxide and sulfur dioxide (SO_2), which result from fossil fuel combustion. Areas meeting the NAAQS are designated attainment areas while those that do not meet the NAAQS are considered nonattainment areas. Each state must develop a plan to bring nonattainment areas into compliance with the NAAQS. NAAQS must be reviewed by the EPA at five-year intervals.

In October 2015, the EPA strengthened the ozone NAAQS by lowering the standards from 75 ppb to 70 ppb. In November 2017, the EPA designated the Missouri counties in GMO's service territory as attainment/unclassifiable. It is not expected that this will have a material impact on GMO's consolidated financial results.

If areas surrounding GMO's facilities are designated in the future as nonattainment and/or it is required to install additional equipment to control emissions at the facilities of GMO, it could have a material impact on the operations and consolidated financial results of GMO.

Greenhouse Gases

Burning coal and other fossil fuels releases carbon dioxide (CO_2) and other gases referred to as greenhouse gases (GHG). Various regulations under the federal CAA limit CO_2 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 October 2015, the EPA published a rule establishing new source performance standards (NSPS) for GHGs that limit CO_2 emissions for new, modified and reconstructed coal and natural gas fueled electric generating units to various levels per MWh depending on various characteristics of the units. Legal challenges to the GHG NSPS have been filed in the D.C. Circuit by various states and industry members. Also in October 2015, the EPA published a rule establishing guidelines for states to regulate CO_2 emissions from existing power plants. The standards for existing plants are known as the Clean Power Plan (CPP). Under the CPP, interim emissions performance rates must be achieved beginning in 2022 and final emissions performance rates must be achieved by 2030. Legal challenges to the CPP were filed by groups of states and industry members in the D.C. Circuit. The CPP was stayed by the Supreme Court in February 2016 and, accordingly, is not currently being implemented by the states.

In April 2017, the EPA published in the Federal Register a notice of withdrawal of the proposed CPP federal plan, proposed model trading rules and proposed Clean Energy Incentive Program design details. Also in April 2017, the EPA published a notice in the Federal Register that it was initiating administrative reviews of the CPP and the GHG NSPS.

In October 2017, the EPA issued a proposed rule to repeal the CPP. The proposed rule indicates the CPP exceeds the EPA's authority and the EPA has not determined whether they will issue a replacement rule. The EPA solicited comments on the legal interpretations contained in this rulemaking.

In December 2017, the EPA issued an advance notice of proposed rulemaking to solicit feedback on specific areas of the CPP that could be changed.

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. The proposed emission guidelines are better known as the Affordable Clean Energy (ACE) Rule. The ACE Rule would establish emission guidelines for states to use in the development of plans to reduce GHG emissions from existing coal-fired EGUs. The ACE Rule is also the replacement rule for the CPP. The ACE rule proposes to determine the "best system of emission reduction" (BSER) for GHG emissions from existing coal-fired EGUs as on-site, heat-rate efficiency improvements. The proposed 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 proposed emission guidelines contained in the ACE Rule, the EPA is proposing new regulations under 111(d) of the CAA to help clarify this process. In addition, the EPA is proposing revisions to the NSR program that will reduce the likelihood of triggering NSR for proposed heat-rate efficiency improvement projects at existing coal-fired EGUs. The public comment period for these proposed regulatory changes closed on October 31, 2018.

In December 2018, the EPA released a proposed rule to revise the existing GHG NSPS for new, modified and reconstructed fossil fuel-fired EGUs, which was issued in October 2015. This proposed rule would determine that BSER for new EGUs is "the most efficient demonstrated steam cycle (e.g. supercritical steam conditions for large units and subcritical steam conditions for small units) in combination with the best operating practices." This replaces the current determination that BSER for these units is the use of partial carbon capture and sequestration technology. The EPA is also proposing to address, in potential future rule making, existing operational limitations imposed by the rule on aero-derivative simple cycle combustion turbines.

Due to the future uncertainty of the CPP and ACE rules, GMO cannot determine the impact on its operations or consolidated financial results, but the cost to comply with the CPP, should it be upheld and implemented in its current or a substantially similar form, or ACE in its current or a substantially similar form, could be material.

Water

GMO discharges some of the water used in generation and other operations. This water may contain 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 these requirements vary from 2018 to 2023. In April 2017, the EPA announced it is reconsidering the ELG rule and court challenges have been placed in abeyance pending the EPA's review. In September 2017, the EPA finalized a rule to postpone the compliance dates for the new, more stringent, effluent limitations and pretreatment standards for bottom ash transport water and flue gas desulfurization wastewater. These compliance dates have been postponed for two years while the EPA completes its administrative reconsideration of the ELG rule. GMO is evaluating the final rule and related developments and cannot predict the resulting impact on its operations or consolidated financial results, but believes costs to comply could be material if the rule is implemented in its current or substantially similar form.

In October 2014, the EPA's final standards for cooling 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. GMO'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 that could be material.

In June 2015, the EPA along with the U.S. Army Corps of Engineers issued a final rule, effective August 2015, defining the Waters of the United States (WOTUS) for purposes of the CWA. This rulemaking has the potential to impact all programs under the CWA. Expansion of regulated waterways is possible under the rule depending on regulating authority interpretation, which could impact several permitting programs. Various states and others have filed lawsuits challenging the WOTUS rule. In February 2018, the EPA and the U.S. Army Corps of Engineers finalized a rule adding an applicability date to the 2015 rule, which makes the implementation date of the rule February 2020. In December 2018, the EPA and the U.S. Army Corps of Engineers published in the Federal Register a proposed rule titled "Revised Definition of Waters of the United States. This proposed rule narrows the extent of the CWA jurisdiction as compared to the 2015 rule. GMO is currently evaluating the WOTUS rule and related developments, but does not believe the rule, if upheld and implemented in its current or substantially similar form, will have a material impact on GMO's operations or consolidated financial results.

Regulation of Coal Combustion Residuals

In the course of operating its coal generation plants, GMO produces CCRs, including fly ash, gypsum and bottom ash. Some of this ash production is recycled, principally by selling to the aggregate industry. The EPA published a rule to regulate CCRs in April 2015, which will require additional CCR handling, processing and storage equipment and closure of certain ash disposal units. The Water Infrastructure Improvements for the Nation (WIIN) Act allows states to achieve delegated authority for CCR rules from the EPA. This has the potential to impact compliance options. The Missouri Department of Natural Resources (MDNR) is working on a rule revision, which will allow the state to apply for authority over the federal CCR regulation. The regulation is expected to be promulgated by early 2019. MDNR will then determine when to submit a CCR permit program application to the EPA under the authority of the WIIN Act. This would allow Missouri state regulators to gain control of the CCR program. It will take up to one year from submittal of the Missouri application for the EPA to take final action and grant authority to the state, if such authority is granted.

On July 30, 2018, the EPA published in the Federal Register a final rule called the Phase I, Part I CCR Remand Rule in order to modify portions of the 2015 rulemaking. The Phase I, Part I rule provides a timeline extension for unlined impoundments and landfills that must close due to groundwater impacts or location restrictions. The rule also sets risk-based limits for certain groundwater constituents where a maximum contaminant level did not previously exist. These rule modifications add flexibility when assessing compliance.

On August 21, 2018, the D.C. Circuit court issued a ruling in the CCR rule litigation between the Utility Solid Waste Activities Group, the EPA and environmental organizations. Portions of the rule were vacated and were remanded back to the EPA for potential modification. Potential revisions to remanded sections could force all unlined surface impoundments to close regardless of groundwater conditions. Any changes to the rule based on this court decision will require additional rulemaking from the EPA. In October 2018, a coalition of environmental groups (including Sierra Club) filed a petition for review in the D.C. Circuit challenging the Phase I, Part I revisions to the CCR Rule. In November 2018, this coalition requested the EPA to stay the October 31, 2020 deadline extension for initiating closure for unlined impoundments and landfills that must close due to groundwater impacts or location restrictions. The EPA has rejected this request and the coalition has filed a petition with the court for a similar stay. If granted, the compliance date will revert to the previously established date in April of 2019. In response, the EPA has filed a motion with the D.C. Circuit to voluntarily remand without vacatur the Part I, Phase I rule. If the October 31, 2020 deadline is modified by either of these actions, then some CCR units in GMO's fleet could have to initiate closure on an earlier timeline than what currently exists, but GMO does not believe the earlier closure timeline would have a material impact on its operations or consolidated financial results.

GMO has recorded 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 GMO's operations or consolidated financial results could be material.

Contractual Commitments – *Leases*

GMO identifies capital leases based on defined criteria. Assets recorded under capital leases are detailed in the following table.

	December 31	
	2018	**2017**
	(millions)	
Generation plant	$ 256.6	$ 256.6
Other	2.6	2.6
Accumulated amortization	(138.6)	(128.3)
Total capital leases	$ 120.6	$ 130.9

Contractual Commitments – *Fuel, Power and Other*

GMO's contractual commitments at December 31, 2018, excluding retirement benefits, long-term debt and leases, are detailed in the following table.

	2019	**2020**	**2021**	**2022**	**2023**	**After 2023**	**Total**
Purchase commitments				(millions)			
Fuel	$ 20.1	$ 19.4	$ -	$ -	$ -	$ -	$ 39.5
Power	12.5	12.5	12.5	12.5	12.5	112.3	174.8
Other	15.7	0.9	0.9	0.8	0.5	4.7	23.5
Total contractual commitments	$ 48.3	$ 32.8	$ 13.4	$ 13.3	$ 13.0	$ 117.0	$ 237.8

Fuel commitments consist of commitments for coal and coal transportation. Power commitments consist of certain commitments for renewable energy under power purchase agreements. Other represents individual commitments entered into in the ordinary course of business.

13. RELATED PARTY TRANSACTIONS AND RELATIONSHIPS

In the normal course of business, GMO, Westar Energy and KCP&L engage in related party transactions with one another. A summary of these transactions and the amounts associated with them is provided below. Related party transaction amounts between GMO and Westar Energy only reflect activity between June 4, 2018, the date of the Great Plains Energy and Westar Energy merger, and December 31, 2018.

Jointly-Owned Plants and Shared Services

GMO has no employees of its own. KCP&L employees manage GMO's business and operate its facilities at cost, including GMO's 18% ownership interest in KCP&L's Iatan Nos. 1 and 2. The operating expenses and capital costs billed from KCP&L to GMO were $183.2 million for 2018 and $196.3 million for 2017.

Westar Energy employees manage Jeffrey Energy Center and operate its facilities at cost, including GMO's 8% ownership interest in Jeffrey Energy Center. The operating expenses and capital costs billed from Westar Energy to GMO for Jeffrey Energy Center and other various business activities were $12.3 million for 2018.

Money Pool

GMO is also authorized to participate in the Evergy, Inc. money pool, an internal financing arrangement in which funds may be lent on a short-term basis to GMO from Evergy, Inc. and between KCP&L and GMO. At December 31, 2018 and 2017, GMO had no outstanding receivables or payables under the money pool. The following table summarizes GMO's related party net payables.

	December 31	
	2018	2017
	(millions)	
Net payable to KCP&L	$ 72.6	$ 65.8
Net payable to Westar Energy	2.6	-
Net payable to Great Plains Energy	-	27.6
Net payable to Evergy	31.9	-

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 December 31, 2018, GMO had an income tax receivable from Evergy of $27.2 million.

14. TAXES

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

	2018	2017
	(millions)	
Current income taxes		
Federal	$ (122.2)	$ 5.8
State	(11.8)	0.9
Total	(134.0)	6.7
Deferred income taxes		
Federal	117.5	129.7
State	64.9	4.0
Total	182.4	133.7
Noncurrent income taxes		
Federal	-	0.3
State	-	0.1
Total	-	0.4
Investment tax credit amortization	(0.2)	(0.3)
Income tax expense	$ 48.2	$ 140.5

Effective Income Tax Rates

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

	2018	2017
Federal statutory income tax	21.0 %	35.0 %
State income taxes	4.0	3.1
Flow through depreciation for plant-related differences	(1.5)	0.5
Federal tax credits	(0.1)	(0.1)
Amortization of federal investment tax credits	(0.2)	(0.3)
Changes in uncertain tax positions, net	(0.1)	-
Federal or state tax rate change	39.6	87.7
Valuation allowance	(21.4)	(5.0)
Other	4.5	0.1
Effective income tax rate	45.8 %	121.0 %

Deferred Income Taxes

The tax effects of major temporary differences resulting in deferred income tax assets (liabilities) in the consolidated balance sheets is in the following table.

December 31	2018	2017
Deferred tax assets:		
Tax credit carryforward	$ 6.0	$ 5.3
Income taxes refundable to customers, net	58.2	56.9
Deferred employee benefit costs	24.2	25.7
Net operating loss carryforward	181.2	319.8
Alternative minimum tax carryforward	46.7	87.6
Accrued liabilities	7.6	6.9
Other	19.5	12.1
Total deferred tax assets before valuation allowance	343.4	514.3
Valuation allowance	(23.0)	(50.4)
Total deferred tax assets, net	320.4	463.9
Deferred tax liabilities:		
Plant-related	(457.1)	(438.5)
Deferred employee benefit costs	(41.0)	(44.9)
Regulatory assets	(17.2)	(12.9)
Other	(10.7)	(10.8)
Total deferred tax liabilities	(526.0)	(507.1)
Net deferred income tax liabilities	$ (205.6)	$ (43.2)

Tax Credit Carryforwards

At December 31, 2018 and 2017, GMO had $6.0 million and $5.3 million, respectively, of federal general business income tax credit carryforwards. The carryforwards relate primarily to solar, research and development, and alternative refueling property tax credits and expire in the years 2021 to 2038. Due to federal limitations on the utilization of income tax attributes acquired in the GMO acquisition by Great Plains Energy, management expects a portion of these credits to expire unutilized and has provided a valuation allowance against $0.4 million of the federal income tax benefit.

At December 31, 2018 and 2017, GMO had $46.7 million and $87.6 million, respectively, of federal alternative minimum tax credit carryforwards. These credits do not expire and can be used to reduce taxes paid in the future or become refundable starting in 2018. Due to potential federal budget sequestration reductions for refundable income tax credits, management expects a portion of these credits will not be refunded and has provided a valuation allowance against $5.8 million of the federal income tax benefit.

Net Operating Loss Carryforwards

At December 31, 2018 and 2017, GMO had $159.2 million and $260.0 million, respectively, of tax benefits related to federal net operating loss (NOL) carryforwards. The federal NOL carryforwards expire in years 2022 to 2037. Due to federal limitations on the utilization of income tax attributes acquired in the GMO acquisition by Great Plains Energy, management does not expect to utilize $7.1 million of tax benefits related to federal NOLs. Therefore, a valuation allowance has been provided against $7.1 million of the federal income tax benefits.

The year of origin of GMO's related tax benefit amounts for federal NOL carryforwards as of December 31, 2018 are detailed in the following table.

Year of Origin	Amount of Benefit
	(millions)
2004	$ 1.6
2005	44.4
2006	32.0
2009	21.9
2010	1.5
2011	19.1
2013	0.3
2014	37.3
2015	0.6
2016	0.1
2017	0.4
	$ 159.2

In addition, GMO also had deferred tax benefits of $22.0 million and $59.8 million related to state NOLs as of December 31, 2018 and 2017, respectively. Management does not expect to utilize $9.4 million of tax benefits related to NOLs in state tax jurisdictions where the Company does not expect to operate in the future, and $0.3 million of NOLs due to projected future taxable income in state tax jurisdictions where the Company has operations. Therefore, a valuation allowance has been provided against $9.7 million of state tax benefits.

Valuation Allowances

GMO is required to assess the ultimate realization of deferred tax assets using a "more likely than not" assessment threshold. This assessment takes into consideration tax planning strategies within GMO's control and is computed using a separate return approach. This approach requires a valuation allowance for deferred tax benefits if GMO would not realize such benefits on a separate company return. As a result of this assessment, GMO has established a partial valuation allowance for tax benefits related to federal and state tax NOL carryforwards, and tax credit carryforwards.

During 2018 and 2017, $27.4 million and $10.1 million of tax benefit, respectively, was recorded in continuing operations primarily related to federal and state NOL carryforwards.

Federal Tax Reform

In December 2017, the U.S. Congress passed and President Donald Trump signed Public Law No. 115-97, commonly referred to as the TCJA. The TCJA represents the first major reform in U.S. income tax law since 1986. Most notably, the TCJA reduces the current top corporate income tax rate from 35% to 21% beginning in 2018, repeals the corporate AMT, makes existing AMT tax credit carryforwards refundable, and changes the deductibility and taxability of certain items, among other things. Prior to the change in tax rates that has been reflected in its 2018 rate case, GMO recovered the cost of income taxes in rates from its customers based on the 35% federal corporate income tax rate. GMO recorded a regulatory liability in 2018 due to the probability that GMO would be required to make refunds to its customers related to the impacts of the TCJA. The final regulatory treatment of this regulatory liability was determined in GMO's rate case with the MPSC. See Note 5 for more information and the amount of the regulatory liability recorded by GMO.

Missouri Tax Reform

On June 1, 2018, the Missouri governor signed Senate Bill (S.B.) 884 into law. Most notably, S.B. 884 reduces the corporate income tax rate from 6.25% to 4.0% beginning in 2020, provides for the mandatory use of the single sales factor formula and eliminates intercompany transactions between corporations that file a consolidated Missouri income tax return.

As a result of the change in the Missouri corporate income tax rate, GMO revalued and restated its deferred income tax assets and liabilities as of June 1, 2018. GMO decreased its net deferred income tax liabilities by $13.4 million, primarily consisting of a $19.6 million adjustment for the revaluation and restatement of deferred income tax assets and liabilities included in Missouri jurisdictional rate base and a $6.1 million tax gross-up adjustment for ratemaking purposes. The decrease to GMO's net deferred income tax liabilities included in Missouri jurisdictional rate base were offset by a corresponding increase in regulatory liabilities. The net regulatory liabilities will be amortized to customers over a period to be determined in a future rate case.

GMO recognized $8.6 million of income tax expense primarily related to the difference between GMO's revaluation of its deferred income tax assets and liabilities for financial reporting purposes and the amount of the revaluation pertaining to GMO's Missouri jurisdictional rate base.

15. SHAREHOLDER'S EQUITY

GMO has certain restrictions on its ability to pay dividends to Evergy stemming from statutory requirements, corporate organizational documents, covenants and other conditions that could affect dividend levels or the ability to pay dividends. Under the Federal Power Act, GMO generally can pay dividends only out of retained earnings.

Certain conditions in the MPSC order authorizing the merger transaction also require GMO to maintain a credit rating of at least investment grade. If GMO's credit rating is downgraded below the investment grade level as a result of its affiliation with Evergy or any of Evergy's affiliates, GMO shall not pay a dividend to Evergy without MPSC approval or until GMO's investment grade credit rating has been restored.

The master credit facility of Evergy, under which GMO has borrowing capacity, and the note purchase agreement for GMO's Series A, B and C Senior Notes contain covenants requiring the Company to maintain a consolidated indebtedness to consolidated total capitalization ratio of not more than 0.65 to 1.00 at all times.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholder of KCP&L Greater Missouri Operations Company

We have audited the accompanying consolidated financial statements of KCP&L Greater Missouri Operations Company and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of comprehensive income (loss), changes in equity, and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of KCP&L Greater Missouri Operations Company and its subsidiaries as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

March 15, 2019