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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Thank you for standing by, and welcome to the Q4 2023 Evergy, Inc. Earnings Conference Call. (Operator Instructions) Please be advised that today's call is being recorded.

I would now like to turn the conference over to your host, Mr. Peter Flynn, Director of Investor Relations. Please go ahead.

Peter Francis Flynn - *Evergy, Inc. - Director of IR*

Thank you, Valerie, and good morning, everyone. Welcome to Evergy's Fourth Quarter 2023 Earnings Conference Call. Our webcast slides and supplemental financial information are available on our Investor Relations website at investors.evergy.com.

Today's discussion will include forward-looking information. Slide 2 and the disclosure in our SEC filings contain a list of some of the factors that could cause future results to differ materially from our expectations. They also include additional information on our non-GAAP financial measures.

Joining us on today's call are David Campbell, President and Chief Executive Officer; and Kirk Andrews, Executive Vice President and Chief Financial Officer. David will cover 2023 highlights, discuss the economic development outlook and provide an update on our regulatory and legislative agendas. Kirk will cover fourth quarter and full year results, retail sales trends and our financial outlook for 2024. Other members of management are with us and will be available during the Q&A portion of the call.

I'll now turn the call over to David.

David A. Campbell - *Evergy, Inc. - President, CEO & Director*

Thanks, Pete, and good morning, everyone. Before we begin, we'd like to extend our deepest sympathies to the family of Lisa Lopez-Galvan and all those who were impacted by the tragic events during the Chiefs' Super Bowl parade. Kansas City and Chiefs' Kingdom are grieving, but if there's one thing that I've learned during my time here, it's both are very strong and very resilient.

Moving to Slide 5, I'll open by describing the drivers for our fourth quarter earnings falling below our guidance. While we plan for normal weather, we know the importance of consistent financial execution and we are disappointed by these results. As you know, on the third quarter call, we narrowed our guidance range to $3.55 per share to $3.65 per share from our initial range of $3.55 to $3.75, due primarily to the timing of the Persimmon Creek Wind Farm shifting back a year.

As shown on Slide 5, results for the year were $3.54 per share. Weather at the end of the year was the driver of the shortfall. For both November and December and December in particular, with a 23% decrease in heating degree days relative to last year, weather was warmer than normal, resulting in a variance of $0.06 in these 2 months alone. As Kirk will describe, weather-adjusted demand was also soft in the fourth quarter relative to expectations, but we were able to offset those impacts leaving milder-than-normal weather as a driver.

Our full year results reflect strong cost management with savings well beyond what was in our financial plan, which enabled us to offset the negative drag created by higher interest rates and lower-than-expected industrial load. In 2023, we reduced our O&M expenses by $129 million, equal to a year-over-year reduction of 12%. These efficiency gains reflect the hard work of the entire Evergy team who worked tirelessly throughout the year to advance our plan and our strategic objectives.

In 2023, we also executed on our capital investment plan to improve reliability and resiliency, investing $2.3 billion in infrastructure, to modernize our grid, replace aging equipment and advance our sustainability and affordability goals with the addition of the low-cost for Persimmon Creek Wind Farm.

In early December, we completed a $1.4 billion convertible note financing to mitigate interest rate and refinancing risk at the holding company. Of note, this financing was contemplated in and supportive of our updated growth outlook that we announced on our third quarter earnings call.

Last year, we made strong progress on reliability as well as is shown on Page 6. Relative to 2022, average outage duration and frequency as measured by SAIDI and SAIFI improved by 10% and 9%, respectively. I'd like to commend the outstanding work from our distribution and transmission teams and keeping the lights on for our customers and communities, as the reliability gains reflect improvements to our outage management processes and the impact of our ongoing grid investments.

Slide 6 also highlights the nearly 30% reduction in total costs that we have achieved since 2018. These cost savings involved a comprehensive multiyear program that touched every aspect of our business. Change is hard and involves tough decisions and efficiency gains of this magnitude necessarily involved major changes across Evergy over the past 5 years. The result of this hard work was affordability gains that we delivered to our customers. I am proud and honored to lead the Evergy team that made this happen.

On Slide 7, we introduced our 2024 GAAP and adjusted EPS guidance of $3.73 per share to $3.93 per share. The midpoint represents a 5% increase over the original $3.65 midpoint of our 2023 baseline year. We remain confident in our ability to deliver annual 4% to 6% adjusted EPS growth through 2026, and we are reaffirming that target today.

Evergy's cost savings were the major enabler of the improvements in regional rate competitiveness that are shown on Slide 8. When factoring in the 2023 rate case settlements, Evergy has been able to limit cumulative rate increases in both Kansas and Missouri to 1% since 2017. That compares to an average increase in rates across our region of more than 11% and cumulative inflation of nearly 23%. Without question, the merger has delivered affordability gains and significant benefits to our customers and the communities we serve.

On Slide 9, we highlight the outlook for economic development and demand growth in Kansas and Missouri, which is robust as it has been in decades. Our focus on affordability and regional rate competitiveness is an important contributor to this large pipeline and provides a foundation for our ongoing support of the tremendous opportunity in our states. There are currently $12 million of active development projects evaluating our service territories, representing 1.3 gigawatts of potential additional demand. The largest additions announced under construction so far are the Panasonic electric vehicle battery manufacturing plant in Kansas and the Meta Data Center in Missouri. The Panasonic plant for its construction is already well underway is expected to be the largest EV battery plant in the world.

As I will describe further for these successes to continue, the grid will require competitive access to capital and significant investment. In turn, ongoing successes will drive economic growth, which benefits all of our customers and helps to cover the fixed cost of our system more efficiently.

Based on Panasonic Meta and projects announced to date, we expect 2% to 3% weather-normalized annual demand growth through 2026, off of the 2023 base, above our traditional base planning assumption of 0.5% to 1% annually. This includes incremental load from Panasonic and Meta starting in 2024 and continue to expand to an expected full run rate in 2026.

Slide 10 lays out our updated capital expenditure forecast, which has been extended through 2028. Our latest 5-year investment plan totals approximately $12.5 billion, which represents a nearly $900 million increase relative to our prior 5-year forecast through 2027. The program is expected to result in 6% annual rate base growth. The revised capital forecast incorporates the Integrated Resource Plan filed in June of last year, which reflect a balanced approach that enables fuel diversification and a responsible portfolio transition. Nearly 55% of our planned investment is targeted towards transmission and distribution projects as we continue to modernize our grid to improve reliability and enhance resiliency. By replacing aging equipment, investing in smart grid technologies will also enable further efficiency gains and serving our customers, which has been a hallmark of Evergy strategy since our formation in 2018.

Moving to Slide 11, I'll provide an update on our regulatory and legislative priorities in both Kansas and Missouri. As I discussed in our call last quarter, we have been working with stakeholders to position Kansas to take advantage of an unprecedented growth environment. Evergy is a key participant, and we are doing our part to ensure that the state has affordable competitive rates. In Kansas alone, we have delivered over $360 million in operating efficiencies and customer bill credits. For this success to continue, the state's infrastructure will require significant capital investment to ensure sufficient capacity, competitive levels of reliability and resiliency and a modern grid that delivers the flexibility and benefits to customers' demand.

In our discussions with stakeholders in the past few months, we have emphasized that attracting the necessary investment cannot be done without a regulatory environment that enables the flow of competitively priced capital. Investors have a choice where they direct capital. And for Evergy in Kansas to compete, Investors require debt and equity returns commensurate with current market conditions and competitive with peers, a clear and stable framework around regulatory capital structure to guide how we capitalize our utilities, an opportunity to earn the returns we are authorized and timely recovery invested capital, both now and in the future. Without these elements, our investment proposition loses attractiveness relative to our peer utilities, who benefit from more robust capital programs, more attractive realized returns and more predictable and stable regulatory mechanisms.

An imbalanced investment proposition challenges our ability to have the infrastructure in place to compete for economic development and by extension, challenges the shared goal of Kansas stakeholders to attract new businesses and their jobs and investment. The best way to ensure competitive rates over the long term is economic growth. To further that goal, Evergy and a coalition of economic development organizations, business interests and customers, introduced House Bill 2527 in Kansas earlier this year. The bill incorporated multiple elements to establish a fair and competitive framework for electric infrastructure investment, including provisions allowing for the use of Plant In Service Accounting, or PISA, construction work in progress for large power plant investments and enhanced large customer economic development rates among other features.

Discussions relating to HB 2527 are ongoing, and we are working with parties toward achieving a constructive compromise that supports our shared goal of advancing economic development and growth in Kansas. We would like to thank the legislative leaders involved in these discussions, Kansas Corporation Commission staff, representatives from CURB, industrial stakeholders, the Governor's office, and many other stakeholders for their participation and engagement.

I know that many of our investors and analysts follow the legislative proceedings closely. So please stay on the lookout as the process advances in the coming weeks. And of course, we will provide a further update on next quarter's call.

By May, we also expect to file our triennial Integrated Resource Plan in both states. The planning process is well underway, and given the significant changes we factored into our 2023 IRP, including IRA tailwinds, updated construction costs and higher capacity requirements in the Southwest Power Pool, we anticipate a filing similar to last year's, though with some adjustments to reflect ongoing changes in marketing conditions and economic development prospects.

Pivoting to Missouri, we filed the Missouri West rate case on February 2. The procedural schedule was jointly filed by the parties earlier this week. Subject to approval of the schedule, we anticipate intervenor direct testimony in June followed by Rebuttal testimony in August, a settlement conference in the second half of September and potential hearings in late September and October. We look forward to working collaboratively with the Missouri Public Service Commission staff and our stakeholders to achieve a constructive outcome from Missouri West customers.

An element of our rate request is our potential investment in the Dogwood Energy facility and operating combined cycle gas plant identified in our 2023 IRP. Last November, we entered into an agreement to purchase a 22% share of the plant or 143 megawatts of summer capacity, and we subsequently filed a request for an operating CCM. Earlier this week, on February 26, a stipulation and agreement with no parties opposed was filed requesting that the Missouri Public Service Commission grant the operating CCM. Dogwood is a low-cost generation resource with a solid operating history to support our Missouri West customers. The transaction is expected to close in the second quarter, subject to commission approval.

On February 23, we closed a financing to securitize extraordinary costs from Winter Storm Uri being carried at Missouri West, providing $323 million in net proceeds. As a result, the costs incurred from the storm will be spread over 15 years to better manage the impact on customer bills. This was a lengthy process, and we appreciate the hard work of our treasury team, PSC staff and other parties and getting it over the finish line. Bills have been proposed in Missouri House and Senate that would extend PISA to 2040 and modify a provision of the statute to cover new natural gas generation. House Bill 2541 passed out of committee and Senate Bill 1422, awaits for their action.

Similar to our efforts in Kansas, we'll continue to engage with our Missouri stakeholders, regarding constructive mechanisms that support natural gas investments as these are important resources identified in our Integrated Resource Plan.

I'll conclude my remarks with Slide 12, which highlights the core tenets of our strategy, affordability, reliability and sustainability. Keeping rates affordable for our customers remains at the forefront. We advanced affordability in 2023 with our Kansas rate case settlement, maintaining the momentum of the past 5 years. We have saved more than $1 billion in operating costs since the merger, enabling Evergy to offset steep inflationary pressures, while at the same time, ramping up investment and reliability and helping to bolster economic development. We're pleased by our progress in improving regional rate competitiveness and keeping our rate trajectory well below the rate of inflation.

As our capital plan outlines, we continue to invest in grid modernization to ensure reliability and strong customer service, building on the momentum reflected in our significant improvements in SAIDI and SAIFI in 2023. Our overriding sustainability goal is to lead a responsible, cost-effective energy transition.

In 2023, we added for Persimmon Creek, a low-cost emissions-free resource to serve our Kansas Central customers. We remain committed to a long-term strategy to reduce CO2 emissions in a cost-effective and reliable manner. Our goal is to achieve net 0 emissions -- carbon emissions by 2045, with an interim target of a 70% reduction both relative to 2005 baseline. Achieving our targets will no doubt be dependent on external factors such as new policies and regulations and the advancement of new technologies. Our mission is to empower a better future, and our vision is to lead their responsible energy transition in our region, always with an eye on affordability and reliability along with sustainability.

I will now turn the call over to Kirk.

Kirkland B. Andrews - *Evergy, Inc. - Executive VP & CFO*

Thanks, David, and good morning, everyone.

Turning to Slide 14, I'll start with a review of our results for the fourth quarter. For the fourth quarter of 2023, Evergy delivered adjusted earnings of $61.1 million or $0.27 per share, and that's compared to $68.6 million or $0.30 per share in the fourth quarter of 2022. As shown on the slide from left to right, the year-over-year decrease in fourth quarter earnings was driven by the following: first, a 14% decrease in heating degree days led to a $0.05 decrease in EPS for the quarter. This impact was driven by warmer-than-normal weather over the final 2 months of 2023, which drove a $0.06 variance to our plan. December weather was particularly mild, which led to a 23% reduction in heating degree days in that month alone. Weather-normalized demand declined by 2.4%, primarily driven by lower residential and industrial demand, contributing to a $0.06 decrease in EPS. A $29.5 million decrease in adjusted O&M reflecting continued execution on driving cost efficiencies, drove a $0.10 increase.

The net impact of higher depreciation and amortization was $0.07 for the quarter, which includes the partially offsetting impact of new retail rates. Higher interest expense drove a $0.07 decrease.

The fourth quarter 2022 charge associated with the Kansas earnings review and sharing program, or ERSP, which is no longer in effect, drove a $0.06 positive variance. And finally, the net impact of tax items drove a $0.06 increase.

I'll turn next to full year results, which you'll find on Slide 15. For the full year 2023, adjusted earnings were $815.6 million or $3.54 per share that's compared to $853.8 million or $3.71 per share for the same period last year. Again, moving from left to right, our full year EPS drivers compared to 2022 include the following: Our 2023 results reflect a 6% year-over-year decrease in cooling degree days and a 13% decrease in heating degree days, which drove a $0.28 decrease in EPS versus 2022. When compared to normal, weather drove an estimated $0.02 favorable impact in '23.

Weather-normalized demand contributed $0.02 year-over-year, primarily driven by a 0.8% and 1% increase in residential and commercial demand, respectively, which were partially offset by a 3.6% decline in industrial demand. I'll provide more context around demand later in the presentation.

Higher transmission margins resulting from our ongoing investments to enhance our transmission infrastructure drove a $0.04 increase and to help offset challenges from higher interest expense, regulatory lag, weather and demand, we accelerated cost management initiatives, which drove a positive $0.41 variance year-over-year. A $0.26 decrease from higher depreciation expense and then higher interest expense of $0.41 and a $0.05 decline in AFUDC drove a $0.46 decrease. $0.10 of higher year-over-year proceeds from company-owned life insurance, a $0.09 positive variance related to the nonrecurring ERSP charge in 2022, which was subsequently reduced in 2023 based on the final refund amount. And finally, tax items drove an increase of $0.17.

Turning to Slide 16, I'll provide a brief update on our recent sales trends. Overall, 2023 weather-normalized demand growth was flat relative to last year. Despite some falloff in the fourth quarter, which may in part reflect the art form of weather normalization, residential and commercial growth were both solid for the year with 0.8% and 1% positive annual growth, respectively, on a weather-normalized basis. In contrast, industrial demand was down 3.6% for the year. Through the first 3 quarters, this decline was driven by lower usage at 2 of our largest refining customers, one of which was off-line in early 2023 for a planned outage, while the rest of our industrial customer base's usage was generally in line with expectations. This dynamic reversed in the fourth quarter. While demand from refining customers began to recover, we saw a contraction in demand from other industrial customers during the fourth quarter. That was driven in part by plant retooling and expansion projects being undertaken by a number of our industrial customers in the food processing and additive sector.

Given that several of these events are expected to be temporary, we expect industrial demand to partially recover as we move into 2024, though not all the way back to 2022 levels. Net next year, we project approximately 1.1% growth in industrial load on a same-store basis. We also expect to see an uptick from new large customers beginning in 2024. And with a more notable pickup in '25 and '26 as Panasonic, Meta and others come fully online. As David outlined earlier, in total, we're forecasting 2% to 3% annualized weather-normalized growth in demand from 2023 to 2026, reflecting the impact of those large new customers on top of base demand growth of 0.5% to 1%. Our demand projections continue to be supported by a strong local label market as Kansas and Kansas City metro area unemployment rates remained below the national average of 3.7%.

Moving to Slide 17, I'll review the expected year-over-year drivers, which lead to the midpoint of our 2024 EPS guidance range, which is $3.73, to $3.93 per share. Starting on the left of the slide and beginning with 2023 adjusted EPS of $3.54, we expect a $0.15 increase from demand in 2023, which includes the impact of demand growth, net of the EPS contribution from weather in 2022. We expect a 1.8% increase in total weather-normalized demand, which includes the contribution from new industrial load as customers like Meta and Panasonic begin to come online.

Excluding the load from these new customers, we expect same-store demand growth of approximately 1.2%. $0.25 of EPS from new retail rates, which reflects both a net revenue increase of $41 million in Kansas as well as the impact of the amortization of the company-owned life insurance regulatory liability. Higher transmission margins are expected to deliver $0.12 in 2024 as we continue to make investments to improve our transmission infrastructure. We expect a year-over-year increase in O&M of less than $20 million driving a $0.06 of lower EPS, primarily due to onetime items in 2023, driven by changes in capitalization. Net of these items, we retain the benefit of over $100 million in incremental O&M savings achieved last year as we move into 2024. The remaining drivers consist of increased D&A, small increase in interest expense and a $0.03 net decrease from other items.

And finally, on Slide 19, I'll wrap up with an overview of our long-term financial expectations. We're reaffirming our long-term adjusted EPS growth target of 4% to 6% through 2026 based on the original 2023 adjusted EPS guidance midpoint of $3.65 and continue to expect to achieve this growth without the need for new equity. Our updated 5-year capital plan for 2024 through 2028 totals $12.5 billion and implies rate base growth of approximately 6% from '23 to '28. We've included some additional disclosures in the appendix of today's presentation, including a breakdown of planned expenditures by category and by utility, which we hope you'll find helpful. We remain focused on and committed to executing on our operational financial targets, continue to enhance reliability and regional rate competitiveness while advancing constructive regulatory policies to support competitiveness and economic development.

And with that, we're happy to open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Nicholas Campanella from Barclays.

Nicholas Joseph Campanella - *Barclays Bank PLC, Research Division - Research Analyst*

I appreciate the update on Kansas. I guess you noted discussions are ongoing. Could you help just give us any kind of color on what that includes versus, I guess, the initial proposals? I'm just kind of thinking depreciation deferrals, equity layer ROE, just how to think about the components if you have any color.

David A. Campbell - *Evergy, Inc. - President, CEO & Director*

So thanks, Nick, for the question. We won't get ahead of the process in terms of describing the details that is emphasized that we're working hard with parties toward achieving a constructive compromise. And I really can't thank the parties enough. This is hard work. It's hard work on through the legislation we had in several weeks. So that's legislators, KCC staff, CURB, industrial stakeholders, Governor's office, and others. So we're working with those parties. And what I'll describe is the -- this is a very transparent process, as you know. So continue to watch developments in the legislative process that we're able to reach a constructive compromise because there's a lot of shared alignment on the goals of economic development growth. Then you'll see the next steps would involve going to the House Committee and from that to the full house and then hopefully onto the Senate. So keep an eye on what's going on in legislative process. That's the best way to get a sense for where the discussions are going and what they include. But again, we want to really thank the parties that we continue to work with.

Nicholas Joseph Campanella - *Barclays Bank PLC, Research Division - Research Analyst*

Absolutely. I appreciate that. And then I guess, just quickly on, I guess, the credit side, you're at 15% of floated debt. I think you're targeting greater than 15%. So can you just help us understand where you are in this new plan, how you're trending? And then I know you've reaffirmed no equity needs, I think, through '26. How do we think about any potential equity needs beyond that?

Kirkland B. Andrews - *Evergy, Inc. - Executive VP & CFO*

Sure. Nick, it's Kirk. So building on top of that, roughly 15% pro forma, which includes adjusting for the impact of the successful securitization and obviously, the impact of new rates, which we know, moving into Kansas. If you look at some of the components as we move into 2024, for example, there are other items that are additive to numerator, for example, most notably, the ongoing impact with minimal -- basically no lag from our transmission investment, so that increases numerator.

So we expect a surplus over that threshold as we move into 2024, and we expect to utilize that surplus as we move forward into 2025 and '26, augmented by continued robust generation of operating cash flow because as you know, we're not a current taxpayer. So those 2 components continue to give us confidence that we can use that surplus that we're plugging into '24 on those ratios to fund that capital investment program without that need for new equity.

Beyond 2026, we haven't actually said, at some point, we will pivot to equity needs. We want to do that prudently, and we want to do that on a measured pace, both from a standpoint of keeping a reasonable trajectory on EPS, but also with equal importance maintaining those credit ratios, which obviously will allow us to maintain those ratings, which is important from an affordability standpoint for our customers.

Operator

Our next question comes from the line of Michael Sullivan of Wolfe.

Michael P. Sullivan - *Wolfe Research, LLC - VP of Equity Research*

I wanted to ask just on the CapEx update and we kind of break it out by jurisdiction and how much thought you gave to potentially shifting amongst your jurisdictions based on some of the outcomes that we got? It looks like Kansas Central was still up, I think, plan over plan. Yes. Just how do you think about that in light of the outcome you got last year? I know a bunch of your peers have maybe taken more aggressive approaches in terms of shifting between jurisdictions based on outcomes.

David A. Campbell - *Evergy, Inc. - President, CEO & Director*

Yes, Mike, I think it's a good question. I think that we -- and as you've seen, a lot of our peer utilities, there are pace of rate base investment was already higher than ours in terms of their annual rate base growth, and many of them have increased them significantly recently. So the gap has widened. So if you look at our -- break it down by jurisdiction, you look at Kansas Central and Kansas Metro, the biggest source of increases in generation, particularly in the out years, and that relates to a need for new dispatchable generation resources. If you look at the earlier years in the categories of kind of traditional T&D grid and other categories, there's a modest decline and that's in the context of an inflationary environment for equipment and otherwise.

So we're making the investments we need to, to ensure reliability and serve the new customers that are identified, but we do believe, and this is a discussion we've had with stakeholders that to really take advantage of the opportunities in Kansas. There's an intersection with the regulatory mechanisms that are in place. So when you drill down to it, you'll see that, that the modest upticks in Kansas are really driven by the need for the new generation in the out years, particularly new dispatchable generation.

Michael P. Sullivan - *Wolfe Research, LLC - VP of Equity Research*

Okay. And kind of just along that, how influence can these plans be to the outcomes you get in the legislative session this year? Could we see further shifting to the extent that you do or don't have success?

David A. Campbell - *Evergy, Inc. - President, CEO & Director*

Mike, I think that's a great question. If we -- part of the dialogue with our stakeholders in Kansas is around the need for incremental investment, if we're able to reach a constructive compromise that reflects shared belief in the infrastructure investment needed. That's really what's underlying the push here. I do think you'll see us evaluate our capital plan for incremental opportunities and pursue those. Now we'll do that in a systematic process, of course, and make sure that, that's a process where there's full transparency to both our -- of course, our stakeholders in Kansas and the market. But I think you will see -- these factors do go hand in hand underlying reflection of support for that kind of infrastructure investment will be matched by an increase in that kind of investment, which we think will be really beneficial as Kansas pursues the growth and development opportunities.

Michael P. Sullivan - *Wolfe Research, LLC - VP of Equity Research*

Okay. Great. And then my last one, just on the Missouri West case. It looks like you got a settlement on the Dogwood plan. Beyond that, any particular areas where you're expecting the most pushback?

David A. Campbell - *Evergy, Inc. - President, CEO & Director*

No, it's a -- Mike, it's a pretty straightforward rate case. It's largely we had a rate case 2 years ago. So our '22 and '23 rate cases were after long stay outs, first since the merger. So this one is a little more straightforward in that regard. So the biggest elements, I think you'd see it reflected in the charts we've been posted on there are incorporating capital additions and incorporating the impacts of higher cost of capital environment.

There is some transmission expense related to a generation plant that's part of it, that's relatively modest. But for the most part, it's a pretty straightforward rate case. A lot of the complicated issues that I know we discussed at length with you going in the last one, thankfully resolved in that one. So it's generally a pretty straightforward rate case centered on the investments we've made since then and the authorized returns related to it.

Operator

Our next question comes from the line of Paul Zimbardo of Bank of America.

Paul Andrew Zimbardo - *BofA Securities, Research Division - VP in Equity Research & Research Analyst*

I promise I will not ask about the legislation. The first one I have...

David A. Campbell - *Evergy, Inc. - President, CEO & Director*

Not even when I hear it.

Paul Andrew Zimbardo - *BofA Securities, Research Division - VP in Equity Research & Research Analyst*

Just in terms of the base demand, kind of the new incremental load customers, the 2% to 3% versus the base of 50 basis points to 1%. Is there a good way to think about like an earnings sensitivity or just what the contribution of that is through the plan?

Kirkland B. Andrews - *Evergy, Inc. - Executive VP & CFO*

In terms of earnings sensitivity, I wouldn't call it linear from that perspective. These are obviously large industrial customers, which come with rate incentives there. It is certainly additive from a tailwind perspective, but difficult to give you specifics beyond that because it literally has to do with, obviously, the individualized contract that those customers negotiate going forward. And it is a ramp-up period, right, that 2% to 3% on top of that 0.5% to 1% really builds over time. We start to see a modest contribution in '24, but it really kind of reaches its pace as we move into 2026.

David A. Campbell - *Evergy, Inc. - President, CEO & Director*

I would just echo Kirk's comment, though, on -- this is David, that the -- these are industrial customers, which, as you know, the profile of those are helpful, important for covering fixed costs, but generally less impact than equivalent loan growth in Commercial & Residential.

Paul Andrew Zimbardo - *BofA Securities, Research Division - VP in Equity Research & Research Analyst*

Okay. Yes. Understood. And then the second I had and not to get too technical, but I noticed there's a pretty big increase in CapEx for 2028 on the generation side. And you give year-end rate base in your guidance for 2028. Is there a large CWIP balance or just anything we should think of like could there be faster growth in that period with CWIP on top of rate base growth versus the 6%, if that makes sense?

Kirkland B. Andrews - *Evergy, Inc. - Executive VP & CFO*

That is certainly a possibility. I mean, certainly, that's natural gas plants aren't a -- you write a check at the end right before the COD. So we're going to be building that, that informs capital investment over time. And that obviously entails a building balance in CWIP. Certainly, getting timely recovery on CWIP is one of our objectives as we look for kind of reforming the type of regulatory mechanisms that are designed to incent that. So as we move forward on some of the legislation, which we won't comment on I think that will inform largely the impact on some of those elements, which are helpful, especially for large capital projects like that -- like the natural gas plant sort of the back end of the plant.

David A. Campbell - *Evergy, Inc. - President, CEO & Director*

I think the 6% rate base growth is indicative of the overall capital plan and trajectory is what I described, and you can follow up on some of the details. What I emphasize also is that we're pursuing a pretty balanced portfolio as you've seen. And actually, you've seen that from a number of our peer utilities as well with the growth that we're seeing. Adding new dispatchable resources is also an important part of the mix, and that generally has pretty wide support in our jurisdictions. And it's an important part of the investment program. So adding gas, while we're adding wind and adding solar, leading that responsible energy transition, but with the balanced portfolio is an important part of the mix. And I think we've got alignment with our stakeholders in our states around the importance of doing that.

Operator

Our next question comes from the line of Paul Fremont of Laden Thalmann & Company.

Paul Basch Michael Fremont - *Ladenburg Thalmann & Co. Inc., Research Division - Research Analyst*

It looks like you've got legislative and regulatory initiatives. Can you maybe just prioritize for us in your mind, which are the ones that are most important from your perspective?

David A. Campbell - *Evergy, Inc. - President, CEO & Director*

Sure. So I think as probably reflected by the number of minutes devoted to the topic. Our legislative initiative in Kansas, really a broader effort to work with policymakers and stakeholders in Kansas to support electric infrastructure investment to support economic development and growth. That I'd list as our top priority. There are other mechanisms -- I mean we're talking about the same parties who we'd work with in the regulatory front and otherwise. So I think the importance of having constructive dialogue, alignment around those shared objectives is key. But that's our legislated -- that's -- I would characterize that as our #1 legislated priority.

We have some activities underway in Missouri as well, and those are important. They're also reflective of important priorities, but it's fair to say that the prospects in the Missouri legislature this year in general for legislation are more challenged. And there -- I think there's nearly double-digit number of state legislators running for a statewide office, it's an election year. So the overall dynamics in Missouri are less likely to lead the legislation. But I'd also say that there's maybe a lower priority there. Very constructive legislative actions taken in Missouri the last couple of years with the extension of pieces, some other changes to piece of the addition of the property tax rider. So item signs that our relative priorities on the Kansas side and the mechanisms that we've talked about there.

Paul Basch Michael Fremont - *Ladenburg Thalmann & Co. Inc., Research Division - Research Analyst*

Sort of second question, would a slower level rate of dividend increase sort of improve your ability to deliver on sort of the EPS growth target that you have?

Kirkland B. Andrews - *Evergy, Inc. - Executive VP & CFO*

I would say marginally from that standpoint. Obviously, we had a little a little of a lower increase, obviously, commensurate with our change in the growth rate, but it's very important for us to have a good blend of, obviously, capital appreciation and current returns. So we want to be mindful of that delivering the right mix for our investors. As we pivot to maybe potentially a little bit lower or commensurate with our growth rate, the reduction in the dividend, really, I'd say, sort of contributes to our ability relative to higher levels of dividend growth to fund that capital expenditures, right? It helps us maintain those all-important credit ratios that I talked about before.

David A. Campbell - *Evergy, Inc. - President, CEO & Director*

And just to clarify, Kirk was referring to a reduction in the rate of dividend growth, not a reduction in the dividend, of course. So we had a 5% (inaudible) we raised our dividend growth 5% last quarter, consistent with the midpoint of our earnings growth range. I think you raised a good question, just stepping back around the mix of what's your dividend payout ratio as you think about the overall funding for your capital plan. We've described that we don't see a need to issue equity through 2026. So I think that in particular, becomes a factor that our peer companies are issuing equity seek the balance and what's the right payout ratio or otherwise. We described the target payout ratio of 60% to 70%. That remains our payout ratio, but being thoughtful about our -- the growth rate in our dividend as our earnings grow and keeping those in tandem and thinking about that payout range is probably how we're considering.

Paul Basch Michael Fremont - *Ladenburg Thalmann & Co. Inc., Research Division - Research Analyst*

And then last question for me. It sounds like you could still raise capital spending levels without issuing equity. Is there sort of a limit to that increase where -- what would be the threshold where you would have to issue equity?

David A. Campbell - *Evergy, Inc. - President, CEO & Director*

So we won't give the exact number on. Obviously, those things go in tandem. You can't -- we -- if we raise our capital plan, a very significant amount you have to think about the funding approach to that. And the governor is really what Kirk described earlier. We look at our credit ratios and maintaining the ratios we look at in the Moody's threshold. So as we consider changes to our capital plan, there's always room in that capital plan and just a matter of how significant the changes would be. But in general, we described with the capital plan we have, even with the changes we've implemented that were reaffirmed that we don't expect the issue we got to be through 2026. We made major changes in the capital plan. We'd be looking at the funding approach at the same time.

Paul Basch Michael Fremont - *Ladenburg Thalmann & Co. Inc., Research Division - Research Analyst*

Okay. And then I guess if you were to sort of go to incremental levels, what percent of, would you see as being funded with equity?

David A. Campbell - *Evergy, Inc. - President, CEO & Director*

Well, again, I would describe, we don't see in our capital plan and need to issue equity through 2026. So I think you're probably getting ahead of the aim a little bit with that question. I think what we would -- it relates to the question of it's not formulaic, but the discussions we're having in Kansas, in particular, about how do we fund electric infrastructure investment to support economic development and growth. A lot of that comes down to T&D investment and having that in place and where you put that and how you put that in place. So it will be much more tackle around the timing and the positioning of where we make some of those investments to support the growth.

So it's not equivalent to adding a huge new solar farm or big new gas plant where you got orders of magnitude that drive the kind of changes you may be discussing. So we'll look at that on an integrated basis, but we're pretty thoughtful about how we approach our financing plan and how we think about the timetable for when we issue equity. So I think your question is signaling some kind of major change. I wouldn't think about it that way. I'd really think about how we're going to be funding and where we're getting the opportunities to fund this, particularly T&D and some good work to support economic development and growth in Kansas. That's where we're working towards with our stakeholders.

Operator

Our next question comes from the line of Paul Patterson of Glenrock Associates.

Paul Patterson - *Glenrock Associates LLC - Analyst*

Very -- just one quick follow-up question from Paul Fremont's on the Slide 9, just as opposed to the earnings impact associated with these industrial customers, you mentioned that there's an impact from spending more fixed cost over greater megawatt hours, I guess. Could you give us a flavor as to what that is? I mean, if you don't have it, that's cool, but I'm just wondering what is kind of the rate impact of these industrial development initiatives, I guess.

David A. Campbell - *Evergy, Inc. - President, CEO & Director*

What I'll expand is what rates negotiated, of course, very large loads get special contracts. I think the best way to describe it -- we actually have a waterfall that goes through 2023 to 2024, so we show what the overall impact of weather and demand is in that. So it's part of the improvement that we see in the trajectory from '23 to '24. But in general, the industrial load, while it does help and drives incremental cost savings and opportunities, this doesn't have the same level of impact as residential and commercial because of the rate structure. But to get a good flavor of how that translates because we give the growth rate estimate and the impact on EPS and that, I think it's our waterfall slide in the back half of the document.

So we can walk through that with you offline just to see how that translates. But it's a -- any savings that are generated, of course, through rate cases are going to be shared. So if you -- one of the best thing as I described in my note, the best way to keep rates affordable is through growth. And that affordability gain in the near term, it can have some EPS impact. But we're going to have a regular cadence of rate cases now. That's the great benefit of it is that's what's going to keep rates affordable for our customers because of course, that gets shared.

Operator

And that's our time for the Q&A today. I'd like to turn the call back over to David Campbell for any closing remarks.

David A. Campbell - *Evergy, Inc. - President, CEO & Director*

Thank you, Valerie, and thanks, everyone, for your interest and time this morning. That concludes the call today. Thank you.

Operator

Ladies and gentlemen, this does conclude today's conference. Thank you all for participating. You may now disconnect. Have a great day.