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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Third Quarter 2023 Evergy Earnings Conference Call. (Operator Instructions) Please be advised today's conference is being recorded. I would now like to hand the conference over to your speaker today, Peter Flynn. Please go ahead.

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

Thank you, Michelle, and good morning, everyone. Welcome to Evergy's Third 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 our third quarter highlights, provide an update on our regulatory and legislative agenda and discuss updates to our financial outlook. Kirk will cover in more detail the third quarter and year-to-date results, retail sales trends and our long-term guidance. Other members of management are with us and will be available during the question-and-answer portion of the call. I will now turn the call over to David.

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

Thanks, Pete, and good morning, everyone. I'll begin on Slide 5. I I'm pleased to report that Evergy had a solid quarter as we delivered adjusted earnings of $1.88 per share compared to $2 per share a year ago. The decrease was driven by milder weather and higher depreciation and amortization and interest expense, partially offset by lower O&M expenses, higher corporate-owned life insurance proceeds or COLI and tax items. Results for the quarter were also impacted by over $9 million in excess O&M storm costs in July, driven by a mid-month storm, which brought straight-line winds of over 80 miles per hour over much of our service territory. Overall, I'm pleased to report that our reliability metrics held strong for the quarter. Relative to last year, average outage duration and frequency, measured by SAIDI and SAIFI, have improved greater than 5% through September and remained favorable relative to our targets. This is a strong testament to the work of our distribution and transmission teams to restore power and keep the lights on. as well as the investments that we have made in our system.

With these results year-to-date, we are narrowing our 2023 adjusted EPS guidance range to $3.55 per share to $3.65 per share. While we've offset the excess storm costs and delivered O&M savings well beyond our initial guidance for the year, we have not been able to offset the full magnitude of headwinds elsewhere, most notably from higher interest expense and the shift of Persimmon Creek from Missouri to Kansas. Kirk will discuss these drivers and net onetime effects in more detail.

Looking beyond 2023, we are establishing a new long-term adjusted EPS growth target of 4% to 6%, off of the midpoint of our original 2023 adjusted EPS guidance range of $3.65 per share.

Since the completion of the Evergy merger in 2018, we've delivered solid earnings growth, driven in large part by a highly successful O&M reduction plan. This program has enabled us to deliver significant cost savings to our customers. while at the same time, increasing our pace of investment to modernize our grid and improve service to customers.

Notwithstanding this progress, two factors, in particular, have negatively impacted our ability to meet the earnings growth target we previously laid out. First, challenging rate case outcomes. And second, a higher interest rate environment. Most significantly, the Kansas rate cases fell short of expectations. In the context of a challenging position taken by the Kansas Corporation Commission staff on our proposed revenue requirement as well as the level of attention focused on our first rate case since the merger that created Evergy more than 5 years ago, we ultimately negotiated unanimous settlement that is currently pending approval by the commission.

However, the Kansas rate case settlement negatively impacted our forward plan by approximately $0.15 a share. The dynamics in the rate case are a reflection of the singular focus that Kansas has had on improving regional rate competitiveness. And without question, Evergy has delivered against that objective.

Going forward, we know that state policymakers and stakeholders are excited by an unprecedented economic development pipeline in Kansas. To help the state capitalize on this opportunity and enable beneficial investment, we have important work to do to ensure that Kansas offers a competitive cost of capital and the potential to earn a competitive return. I'll discuss that further in a moment.

With respect to Missouri, the context is different. Following our successful motion for rehearing, the Missouri rate case outcomes in 2022 were more constructive with respect to the key economic terms. The main challenges in the rate case is related to legacy issues that have now been resolved and put behind us, most notably relating to the 2018 Subley plant retirement.

Higher interest rates are also dragging the forward plan. Most significantly, they impact the refinancing that will occur in 2024 and for $800 million of holding company debt. In addition, our plan includes some additional holding company debt by 2025 for which we are expecting to refinance our $500 million term loan. The revised long-term growth rate target of 4% to 6% extends through 2026 and reflects our trajectory after the wave step function cost savings that we have delivered since the 2018 merger.

Over the long term, our growth rate will reflect our rate base growth and the related financing plan. Our current rate base growth level is expected to be 6% annually. In addition to the projects currently included in our capital plan, we see a significant backlog of additional projects that will benefit customers across the T&D system and in the ongoing transition of our generation fleet.

However, in Kansas, in particular, we will shape our capital plan to reflect the policy objectives of our key decision-makers and stakeholders. We will be actively pursuing mechanisms that we think align with those objectives and that will enhance our ability to partner in support of state priorities and earn a competitive return with timely recovery. While our long-term target has changed, our culture will not, we remain laser-focused on operational and financial execution for the items within our control and achieving constructive regulatory outcomes and a more regular cadence of rate cases, after the long stay outs that were agreed to as part of the 2018 merger.

In both of our states, we expect to file rate cases roughly every 2 years, similar to the cadence of our peer utilities. We know the importance of consistent execution, and we recognize that today's update falls short of that. However, we are confident in our ability to execute our strategic plan going forward at the revised target. In addition, we see opportunities to work with our stakeholders to advance constructive regulation in both states.

As part of today's update, we also announced a 5% increase in our quarterly dividend to $0.6425 per share or $2.57 per share on an annualized basis. This increase is consistent with our updated growth outlook as well as our 60% to 70% payout ratio target. Combination of our annual growth outlook and our dividend yield positions Evergy to deliver a competitive total annual return of 9% to 11%.

Moving to Slide 6. As I mentioned, we reached unanimous settlement and the pending Kansas rate cases. If approved, the resulting rate increases are far below those regional peers in inflation. The settlement calls for a net revenue increase of $41.1 million across our Kansas jurisdictions, reflecting a $74 million increase at Kansas Central and a $32.9 million decrease at Kansas Metro. The settlement includes the addition of the Persimmon Creek wind farm and our 8% interest in Jeffrey Energy Center into Kansas Central's rate base. These additions provide low-cost generation solutions to meet our customers' growing demand and energy needs.

The settlement also provides final resolution to the rate discounts that were provided to customers through the COLI program, which was first put in place nearly 40 years ago, when the Wolf Creek nuclear plant came online. The settlement sets a $96.5 million rate credit to be amortized over 3 years, after which the program is removed entirely from the regulatory construct. With this settlement, our COLI program has provided tremendous savings for customers, $750 million in total since the mid-1980s.

While the settlement is silent on return on equity and capital structure, it specifies a 9.4% return on equity to be utilized for purposes of the transmission delivery charge filings required by legislation passed last year. We've included more details on this in the appendix. If this settlement is approved, we expect the Kansas Corporation Commission will issue an order, implementing new rates by December 21.

As shown on Slide 7, when factoring in the rate case settlements, Evergy has been able to limit cumulative rate increases in Kansas to 1% since 2017. In contrast, rates increased in our regional peer states by 12.7% over the same time period. Many of our peer utilities have rate cases pending or planned, which will further widen the gap. Our rate increase is even further below the rate of inflation since the merger. Advancing and improving regional rate competitiveness has been top of mind for many of our stakeholders in Kansas and were primary drivers for the 2018 merger, and that's exactly what we've delivered.

On Slide 8, we highlight the outlook for economic development in Kansas, which is as promising as it has been in decades. As the largest utility in Kansas, Evergy plays a vital role in enabling growth. Over the past 5 years, the state's economic development pipeline has grown to previously unseen levels. In 2022, the best year for economic development in Kansas in Evergy's history, we helped to land 13 major projects, representing more than $5.2 billion of capital investment, 6,000 new jobs with the Panasonic electric vehicle battery plant, a leading example. The future looks even brighter with more than $10 billion of active economic development projects, evaluating our Kansas service territories, representing 650 megawatts of potential additional demand.

The state's recent track record and large economic development pipeline, in part reflect the success of our focus on ensuring affordability and regional rate competitiveness. Through a highly successful cost savings program following the merger, we have delivered over $360 million in operating efficiencies in customer bill credits in Kansas.

I would like to thank the dedication and focus of the entire Evergy team in making this happen. It has taken a tremendous amount of sustained effort. At the same time, the team achieved record safety results last year, along with strong generation commercial fleet availability and ongoing reliability improvements in 2023. The results the team has achieved have directly supported and advanced stay priorities.

For this success to continue, the grid 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 that a customers increasingly demand. This cannot be done without a regulatory environment that enables the flow of competitively priced capital in Kansas. Cost of capital parameters, regulatory capital structure and timely recovery investment are crucial importance when utility investors make capital allocation decisions. Investors have a choice where they direct capital and for Evergy in Kansas to compete for that capital, 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 of invested capital, both now and in the future.

Without these elements, our investment proposition loses attractiveness relative to our peer utilities to benefit from more robust capital programs, more attractive authorized and realized returns as well as more predictable and balanced regulatory mechanisms. An imbalanced investment proposition challenges our ability to put the infrastructure in place to effectively partner and compete for economic development and by extension challenges the shared goal of Kansas stakeholders to attract new businesses and their jobs and investment. We see a bright future for Kansas, and we are honored by the privilege to play a key role in that future.

To capitalize on the state's economic development potential, we believe that the focus must include constructive regulatory mechanisms for the investment necessary to enable that growth. This is a priority for Evergy, and going forward, we will work with regulators and policymakers to ensure that Kansas is competitive with peer states and seizes on the unprecedented opportunities that are before us.

Moving to Slide 9. I'll provide an update on our regulatory and legislative priorities in both Kansas and Missouri. As I mentioned, we expect a final order on the settlement agreement filed in our Kansas rate cases by December 21. On September 1, the commission conditionally approved a settlement in our energy efficiency document, otherwise known as Kia. Kia was established to support the state's goal of promoting the implementation of cost-effective demand-side programs, such as home energy assessments and rebates for energy saving appliances. We expect the first key programs will begin in 2024.

On the policy front, our efforts will focus on cost of capital and capital structure as well as recovery mechanisms supporting our grid and generation investments. One area of focus will be provisions applying to new dispatchable generation.

Heading to Missouri, the commission order approving our request to securitize extraordinary costs from Winter Storm Uri was affirmed in the Missouri Court of Appeals in late September. The Missouri Office of Public Council of OPC, filed a motion for rehearing, which was denied on October 24. It is possible that OPC will further appeal to the Missouri Supreme Court. Consistent with the appellate court's decision, we believe the Missouri Commission's decision and support of securitization is well supported by the record, and we anticipate resolution by the end of the year.

As a reminder, we will complete the securitization financing after the appeal plays out, but incremental carrying costs incurred prior to approval will ultimately be recovered when we issue the debt. Similar, our efforts in Kansas work to engage with our Missouri stakeholders regarding constructive regulatory mechanisms to support timely recovery in new dispatchable generation investments as these have been identified as important new resources, in our integrated resource plan. Last, we began the planning process for Missouri West rate case, which we expect to file in February 2024.

I'll conclude my remarks with Slide 10, which highlights the core tenets of our strategy. affordability, reliability and sustainability. Keeping rates affordable for our customers has been and will continue to be at the forefront of our thinking. Nailed by the merger, Evergy has now saved more than $1 billion in operating costs over the past 5 years. These savings allow the company to offset steep inflationary pressures while also helping to attract and bolster economic development in our region. We're pleased by our progress in improving regional rate competitiveness and keeping our rate trajectory well below the rate of inflation. Affordability is and will always be an area of focus. Ensuring reliability is also a core element of our strategy, along with SAIDI, SAIFI, grid resiliency and public safety. This includes a focus on metrics relating to customer service, the commercial availability of our fleet, safety and all elements of our operations, including infrastructure investment.

With respect to sustainability, we continue to advance the responsible transition of our generation fleet with investments such as the Persimmon Creek wind farm. We expect to add over 3 gigawatts of renewable resources through 2032 and 1.5 gigawatts of new hydrogen cable gas generation, advancing our decarbonization goals, ensuring day-to-day grid demands and customer needs are met. Our mission is to empower better future, and our vision is to lead the responsible energy transition in our region, always with an eye on affordability and reliability as well as 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 12, I'll start with a review of our results for the quarter. For the third quarter of 2023, Evergy delivered adjusted earnings of $432.3 million or $1.88 per share compared to $460.8 million or $2 per share in the third quarter of 2022. As shown on the slide from left to right, the year-over-year decrease in third quarter earnings was driven by the following: first, a 5% decrease in cooling degree days as compared to last year, drove a $0.07 decrease in EPS. Compared to normal, weather for the third quarter was favorable by approximately $0.08 per share. Weather-normalized demand declined by 0.8% and driven by lower industrial demand, contributing to a $0.01 per share negative variance. The $11 million increase in adjusted O&M -- or decrease, rather, excuse me, in adjusted O&M reflecting continued execution on driving cost efficiencies, drove a positive $0.02 variance year-over-year.

The net impact of higher depreciation and amortization was $0.07 for the quarter, which includes the offsetting impact of new retail rates. The combination of higher interest expense and lower AFUDC drove a $0.14 decrease with higher interest expense representing $0.12 of the variance. Higher COLI proceeds drove a positive $0.07 variance year-over-year. And finally, other items, both positive and negative, drove a net increase of $0.08, primarily driven by tax items.

I'll turn next to year-to-date results, which you'll find on Slide 13. Through the 9 months ended September 30, adjusted earnings were $754.5 million or $3.27 per share. compared to $785.2 million or $3.41 per share for the same period last year Again, moving from left to right, our year-over-year EPS drivers include versus 2022 include the following: when combined with mild weather in the first half of this year, our year-to-date results reflect an approximate 7% decrease in cooling degree days and a 13% decrease in heating degree days, driving a $0.23 decrease in EPS versus 2022. When compared to normal, weather was approximately $0.04 favorable through the third quarter. Weather-normalized demand growth of 0.7%, driven by the residential and commercial sectors contributed $0.08 per share. Higher transmission margin resulting from our ongoing investments to enhance our transmission infrastructure showed a $0.04 increase. Decreased O&M drove a positive $0.31 variance year-over-year driven by continued execution on achieving cost efficiencies, which we have further accelerated in 2023. A $0.19 decrease from higher depreciation expense due to increased infrastructure investment, which is net of the offsetting impact of new retail rates, $0.11 of year-to-date proceeds from company-owned life insurance, or COLI, Higher interest expense and lower AFUDC equity drove a $0.39 decrease with interest expense representing $0.34 of that variance. The increase in interest expense was driven by a number of factors, including rising rates, a shift in Persimmon Creek to Kansas, a delay in securitization proceeds and higher capital investment.

We have accelerated our cost management initiatives as reflected in the year-to-date uplift in O&M savings, combined with other actions to help offset the higher interest cost and associated lower AFUDC equity earnings. I'll discuss all of these items in further detail shortly. Finally, other items with positive and negative drove a net increase of $0.13 and was primarily driven by other income and income tax items.

Turning to Slide 14. I'll provide some further detail on the headwinds and tailwinds driving our year-to-date and expected full year 2023 results. On the left side of the slide, as I mentioned previously, higher interest costs, combined with lower AFUDC equity earnings is a primary driver of our year-to-date variance to plan. Through the third quarter, we've seen a $0.39 impact from higher interest costs and lower AFUDC equity earnings versus 2022, and that's compared to a 21% increase in these costs for the full year reflected in our original guidance. This higher-than-expected variance is driven by a number of items. First, rising rates impacted the cost of our short-term borrowings as well as our long-term debt issuances to date. Short-term borrowings were only partially offset by AFUDC and due to the regulatory timing lag and short-term interest cost recovery, which was exacerbated by the sharp increase in realized short-term rates. Second, due to the delay in the securitization of 2021 storm cost at Missouri West, we continue to carry $300 million in additional short-term debt through all of 2023. Third, the decision to ship the Persimmon Creek wind farm from Missouri to Kansas required us to forgo the offsetting benefits of PSA interest deferral available in Missouri and reflected in our original plan for 2023. This also resulted in lower than forecasted AFUDC rates applied to our other Kansas Central investments as we funded for Persimmon Creek with short-term debt while it was pending review during the Kansas rate case. Finally, we expect to exceed our original capital investment plan for 2023 by approximately $200 million, leading to higher borrowing costs prior to recovery in our Missouri rate case planned for 2024. All of these factors also led to balance sheet changes versus plan, which drove lower AFUDC equity earnings.

Our plan beyond 2023 has consistently anticipated this shift to lower AFUDC equity earnings and higher AFUDC debt recovery, which manifested earlier and expected into 2023. To offset this impact this year, as shown on the right side of the slide, we've successfully accelerated our cost management efforts across the business leading to a $0.31 EPS benefit year-to-date as compared to our original expectation of $0.20 full year improvement in the original plan. In addition, we've supplemented the impact of these O&M savings by capturing higher-than-expected margins on our 8% stake in the Jeffrey Energy Center coal plant, driven by a proactive hedging program put in place to optimize financial performance prior to transitioning this 8% stake in Jeffrey to rate base beginning in 2024, and as a result of the unanimous settlement in Kansas. And finally, we've realized approximately $0.02 of higher COLI proceeds year-to-date versus our full plan for 2023.

Overall, while we expect to offset higher interest costs, with higher O&M savings, improved performance at Jeffrey and higher COLI proceeds. The onetime item, which remains, and this is a net driver of the $0.05 reduction in our midpoint 2023 guidance is the Persimmon Creek Wind project. Our original plan reflected the benefits of PSA and Missouri and shifting this asset to Kansas drove a $0.05 reduction in earnings versus plan this year. However, as a result of the unanimous settlement for Persimmon Creek will be part of the Kansas Central rates beginning in 2024, and the $0.05 impact to plan is limited to 2023.

Turning to Slide 15, I'll provide a brief update on our recent sales trends. Weather-normalized demand increased 0.7% year-to-date as compared to last year, driven by strong residential and commercial growth. For the third quarter, we experienced a decline of 0.8%, which was primarily due to lower industrial demand driven by two refining customers. Demand growth continues to be supported by a strong local labor market with Kansas and Kansas City Metro area unemployment rates of 2.8% and which continue to remain below the national average of 3.8%. And we expect to see industrial demand recovery as we move into 2024.

Finally, on Slide 16, I'll wrap up with an overview of our long-term financial expectations. For 2023, we're narrowing our adjusted EPS guidance range to $3.55 to $3.65. As although we are delivering additional O&M savings beyond our initial guidance, we do not expect to fully offset the headwinds of higher interest and the impact of Persimmon Creek shift from Missouri to Kansas. As David mentioned earlier, we've revised our new long-term adjusted EPS growth target of 4% to 6% through 2026, using a baseline of the original 2023 adjusted EPS guidance midpoint of $3.65 reflecting the impact of higher interest rate environment, regulatory outcomes and our expected rate base growth of 6%. We will provide a 2024 adjusted EPS guidance on our fourth quarter call.

Today, we've also announced a 5% increase in our dividend, consistent with the midpoint of our revised growth update and in line with our target 60% to 70% dividend payout ratio. We also expect to provide an updated capital plan for 2024 through 2028 on our fourth quarter earnings call, which will continue to be driven by new infrastructure investment improve customer service and enhance reliability and resiliency as we transition our generation fleet while continuing to advance regional rate competitiveness and meet the evolving needs of our customers and our communities. And with that, we'll open the call up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is going to come from the line of Shar Pourreza with Guggenheim Partners.

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

Guys. Good morning. Can we just maybe unpack the components of the growth rate guide? Obviously, interest expense is a component of that. What are you now assuming there as we think about the '23, '26 CAGR and that 5% midpoint? And overall, I guess, what are you assuming for lag or any of the remaining levers like O&M? Just trying to get a sense on how much contingencies you've built in there at this point?

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

Shar, thanks for the question. So as we set the revised growth rate target, we did factor in -- our view of where the current macro conditions are. So certainly, the interest rate environment reflects the current forward curve, and it reflects the current regulatory mechanisms that are in place in our states. It reflects our current rate base outlook. And it reflects the O&M reduction plan that we previously described to investors. We're -- I'm very pleased with the work of all of our employees in accelerating some of those cost savings to offset some of the headwinds in 2023. But you'll recall that we've announced an ongoing O&M savings trajectory through 2025. I would characterize our actions this year is really an acceleration. And and where we're tracking, if not all the way to where we expect to be, we've gotten a long way towards it.

So we basically holding to the prior O&M targets that we outlined separately. You'll see in our -- going back to our Investor Day, I think we teed up $960 million run rate O&M in 2025. Last year, it was more like $1.70 billion. Obviously, we reduced that significantly already year-to-date. So I would describe our go-forward plan is reflecting the disappointing results of the Kansas rate case the macro environment that we see and the headwinds on interest rates, but then the ongoing execution of our plans. So we're obviously disappointed in not having execution path that matched our prior targets but we feel good about the new plan that we've outlined. And obviously, as we emphasize, we do see opportunities to work with our regulators for ongoing changes to regulatory mechanisms that we think will be in support of the objectives of of our policymakers and stakeholders in our states.

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

Got it. And still no equity through '26, correct?

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

Yes. I would describe it, Shar, that the -- in our current capital plan, we don't anticipate a need for equity through 2026. As Kirk described, we'll update our capital plan on the year-end call. While we see significant additional opportunities for beneficial investments, investments that will benefit our customers and our grid, we'll shape the capital plan based on the to reflect the objectives of our policymakers. And if we stick with the current capital plan, we don't anticipate that we'd see equity into 2026. So if we change it, then obviously, we'll update the financing claim at the same time.

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

Got it. And then just last, I know you mentioned in your prepared in the slides that you are working with Kansas regulators and policymakers on mechanisms. Can you just unpack that a little more? What does that mean as it relates to capital flows, for instance, between the two jurisdictions in spend?

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

Sure. So I described it at two levels, Shar. First on what it means in terms of what we're pursuing. So I do think that the -- there are several items coming out of the rate case that we've identified as priorities, and we think align with the opportunities that are in front of us in both Kansas and Missouri to support economic development. On that list include a clear and stable framework for capital structure. It is common for our peer utilities for utility holding companies to have responsible levels of holdco debt. We think that the dialogue through testimony and the Kansas rate case will give us the opportunity to advance that discussion, going forward. So capital structure is an important piece. The second piece is the opportunity to earn returns that are competitive with and commensurate with market conditions and competitive peers. And the third is around the time and recovery of capital. So those will be areas that we'll be focused on. Specific things we'll likely look at include -- we have plans to build natural gas generation for reliable hydrogen capable dispatchable generation in both states. So mechanisms to support that build-out will be an area of focus. And then on your question about allocation of capital, obviously, we will shape our capital plan always to meet the requirements of our jurisdictions for reliability and to meet our customer needs, but the incremental opportunities to invest, we think we'll benefit customers that will position us to capitalize on economic development opportunities. We'll shape that capital plan based on the mechanisms and policies that we see in the respective states.

Operator

And our next question is going to come from the line of Nicholas Campanella with Barclays.

Nicholas Joseph Campanella - *Crédit Suisse AG, Research Division - Former Research Analyst*

I guess just to follow up on some of Shar's questions. Like I think as you kind of look at the glide path through 2026, it implies something linear. But just how should we think about 2024? Can you kind of grow within this 4% to 6% range into 2024 as we kind of handicap what your earnings would be there? And is this CAGR linear? Or is it more lumpy?

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

Exact. So obviously, we'll give our 2024 guidance on the year-end call. So we're not giving annual guidance at this time. But with the -- what we've described previously and with the mechanisms we have now, we don't we'll have the impact of the Kansas rate case, of course, impacting 2024. We mentioned that we're planning to file a rate case next year in Missouri West. That will be the rate case that we pursue that will impact rates in 2025. So you can expect in the cadence that I described roughly over 2 years more active regulatory calendar in calendar year 2025 and in fact 2026. So if the lumpier outcomes are often related to rate case outcomes in our -- we only have one of our jurisdictions going through a rate case next year. So we obviously know the importance of stable execution within the growth rate range, and we'll give more details on the 2024 guide in the year-end call.

Nicholas Joseph Campanella - *Crédit Suisse AG, Research Division - Former Research Analyst*

Okay. Great. And then I acknowledge that you're kind of taking down the growth rate today and you have had some headwinds in Kansas. The mechanisms obviously aren't as constructive to deploy capital. But on this new plan, can you still do 6% rate base growth like prior plans? Or is that subject to change as well. I'm just acknowledging the comments I think Kirk said there's been a little bit of an acceleration even in '23, and you continue to highlight a lot of economic development. .

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

It's a good question. I do think that we -- our target growth rate range we described for rate base, we expect it will be in the 6% annual range. That is reflected in the capital plan that we published last year, and we always update that on the year-end call. It's part of a process we actually established in our jurisdictions following the merger. So we'll stick to that time line. We see significant incremental potential investment opportunities that we'll evaluate, but we will evaluate those in the context of what makes the most sense in terms of the policies and mechanisms that are in place in our states, and we'll allocate capital accordingly.

So our -- we anticipate and we've shaped our plan to reflect that estimated rate base growth range. But whether we see -- I know a lot of our peer utilities have announcing incremental investment in capital. While we see a similar opportunity set, we're going to shape our capital plan based on the returns that we see. As of now, the mechanisms are a little more constructive in Missouri in terms of reducing regulatory lag, so helping you earn your realized return, but we're going to be working on in Kansas to see if their policy that reflect the objectives of our stakeholders as well as ours that we can move forward on that I think can help to inform the capital plan. So net, we'll evaluate the capital plan by year-end. We feel good about that 6% annual rate base growth with incremental opportunity is possible, but we'll be looking pretty hard at capital allocation in light of what we have heard and what we've seen in our jurisdictions around what they want to have and what they'd like for us to deliver for them.

Nicholas Joseph Campanella - *Crédit Suisse AG, Research Division - Former Research Analyst*

One more follow-up for me, just to triple check, this outlook basically assumed the settlement? And just if anything gets tweaked on December 20, how should we think about that?

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

Well, we'll have to update you on the year-end call was the unanimous settlement. So you can never predict certainly, it's dependent on approval by the commission, but we're confident in the process, given the and the hearing around the settlement was involved in constructor dialogue. We're with the unanimous settlements this plan does reflect an anticipation that it will be approved if it changes, and we'll obviously have to adjust accordingly if it does. But we think that the fact it was a unanimous settlement and is really delivering on the improvements of regional rate competitiveness that has been such a focus in Kansas, we think that it's on a good trajectory for approval.

Operator

Our next question is going to come from the line of Julian Duminmith with Bank of America.

Dariusz Lozny - *BofA Securities, Research Division - Research Analyst*

This is Darius on for Julian. Maybe just starting with the updated EPS growth target. Can you comment a little bit about when you roll forward your capital plan in February, that will be out through '28 and then the EPS target is through '26. So there seems there's a little bit of a mismatch there. Can you comment on -- maybe do you have somewhat limited visibility into what it looks like beyond 2026 or perhaps why that to your gap there?

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

It's been our historical practice as well. We typically have a 3-year forward outlook. I don't know if there's any magic to it. I think you can based on where we are today, our long-term growth rate target is 4% to 6%, but we've extended it through 26. But we certainly -- that's really just a matter of practice. We typically have that 3-year outlook.

Dariusz Lozny - *BofA Securities, Research Division - Research Analyst*

Okay. Appreciate that. Next one is you made comments about advancing the discussion on some of the mechanisms in Kansas, including the capital structure. Just curious if you could maybe speak about that in a little bit more detail. what might be the venue perhaps for advancing that discussion prospectively? Would that be in a future rate case filing or perhaps another forum.

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

Yes, there are several different paths that we can go down on that. So it will be -- and especially once the rate case is approved, we'll get more visibility into it, but there's -- you can work that directly with regulators. You can work that with other stakeholders. What I really emphasize is that I think the rate case and the testimony that was included on the capital structure topic and there was luminous testimony on it, sets the stage for a good discussion, particularly if you look at (inaudible) direct testimony in our rebuttal testimony, we've communicated the importance of competitive equity returns. We've communicated and have good evidence to show how it was common and almost universal for utility holding companies to have responsible levels of holdco leverage. And it's also common at the same time, have you have utility-only capital structures used in regulated rate making. So that's the dialogue that we're going to advance and a couple of different mechanisms that we'll evaluate as we as we advance that discussion. As I mentioned, we've got a rate case in Missouri West next year. We have a little time before our next planned Kansas rate case. There'll be a little bit of a dynamic in the final decisions around that. But that will give us some time to advance the dollar.

Dariusz Lozny - *BofA Securities, Research Division - Research Analyst*

Okay. Great. And if I could sneak in one more just quickly. Your prior Missouri rate cycle, you filed both at metro and Missouri West. It seems like it's just Missouri West this time around. Any reason for changing that at this time?

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

It was timely for Missouri West to file a rate case. So we're planning to do it for next year. We'll certainly -- for all of our jurisdictions, we'll look at the right cadence to do it. We had the long stay outs coming out of the merger. I don't think you're going to see those in the 4- to 5-year stats, but it's timely for Missouri West rate case. So we're filing on next year and not currently -- not planned for Missouri Metro at this time for next year.

Operator

Our next question will come from the line of Steve Fleishman with Wolfe Research.

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

Yes. So just on the I guess, first on the kind of interest rate impacts. So you're basically in the new plan, assuming kind of the current forward curves as they are?

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

Yes, Steve, it's Kirk. That is correct. We have our expectations were ongoing entries expense to where the curves are today. That's right.

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

Okay. And you mentioned the Kansas rate case being kind of a $0.15 difference versus the prior plan? Is most of the other difference, just the interest rate move?

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

Yes. In terms of the impact to the adjusted outlook on EPS and formed by that growth rate, that's right, yes. .

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

Okay. Could you just talk to kind of how your credit metrics look in the new plan with the Kansas settlement FFO to debt metrics range?

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

Sure, absolutely. I mean I think we came out of 2022, about 80 basis points above the threshold of Moody's, which FFO to debt, and we are managing that plan going forward to make sure that we are at or above those thresholds throughout the plan, and that means through 2026. And that objective obviously informed our comfort with extending our expectation as now based on the current capital plan of no new equity to release 2026. So we're focused on hiring to those thresholds and those targets.

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

Okay. And your threshold again is what is it again? Is it 14% or 15%?

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

15%.

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

Okay. And just one more, I guess, sorry, on the capital plan. So I think you're going to update the capital plan on the year-end call, and you seem to be talking about maybe making updates by them. But like that's -- I mean that's pretty soon. Some of these processes in the state you're talking about, you wouldn't necessarily think would be kind of really started or done by the year-end call. Are these things that might get added like later on?

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

Yes, Steve, that's a good question. I think it is -- we announced the updated long-term growth rate outlook, and that's informed by our current rate base growth trajectory. Obviously, we'll add 2028. We don't yet have that in the capital plan. So that will be new either way. But our anticipation is that there -- we will, in conjunction with the finance, when you look at the allocation of capital across jurisdictions will reflect the -- we had a revised integrated resource plan since we put out that capital plan at year-end. But the overall parameters and overall growth rate levels, I suspect you're right, that will be in line with what we're seeing here. But with some tweaks and without the evaluation of capital allocation. across different areas. When I was speaking to the additional incremental opportunities, you're on track. I think those opportunities will particularly be informed as we look at mechanisms and ability to realign with key policymakers and regulators on positioning the state to take advantage of some of the economic development opportunities, which will take some incremental investment and I think some real opportunities there.

Now again, things differ a little bit and Missouri side the regulation is more constructive in terms of mitigating lag, and we're aligned with other utilities in that state. So a lot of this comes down to working on mechanisms of Kansas, and that will inform how we shape our capital plan, particularly over time.

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

Okay. And then maybe just one last thing on just that last point of Kansas because obviously, this would have been a relevant thing to be aware of kind of in the current rate case too in terms of perceived ability to -- for future kind of growth and all the stuff. Just like is there any olive branches or things that have been shared that should give us any hope that the other folks are going to engage in a -- along the lines of what you want as opposed to kind of what happened in this rate case?

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

Yes. I think people have to -- we'll have to demonstrate those results on the Kansas side, so it's not the show-me side of our two jurisdictions. But non element of seeing that happen. What I think is the groundwork that creates a positive context of that discussion is the sheer amount of economic development potential that we see in Kansas. We know that it's important for many stakeholders in the state to be positioned to take advantage of that because they see those opportunities and they know that for us to be in a position to meet -- for example, I've mentioned over 600 megawatts of potential incremental capacity needs. If we're in a wait if we always are waiting until it's already there to build things and it's harder to be in a position of attracted and meet it and the timeliness that's required. So I think that backdrop of economic development potential is a positive one to help advance the discussions. But there's no question that we've got work to do on the capital structure front and on the insurance that we have competitive -- the opportunity for competitive returns.

So work in front of us. We do think that backdrop of a lot of economic potential and potential opportunity in Kansas is the right way to do it. We also think it's the right frame to pursue that discussion outside the context of the biggest -- such a big rate case, the first one in 5 years since we formed the company with unique global attention. So we think the time is now to work on and address that issue.

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

Okay. All right. But you're saying -- you think it is, are you getting a sense that other people kind of get that too?

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

I think we've got the opportunity for us to constructive discussions. We've obviously got work to do to get it done.

Operator

And our next question is going to come from the line of Paul Patterson with Glenrock Associates.

Paul Patterson - *Glenrock Associates LLC - Analyst*

I just want to just I apologize for not completely following the capital structure issue. And that's been asked a couple of times. What are I guess, if I'm understanding it and tell me where I'm wrong, you guys are planning on having discussions with them about getting to the ability to sort of have a basically that the utility capital structure would be looked at and the holding company in the context of how it's treated in other jurisdictions like FERC and what have you. Is that the way to sort of think about it?

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

Yes. Paul, I think you've got it right.

Paul Patterson - *Glenrock Associates LLC - Analyst*

Okay. And then I did notice, as I did, I think, on the first quarter that there was a benefit from capitalized interest. How should we think about that going forward? Was this -- I think it was a benefit this quarter. How should we think about the potential benefit or what have you going into 2023 or 2024, excuse me, I apologize.

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

Paul, it's Kirk, I think as you're thinking about capitalized interest, you may be referring to the fact that we're able to defer some of the interest cost on...

Paul Patterson - *Glenrock Associates LLC - Analyst*

I apologize, I mean capitalized O&M.

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

Capitalized O&M.

Paul Patterson - *Glenrock Associates LLC - Analyst*

I apologize.

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

All I would tell you is that our capitalization of certain portions of O&M is informed by the activities that either directly or indirectly support our capital investment program and is consistent and well researched from a benchmarking standpoint, time studies and the like. So it's basically in line with industry policy and certainly reflects the initiatives that are underway in terms of improving our infrastructure and investing in things like new generation. So it's really important by that and expect it to be pretty consistent going forward.

Paul Patterson - *Glenrock Associates LLC - Analyst*

Okay. So it's just a general, there wasn't anything -- because it looked like it was a benefit this quarter, there isn't any particular project or anything that's causing that. That's just sort of there isn't expected to be much of a deviation in that, I guess, is the way to think about it going forward. Is that correct?

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

No. Nothing of significant change going forward.

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

And the benefit in the quarter and year-to-date was an overall reduction in O&M cost, which obviously is a much broader reflection of our overall O&M cost trajectory.

Operator

And I would now like to hand the conference back over to David Campbell for any closing remarks.

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

Thank you, everyone, for your participation in the call today. We look forward to seeing you at EEI. That wraps it up.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.