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# EDITED TRANSCRIPT

GXP - Q1 2013 Great Plains Energy, Inc. Earnings Conference Call

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**Terry Bassham** *Great Plains Energy, Inc. - Chairman, President, CEO*

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**Scott Heidtbrink** *Kansas City Power & Light Company - EVP, COO*

## CONFERENCE CALL PARTICIPANTS

**Ali Agha** *SunTrust Robinson Humphrey - Analyst*

**Charles Fishman** *Morningstar - Analyst*

**Brian Russo** *Ladenburg Thalmann & Company - Analyst*

**Paul Ridzon** *KeyBanc Capital Markets - Analyst*

**Michael Lapidés** *Goldman Sachs - Analyst*

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## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by. Welcome to the first-quarter 2013 earnings conference call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks there will be a question-and-answer session. (Operator Instructions) Thank you.

I would now like to turn the call over to Mr. Kevin Bryant, Vice President of Investor Relations and Treasurer. Please begin.

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**Kevin Bryant** - *Great Plains Energy, Inc. - VP IR & Strategic Planning, Treasurer*

Thank you, Melissa, and good morning, everyone, and thank you for joining us for our first-quarter 2013 earnings conference call. Let me begin by introducing the members of the Great Plains Energy management team who are here with me today. We have Terry Bassham, our new Chairman and Chief Executive Officer; and Jim Shay, Senior Vice President and Chief Financial Officer, who in a few moments will provide an overview of the first-quarter results. Scott Heidtbrink, our Executive Vice President and Chief Operating Officer of KCP&L, is also with us this morning and will be available during the question-and-answer portion of today's call.

Before we begin I must remind you of the inherent uncertainties in any forward-looking statements in our discussion this morning. 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.

I also want to remind everyone that we issued our earnings release and first-quarter 2013 10-Q after the market closed yesterday. These items are available along with today's webcast slides and supplemental financial information regarding the quarter on the main page of our website.

With that, I will now hand the call to Terry.

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**Terry Bassham** - *Great Plains Energy, Inc. - Chairman, President, CEO*

Thanks, Kevin, and good morning, everyone. Thank you for joining us on our call.

Yesterday we announced first-quarter earnings of \$25.6 million or \$0.17 per share, compared with a loss of \$9.5 million or \$0.07 per share last year. The improvement in earnings was primarily driven by new retail rates, which became effective in January of this year, lower interest expense, and favorable weather. The solid financial performance in the first quarter reinforces our view that we are well positioned to deliver earnings within our guidance range, and we are affirming our 2013 earnings per share range of \$1.44 to \$1.64. Jim will provide more details on the quarter in his comments.

We continue making progress on Transource Energy, our joint venture with American Electric Power. Earlier this week, FERC issued an order approving Transource Missouri settlement on the formula rate base ROE. The Commission approved a base ROE of 9.8% with a 55% cap on the equity component of the post-construction capital structure. Including incentive rate components already approved by FERC, the weighted average all-in rate for the two SPP projects is 11.15%.

Last month, a stipulation agreement was filed with the Missouri Public Service Commission that would authorize the transfer of transmission property related to our two Southwest Power Pool regional projects to Transource Missouri, and to allow Transource Missouri to construct, own, and operate the projects. We anticipate an order from the Commission this summer.

Following approval in Missouri, KCP&L and GMO must also seek approval from the SPP to novate the projects to Transource. The SPP will then submit its approval of the novation to FERC for final approval. We anticipate receiving the final necessary regulatory approvals to novate these projects by the end of the year.

At our Wolf Creek nuclear unit, the refueling outage was completed and the unit returned to service in April. We are planning a midcycle outage for modifications and maintenance work in Spring of 2014, with the next refueling outage expected to begin in the first quarter of 2015.

Regarding the RFP that we and our co-owners initiated last year to review all options to improve the unit's performance, the review process continues; and we expect to have an update later this year on what, if any, changes might be made. We will keep you updated on further developments.

Construction of the state-of-the-art environmental control equipment at our La Cygne generating station continues, with the installation of the low-NOx burners for Unit 2 wrapping up this month. The project remains on budget and on schedule, with major construction continuing through the middle of 2014 and completion targeted for the second quarter of 2015.

In conclusion, we began the year focused on a set of priorities that included improving our earnings and credit profile by reducing regulatory lag and diligently managing O&M expenditures, providing reliable customer service, successfully novating our two regional SPP projects to Transource Missouri, and keeping the environmental upgrade project at La Cygne on schedule and on budget. We believe we are off to a solid start. We remain focused on execution in 2013 and beyond.

Thank you for your continued interest. And now with more details for the first quarter, I will turn the call over to Jim.

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**Jim Shay** - *Great Plains Energy, Inc. - SVP Finance & Strategic Planning, CFO*

Thank you, Terry, and good morning, everyone. I'll begin with slide 6, which provides comparison of the 2013 first-quarter earnings per share reconciliation versus 2012. As Terry indicated, our 2013 earnings per share were \$0.17, compared with a loss of \$0.07 in 2012. The primary drivers behind the \$0.24 per share increase were, first, earnings of \$0.09 per share due to new retail rates which became effective in our Kansas jurisdiction on January 1 and in Missouri on January 26. Second, an \$0.08 per share decrease in interest expense due to the maturity of \$500 million of high-coupon GMO senior notes in mid 2012; a lower interest rate on the refinance debt that was underlying Great Plains Energy equity units; and the impact from the early recognition of the remaining interest obligation of the subordinated debt underlying the equity units in 2012.



Third, a \$0.07 per share benefit resulting from favorable weather compared to last year. Fourth, a \$0.07 per share impact primarily due to the unplanned outage at Wolf Creek in the first-quarter 2012. And finally, an estimated \$0.02 per share from weather-normalized demand, primarily due to an increase in residential demand.

These increases were partially offset by about a \$0.06 per share decrease in other margin, primarily due to increased fuel and purchased power expense at KCP&L in Missouri, where there is no fuel recovery mechanism; and an estimated \$0.03 per share from a variety of other factors including increased general taxes.

First-quarter 2013 earnings for the Electric Utilities segment and Other category can be found in the earnings release we issued yesterday.

Turning to slide 7, as Terry mentioned we are affirming our 2013 earnings per share guidance of \$1.44 to \$1.64, and we are assuming normal weather for the remainder of the year. For the first quarter, total retail megawatt hour sales increased 5.8% compared to last year, with the increase primarily driven by weather. Heating degree days for the quarter were up approximately 41% compared to last year, and up about 3% compared to normal.

Compared to normal weather, first-quarter pretax gross margin was favorable by approximately \$2 million or about \$0.01 per share. On a weather-normalized basis, excluding the impact of Leap Day sales in 2012, demand was up about 0.6% compared to the same period last year, which is in line with our expectations.

Accordingly, we continue to believe flat to 1% load growth is an appropriate assumption for the full year. Unadjusted for Leap Day sales in 2012, demand was down about 0.6%.

In March, we issued \$300 million of 10-year senior unsecured notes at KCP&L at a coupon rate of 3.15%. Proceeds from the transaction were used to repay outstanding commercial paper at KCP&L. We also expect to issue long-term debt at GMO later this year.

Finally, Standard & Poor's recently raised its rating outlook to Positive from Stable for Great Plains Energy, KCP&L, and GMO, citing a manageable capital spending program and stabilizing financial measures. We believe this is a testament of our objective to strengthen key credit metrics while maintaining a competitive and growing dividend.

Thanks for your time this morning. Terry, Scott, and I would now be available to answer any questions you may have.

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**Terry Bassham** - *Great Plains Energy, Inc. - Chairman, President, CEO*

Thank you, everyone, for joining us this morning. We have any questions?

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## QUESTIONS AND ANSWERS

### Operator

Ali Agha, SunTrust.

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**Ali Agha** - *SunTrust Robinson Humphrey - Analyst*

Morning. Terry or Jim, could you also give us an update on where you stand on your coal transportation contract and when you expect that renewal to be completed, and any insights on the savings that would be generated? Where do you stand on that process?



**Terry Bassham** - *Great Plains Energy, Inc. - Chairman, President, CEO*

Sure. We have completed that negotiation and work, so it is now in place for 2013. It is confidential contracts; we don't give actual dollar amounts.

But just a reminder of size, our coal ultimate all-in cost is about half product, half transportation. So this would affect the half that is transportation related. We should see the benefits the rest of this year and see a full year's worth of benefit starting next year.

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**Ali Agha** - *SunTrust Robinson Humphrey - Analyst*

Okay, so fair to say that the pricing is below where it was in the previous contract?

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**Terry Bassham** - *Great Plains Energy, Inc. - Chairman, President, CEO*

It is improvement on the transportation price that was in place before. That's correct.

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**Ali Agha** - *SunTrust Robinson Humphrey - Analyst*

Okay. Secondly, can you also remind us? Over the next three years you're going to be potentially staying out of a rate case, '13, '14, and '15. What should we be thinking about in terms of O&M growth or reduction for you guys over that period? And how should we be thinking about the lag, given that you are not going to be in rate case mode for that period?

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**Terry Bassham** - *Great Plains Energy, Inc. - Chairman, President, CEO*

Well, a couple of things. The first is we will have one case, as you might call it. It is an abbreviated case we would expect to file in Kansas later this year. I think Westar has filed a similar case now; so we will be following them as we get later in the year, which would allow us to include CWIP and rate base related to La Cygne.

But you are right; aside from that our current plan is not to make another filing related to general rate cases until La Cygne is complete, and that would be somewhere in the 2015 time period.

Our expectation around O&M would be to manage it within our rates. So in general, with flat demand, if that were the case we would try to hold O&M flat. But if we see some growth in demand, there might be some needed growth in O&M.

Our expectation is to manage those consistent with our operations and our current rates which are in place, to avoid any additional regulatory lag.

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**Ali Agha** - *SunTrust Robinson Humphrey - Analyst*

Okay. Lastly, given that scenario of this '13 base, if you will, how should we be thinking about earnings growth for you guys next couple of years? Essentially driven by load growth -- is that a fair way to think about it?

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**Terry Bassham** - *Great Plains Energy, Inc. - Chairman, President, CEO*

Load growth; and again, once effective, the rate increase in Kansas for La Cygne, which admittedly will be smaller. But expected growth are in those two areas.



**Ali Agha** - SunTrust Robinson Humphrey - Analyst

And 4% to 5%, is that a fair target to be thinking about?

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**Terry Bassham** - Great Plains Energy, Inc. - Chairman, President, CEO

That is kind of our expectation; that's correct.

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**Jim Shay** - Great Plains Energy, Inc. - SVP Finance & Strategic Planning, CFO

In terms of--

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**Terry Bassham** - Great Plains Energy, Inc. - Chairman, President, CEO

Rate base growth.

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**Jim Shay** - Great Plains Energy, Inc. - SVP Finance & Strategic Planning, CFO

Rate base growth, yes.

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**Terry Bassham** - Great Plains Energy, Inc. - Chairman, President, CEO

Which again will be reflected in that case filed in '15.

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**Ali Agha** - SunTrust Robinson Humphrey - Analyst

Yes. But EPS growth should follow rate base growth?

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**Terry Bassham** - Great Plains Energy, Inc. - Chairman, President, CEO

No, because we won't be filing rate cases. So you won't see our ability to include that growth in rate base, in actual rates, until we have a case. So that will be -- earnings will be a little more muted than that, obviously.

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**Ali Agha** - SunTrust Robinson Humphrey - Analyst

Got it. Thank you.

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**Operator**

Charles Fishman, Morningstar.

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**Charles Fishman** - *Morningstar - Analyst*

You've had, I think, two quarters now of weather-normalized demand growth. And you reiterated the flat to 1%. Are you feeling like maybe you could -- are you thinking more that the flat is probably not going to happen and you're going to experience something like 0.5%, or maybe even the upper half of that range now?

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**Terry Bassham** - *Great Plains Energy, Inc. - Chairman, President, CEO*

You know, I would love to claim success, but we have had a volatile period over the last couple years and I am not really comfortable doing that yet. I would say that the growth that you are seeing in the residential sector is supported with all the metrics around housing. So it doesn't appear to be a fluke that residential is improving.

We have got reduced foreclosures. We have got increased building permits, reduced inventories. All the things that would suggest that the housing market in Kansas City is improving like it is across the country. So we feel good about that.

But in terms of calling our shot this early in the year, it is probably a little bit early. But we certainly feel good with the trend we are reporting out today.

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**Charles Fishman** - *Morningstar - Analyst*

Then I see on your priorities for '13 you still list ISRS tracker. I recall a few weeks ago, either the Star or the Post had some -- had an article that indicated that was pretty much pulled from this year's legislative session. So the fact that you have it listed in your priorities to me indicates that you are going to try and resurrect this thing for the next legislative session.

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**Terry Bassham** - *Great Plains Energy, Inc. - Chairman, President, CEO*

Well, a couple of things. In terms of this session, I believe ISRS, as it is called, as it was originally filed is probably running out of time to be processed. The session ends a week from today on the 17th.

There are other pieces of that which are still being discussed. But there is really no way to know how that will fit into the calendar and all the other things that are going on there.

Certainly if the session ends and we haven't made any changes from that perspective, there is an opportunity to address some or all of those issues again next year. But those are things we will evaluate over the course of the next year and see that the session starts again there.

Our earnings guidance for the year did not include any assumption of around an ISRS passage. So it doesn't really affect us in '13 in terms of our earnings guidance range.

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**Charles Fishman** - *Morningstar - Analyst*

Okay, thank you.

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**Operator**

Brian Russo, Ladenburg Thalmann.

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**Brian Russo** - *Ladenburg Thalmann & Company - Analyst*

Hi, good morning. You previously conveyed a 2016 rate base of \$6.5 billion. Is that still accurate?

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**Terry Bassham** - *Great Plains Energy, Inc. - Chairman, President, CEO*

It is.

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**Brian Russo** - *Ladenburg Thalmann & Company - Analyst*

Okay, and should we assume that is what you will earn on in '16?

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**Terry Bassham** - *Great Plains Energy, Inc. - Chairman, President, CEO*

Well, again, so from a timing perspective that is the buildup of rate base, ongoing construction, La Cygne, all the things that would be natural for a utility during this period without a rate case. The timing of the rate case in the '15 period will affect when and how much of '16 actually reflects that total amount. So for example we believe and on schedule to have La Cygne completed by the midsummer of '15, and we could file a little before that to try to move that process along.

But we are also going to be asking for some other things in that case. For example, we will be asking for the addition of a fuel factor in KCP&L MO. So that could affect the timing to some degree.

So I couldn't tell you sitting here today that we will see 12 months of that increase in '16. What I can tell you is in that '15/'16 time frame we will process that case and, obviously, want to maximize the benefit of that along the way.

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**Brian Russo** - *Ladenburg Thalmann & Company - Analyst*

Okay. In your -- the 2015 rate case filings, is there any accounting mechanisms you could file for to help alleviate some of the lag that the La Cygne costs will create prior to new rates?

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**Terry Bassham** - *Great Plains Energy, Inc. - Chairman, President, CEO*

You are talking about the risk around a lag between the date it goes in service and the date rates go effective?

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**Brian Russo** - *Ladenburg Thalmann & Company - Analyst*

Correct.

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**Terry Bassham** - *Great Plains Energy, Inc. - Chairman, President, CEO*

Yes, we have traditionally on large projects like that been able to get an extension of what we might call construction accounting. And therefore we haven't -- we didn't see it on latan and I don't think we will see it here, a lag from operation to rates effective.

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**Brian Russo** - *Ladenburg Thalmann & Company - Analyst*

Okay, great. I know there was an unplanned outage at Wolf Creek a couple weeks ago. Any comments on that?



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**Terry Bassham** - *Great Plains Energy, Inc. - Chairman, President, CEO*

We are still -- we have got an air conditioner that is being worked on and we expect it to be back up shortly. Everything is on track.

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**Brian Russo** - *Ladenburg Thalmann & Company - Analyst*

Okay. I noticed your O&M declined to \$155 million versus \$163 million. Is that primarily related to the absence of the first-quarter '12 Wolf Creek outage? Or is that an illustration of your cost controls?

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**Terry Bassham** - *Great Plains Energy, Inc. - Chairman, President, CEO*

Well, it's a little of both, but certainly Wolf Creek being a big part of that. But we are certainly managing our overall O&M very closely.

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**Brian Russo** - *Ladenburg Thalmann & Company - Analyst*

Okay. Then lastly, with the sharp move up in gas prices, are you seeing any benefit on your off-system or wholesale sales at GMO?

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**Terry Bassham** - *Great Plains Energy, Inc. - Chairman, President, CEO*

Yes, we would see a little of both. We would see an effect on both sides is the way to say that.

We are certainly seeing a little benefit on the off-system sales side. But remember, if we've got a unit down or something else going and we are in the market, well then that costs us a little money.

But net-net as gas prices improve that is a positive for us, because we expect our units to be running.

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**Brian Russo** - *Ladenburg Thalmann & Company - Analyst*

All right. Thank you very much.

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**Operator**

Paul Ridzon, KeyBanc.

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**Paul Ridzon** - *KeyBanc Capital Markets - Analyst*

Good morning. Just following Ali Agha's question, you have 4% to 5% rate base growth, but obviously without rate relief you're not going to be able to achieve that in EPS. But once you get the rate cases filed, we should see a big step up to get back on that trajectory. Is that fair?

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**Terry Bassham** - *Great Plains Energy, Inc. - Chairman, President, CEO*

Yes, we would expect the dollars that we would include in rate base at that point to be fully collected in earning.



**Paul Ridzon** - *KeyBanc Capital Markets - Analyst*

Then secondly, I know you Leap Day and weather-normalize the sales, but I think the Ford plant is still out. Can you give us a sense of what sales would have done apples-to-apples if the Ford plant was still up at the same production levels?

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**Terry Bassham** - *Great Plains Energy, Inc. - Chairman, President, CEO*

Yes, I think I can describe it. About half, if you will, of that reduction in industrial is related to the Ford plant. So first of all, to the extent that the Ford is down year-over-year, that certainly returns in the third to fourth quarter.

You may not have seen, though, in addition to that Ford announced about two weeks ago the addition of a third F-150 line at our plant here in Kansas City, which adds another piece of that line. So as a result, not only will we be back with the Transit and replacement of the Escape in the third or fourth quarter, by the end of the year we also expect to see a third line of the F-150 in line and up and running as well.

In addition to that, of the other half, we had one single customer go out that made up a piece of that. But otherwise, we're right online with what we expected for the year.

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**Paul Ridzon** - *KeyBanc Capital Markets - Analyst*

Thank you very much.

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**Operator**

Michael Lapidès, Goldman Sachs.

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**Michael Lapidès** - *Goldman Sachs - Analyst*

Hey, guys. Congrats on a good quarter.

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**Terry Bassham** - *Great Plains Energy, Inc. - Chairman, President, CEO*

Thanks, thanks.

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**Michael Lapidès** - *Goldman Sachs - Analyst*

Just some nuts and bolts questions. First of all, in guidance, what is embedded for the drag, if any, for the impact of not having a fuel clause at KCP&L Missouri? And how did first quarter track versus what is in your guidance for that drag?

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**Terry Bassham** - *Great Plains Energy, Inc. - Chairman, President, CEO*

Well, there is not really embedded drag. I would say that the range of our guidance includes some probably additional range, if you will, because of the fact we don't have a fuel factor at KCP&L MO. But in essence for the first quarter, we had a little bit of a drag because of some work we were doing around latan 2. So margin-wise we were buying a little power that we normally wouldn't.

But in general it is tracking right along with what we expected. We are getting our units ready for the summer so that everything is up and running, take advantage of the warm weather that is coming up on us.



**Michael Lapidès** - *Goldman Sachs - Analyst*

Okay. Is there a way, like a rule of thumb, for investors to think about -- hey, look, if power prices are above a certain level it is a positive contributor to your EBITDA or net income levels; and if they are below a certain level, it's on the negative side? Just trying to think about this in terms of puts and takes until you get a fuel clause in place in 2016.

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**Terry Bassham** - *Great Plains Energy, Inc. - Chairman, President, CEO*

Really I guess you are probably talking around gas prices and how they affect power prices?

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**Michael Lapidès** - *Goldman Sachs - Analyst*

Either that or just regional, like SPP hub power price level.

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**Terry Bassham** - *Great Plains Energy, Inc. - Chairman, President, CEO*

I wouldn't tell you that I have got a rule of thumb to be able to do that. When we prepare for our fuel factor or our fuel filing and our rate cases, we do a modeling of prices and it includes availability of power transmission. It is a fairly complicated process to estimate over the year what we expect our fuel prices would be.

Certainly as gas goes up, we would expect to benefit, as I said before, on the wholesale sales side. As long as our units are running as expected, that is a positive, net positive. To put a benchmark or a way to measure that, it would be pretty hard, I would have to say.

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**Michael Lapidès** - *Goldman Sachs - Analyst*

Okay. Haven't fully gone through the Q. Any changes to your forward CapEx plans?

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**Terry Bassham** - *Great Plains Energy, Inc. - Chairman, President, CEO*

No, none at all.

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**Michael Lapidès** - *Goldman Sachs - Analyst*

Okay. Then finally, just two things, and this may be a Jim Shay question for the balance sheet. One, noticed that deferred taxes as a current asset is actually a really small number. Just trying to think about that. Because thinking through you guys as a non-cash taxpayer for the next few years, would have potentially thought that would have been a bigger number.

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**Jim Shay** - *Great Plains Energy, Inc. - SVP Finance & Strategic Planning, CFO*

Yes, there is not going to be -- we're not going to be a cash taxpayer. I would have to take a look at the specific change you're talking about, but with bonus depreciation being extended after year-end, that did impact movement between current and deferred.

But I would have to -- maybe off-line we can take a look at the question. But the punch line is we are not going to be a cash taxpayer for the foreseeable future, as we had previously communicated.

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**Michael Lapidès** - *Goldman Sachs - Analyst*

Then finally, when would you expect the ARC to go into effect in Kansas?

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**Terry Bassham** - *Great Plains Energy, Inc. - Chairman, President, CEO*

The ARC?

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**Michael Lapidès** - *Goldman Sachs - Analyst*

The abbreviated rate case?

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**Terry Bassham** - *Great Plains Energy, Inc. - Chairman, President, CEO*

Oh, I'm sorry, yes.

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**Michael Lapidès** - *Goldman Sachs - Analyst*

I'm sorry.

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**Terry Bassham** - *Great Plains Energy, Inc. - Chairman, President, CEO*

Well, we need to file before the end of the year, so probably the late third quarter is probably when we will. Trying to track what happens at Westar to see. I think this will be a process that we will learn from the Kansas Commission as they do that.

But later. Probably late third quarter.

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**Michael Lapidès** - *Goldman Sachs - Analyst*

Is when you will file? And is there -- this doesn't fall under the 240-day clock in Kansas? It is a more expedited process, or same-day?

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**Terry Bassham** - *Great Plains Energy, Inc. - Chairman, President, CEO*

My sense of it is that it is not expedited. I think Westar had asked in some pleadings to expedite it, and I don't think they did.

So it is probably more still in eight months. So if we file in the third quarter, it would be eight after that. If we wait till fourth quarter, it will be eight months after that.

It will all be intended to try to pull in as many of those dollars as we can as we are building La Cygne.

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**Michael Lapidès** - *Goldman Sachs - Analyst*

Got it. Thanks, guys, and I will follow up off-line. Much appreciated.

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**Operator**

Andy Levi, Avon Capital.

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**Andy Levi** - Avon Capital - Analyst

Hi, good morning, guys. Great quarter.

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**Terry Bassham** - Great Plains Energy, Inc. - Chairman, President, CEO

Thank you.

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**Andy Levi** - Avon Capital - Analyst

Glad to be able to say that to you.

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**Terry Bassham** - Great Plains Energy, Inc. - Chairman, President, CEO

Thank you. Us, too.

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**Andy Levi** - Avon Capital - Analyst

Just a couple questions and I apologize; my phone has been ringing off the hook, so they may have been asked already. On the residential sales, 3% growth, what do you attribute that to? I don't know if you went over that.

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**Terry Bassham** - Great Plains Energy, Inc. - Chairman, President, CEO

Well, just what I said briefly in terms of overall and in particular residential, since it was kind of the leading, is that we are not ready to declare a firm trend for the entire year. But any of the metrics you would look at from a housing perspective to be explanatory, if you will, of the numbers, everything supports the number.

We have got reduced foreclosures, we have got increased housing permits, construction permits, reduced inventory. We look a lot like the rest of the country does in that housing is coming back in those areas where there is growth. And we see that as supportive of our number.

We are still early in the year. We want to be cautious. But we do think the first quarter is representative of our flat to 1% range overall for the year.

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**Andy Levi** - Avon Capital - Analyst

In your flat to 1% growth, I know you didn't give a breakdown of details; but was it weighted?

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**Terry Bassham** - Great Plains Energy, Inc. - Chairman, President, CEO

Yes.

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**Andy Levi** - Avon Capital - Analyst

A certain way? So did you expect like a decline in industrial and this growth in residential? Or was this growth in residential a positive surprise for you?

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**Terry Bassham** - Great Plains Energy, Inc. - Chairman, President, CEO

Well, certainly for the quarter I would say the size of the number is a little bit of a positive surprise for us. We expected growth, but that is a nice number for the first quarter.

It is weighted in the sense that about 42% of our overall growth or overall demand comes from residential. We have said many times that residential is the driver for our growth. So to the extent that we have more growth in residential than we do, say, industrial, that is a positive because it is a heavier piece of our total load.

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**Andy Levi** - Avon Capital - Analyst

Okay. But it is a little above what you were expecting, I guess is what you are saying.

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**Terry Bassham** - Great Plains Energy, Inc. - Chairman, President, CEO

For the quarter, it was a positive surprise, I'd have to say. Again, we are not declaring victory for the year, but it was better than we expected, I guess.

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**Andy Levi** - Avon Capital - Analyst

Okay, I hear you. Thank you. Then on the O&M where you did also a good job, even with Wolf Creek going away, did you guys have a lot of snow out there in the first quarter?

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**Terry Bassham** - Great Plains Energy, Inc. - Chairman, President, CEO

We had a little bit of snow. We had some late snow that falls really into the second quarter. Our biggest snows were -- biggest surprise in terms of snow. We did have two snows back to back in the first quarter. They were both about 11 inches. One was light and didn't cause us much in the way of operational issues.

The one the very next week was wet and heavier, and that took a little bit more in terms of our outage response. But we were proud of our crews. We got everybody out back on very quickly and had no real issues.

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**Andy Levi** - Avon Capital - Analyst

I guess what I was trying to get at, because I just saw this with a few other companies, was that some of the O&M because of, let's say, a lot of snow was deferred -- whether it was tree trimming or whatever it may be -- till the second or third quarter just because of the weather. So kind of the opposite of storm costs. You guys didn't have anything like that, did you?

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**Terry Bassham** - Great Plains Energy, Inc. - Chairman, President, CEO

No, no. We didn't have any real effects of the storms other than just to get folks back on. Nothing that affected our really day-to-day operations for the quarter.

**Andy Levi** - Avon Capital - Analyst

Okay. The third question I have just relates around the La Cygne abbreviated case. Just want to understand, just playing with the numbers. You have recovered -- some of your CWIP is already in rates. Is that correct?

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**Terry Bassham** - Great Plains Energy, Inc. - Chairman, President, CEO

We were able to put some of our CWIP on La Cygne in rate base in the last case.

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**Andy Levi** - Avon Capital - Analyst

Right. That is about \$70 million? Is that correct?

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**Terry Bassham** - Great Plains Energy, Inc. - Chairman, President, CEO

Yes.

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**Andy Levi** - Avon Capital - Analyst

Okay. Just want to make sure I got that right, because I heard some of the other questions.

Then on the wholesale side I know Michael went over this with you, but can you give us any more color on the wholesale side on prices this year versus last year? Or what -- or margins or anything like that, how the first quarter was versus last year on the wholesale side? Obviously the part that you profit on -- or hopefully profit on.

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**Terry Bassham** - Great Plains Energy, Inc. - Chairman, President, CEO

Well, I would describe it like this. Gas prices are certainly up year-over-year from last first quarter to this quarter, and we think that is a trend that will continue. I think it is stabilized to maybe slightly growing.

I am sure there is lots of people with opinions around the gas prices, but that is what we see. That is a positive for us on the wholesale sales side.

I would say at this point we consider ourselves on target for the year from what is in rates. So it is a little early in the year, again, to declare that prices and/or sales would be such that there is a positive we could talk about.

But obviously that is what we are working out throughout the year. Prices increase and sales increase, we might be able to do that. But we are in good shape so far.

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**Scott Heidtbrink** - Kansas City Power & Light Company - EVP, COO

This is Scott Heidtbrink. I would just add, too, that you've got to look at the timing of when the gas prices come up. So they came up, but you're at kind of a slow load time. They are already dropping a little bit again.

So you just got to watch. And if they are up are in the summer when you have a higher market that is better for you. So you also have to watch that.



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**Andy Levi** - Avon Capital - Analyst

But don't you sell most of your wholesale in the first and fourth quarters, because in the summer you use it for your native load?

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**Terry Bassham** - Great Plains Energy, Inc. - Chairman, President, CEO

Well, that was the case before we built latan 2.

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**Andy Levi** - Avon Capital - Analyst

Okay.

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**Terry Bassham** - Great Plains Energy, Inc. - Chairman, President, CEO

And so now that latan 2 is available, we certainly have more capacity to make sales even in the summer. So in a very, very, very hot time period, we may have everything dedicated to retail; but unless it is extremely hot we have some power now that we have a brand-new unit out at latan.

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**Andy Levi** - Avon Capital - Analyst

How much does that give you as far as power that you could actually sell into the wholesale market on a normal weather day in the summer?

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**Terry Bassham** - Great Plains Energy, Inc. - Chairman, President, CEO

It all depends on what has happening on the transmission system. I couldn't give you a pinpoint. Again, we added 850 megawatts to our system, which now we don't have to buy power, if you will, for our normal summer process and peak.

But it will depend on transmission. It will depend on with the wind is doing from a wind turbine perspective. So you just take it literally hour by hour, day by day. There is not really a way to generally describe that, I don't think.

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**Andy Levi** - Avon Capital - Analyst

Okay. I have a lot more questions, but I will see you guys in Boston next week, so I will save it for then. But thank you very much.

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**Terry Bassham** - Great Plains Energy, Inc. - Chairman, President, CEO

Thank you.

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**Operator**

Paul Patterson, Glenrock Associates.

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**Paul Patterson** - *Glenrock Associates - Analyst*

Hi, how you doing? Just going back to the infrastructure legislation, it sounded to me that you indicated that you planned on revisiting this next year. I was just wondering if you could just give us a flavor -- you're there in the trenches dealing with this -- how we should think about the potential next year and lessons learned.

As you know there was, I think nuke tracker legislation that failed that I think Ameren was trying to do and stuff in the past. Just how should we think -- I'm just trying to get a thought process in terms of legislative strategy next year.

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**Terry Bassham** - *Great Plains Energy, Inc. - Chairman, President, CEO*

Well, the way I would describe next year is that we will finish the session up. We'll see what, if anything, happens over the next week. And then we'll, as most folks do, take a break.

We have been talking about this stuff for the last several months. We will regroup around what is happening, what got passed, what didn't get passed. And then we will visit with our legislators and talk to them about the things that we think are important; and were there some ways in which it was presented which could be presented better? Or are there ways that it could be presented in pieces?

And we will reevaluate whether next year that is really an opportunity. Those things get affected by election cycles. They get affected by lots of things.

So I would say that we will continue to look for ways to improve the regulatory environment in Missouri. I would say that the positive is that we were able to have that conversation. We may or may not get something passed, but there were many legislators who were willing to talk to us and listen to us and hear issues, and I think ultimately will be supportive.

But we have got to work through that, and we have probably got another year to do that.

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**Paul Patterson** - *Glenrock Associates - Analyst*

Okay. But just for the remainder of this year you -- okay; I think I got the picture. Okay. So let me ask you this.

In terms of the CapEx program or you mentioned some of the accounting associated with construction, what have you, do you see that potentially changing if you were to get some -- if you were to get relief, let's say, in terms of this CapEx outlook?

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**Terry Bassham** - *Great Plains Energy, Inc. - Chairman, President, CEO*

The accounting around La Cygne we talked about earlier?

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**Paul Patterson** - *Glenrock Associates - Analyst*

Well, that; or I am just trying to think in terms of -- when we talk about rate base growth going as it is and your ability to go in for rate cases and what have you, you mentioned -- I'm just sort of thinking. Is there some ability -- and not necessarily specifically with La Cygne, but I mean all the -- but, Jim, sort of saying in general, I'm just thinking. If you were able to get a tracker or stuff that would -- it would seem that would give some sort of relief here in terms of -- it would change the outlook, potentially. That is all I am asking.

**Terry Bassham** - *Great Plains Energy, Inc. - Chairman, President, CEO*

I'm sorry, yes, I understand you now. The purpose for ISRS was not necessarily to pass through any costs we weren't already going to recover, but to be able to pass them through faster, to allow us to synch recovery with spend, and therefore spend some additional dollars earlier to improve our system and help the growth of our system for the benefit of our customers. So if we were able to get ISRS type legislation, we would have the ability then to take on maybe some projects earlier and pass those through quicker, to allow us to improve our system. And that could improve/change our CapEx profile in the interim.

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**Paul Patterson** - *Glenrock Associates - Analyst*

Okay, great. Thanks a lot. All my other questions were asked. Thank you.

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**Terry Bassham** - *Great Plains Energy, Inc. - Chairman, President, CEO*

Great, thank you.

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**Operator**

David Paz, Wolfe Research.

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**David Paz** - *Wolfe Trahan - Analyst*

Good morning. I just wanted to follow up on an earlier question regarding the projected rate base, 2016, the \$6.5 billion number. Is that based on CapEx through '15, I believe? Just given the historic test year that you have in Missouri.

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**Terry Bassham** - *Great Plains Energy, Inc. - Chairman, President, CEO*

Yes.

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**David Paz** - *Wolfe Trahan - Analyst*

Okay, great. That's it. Thank you.

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**Operator**

(Operator Instructions) Ali Agha, SunTrust.

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**Ali Agha** - *SunTrust Robinson Humphrey - Analyst*

Thank you.

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**Terry Bassham** - *Great Plains Energy, Inc. - Chairman, President, CEO*

Yes, sir?

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**Ali Agha** - *SunTrust Robinson Humphrey - Analyst*

Terry, I wanted to come back to be clear on one point here. You all have been very clear that one of your key goals is to reduce regulatory lag. The way the system is set up perfectly -- it is not perfect; but to get it now to 50 basis points you think is going to -- where you can get to in that scenario.

So putting that as the backdrop and given the fact that you are not going to have a major rate case, with rates in effect until '16, I am just trying to get a better handle on how you are looking at the '14/'15 interim years leading up to that. Clearly cost reduction is going to be a key factor. You have talked to us about that.

So I want to get a little more granularity into -- what is it that you can really do in that interim period? And as we are thinking about the lag, should we be thinking that the lag can be kept where it is in '13? That costs can help you keep that? Or in effect should we think the lag should go up over the next couple of years without rate case relief?

I'm just trying to get a better sense of how you are seeing the next couple of years before the rate increases in '16.

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**Terry Bassham** - *Great Plains Energy, Inc. - Chairman, President, CEO*

Sure. You know from a rate base perspective, obviously that would continue to be booked. But the real lag happens to us in O&M, and we have got it basically trued up as of the rate case. There is always things that increase, things that decrease. It is our job to manage it.

We have talked about the fact that property tax is probably going to go up some. We have got to manage that a little bit, for example.

But the bottom line of it as we are attacking to improve margins regardless of those kinds of things. Things we have talked about, for example, are attrition. We plan to use attrition with very, very tight management of our overall headcount to make sure we take advantage of that over the next several years.

We are certainly looking at reducing overtime on outages. Again, we have talked about till the market comes back that we are able to take a little more time around getting the unit back up; and as a result we can do that more efficiently and cheaper.

We have got an ongoing supply chain process that continues to be very effective in reducing our ongoing costs. So those are just some examples, but the bottom line on it is we expect to maintain our O&M management to the point that regulatory lag does not grow, and it kind of bounces around, if you will, in a very narrow range on what we have talked about as the top end of our 50 to 100 basis points.

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**Ali Agha** - *SunTrust Robinson Humphrey - Analyst*

So I mean, to be clear, should we think, wherever you end up in '13 on the lag basis that the goal would be to keep the lag at that level for the next couple of years? Maintaining there but it won't go down, either?

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**Terry Bassham** - *Great Plains Energy, Inc. - Chairman, President, CEO*

Yes, within a range, right in there, absolutely.

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**Ali Agha** - *SunTrust Robinson Humphrey - Analyst*

The fact that any cost savings that you are going to incur now you get to keep until you have to true them up in the next rate case, that won't help you in the next few years?



**Terry Bassham** - *Great Plains Energy, Inc. - Chairman, President, CEO*

Yes -- no, that is exactly right. The negative of not filing a rate case is obviously you can recover costs that may have increased. The benefit is if you can reduce cost and your rates are stable and maybe you've got a little growth, you're able to hold on to any of those savings.

So that is exactly what we would be doing to help manage that lag.

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**Ali Agha** - *SunTrust Robinson Humphrey - Analyst*

Okay. So lastly, just summing it all up, I guess what I am confused by is you are not seeing a scenario where EPS growth can keep track with rate base growth next couple of years, even without the rate case, from this cost reduction and load growth help that you're going to get?

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**Terry Bassham** - *Great Plains Energy, Inc. - Chairman, President, CEO*

We really haven't given guidance in that regard; but I would say that absent some increasing growth that we are not currently seeing, that that would be difficult. We certainly continue to work to maximize our earnings growth. But without a rate case and without growth and demand, it is all going to be about managing costs.

Now if we get some demand in there, that obviously provides us with some opportunity that we wouldn't and haven't had in the last couple years.

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**Ali Agha** - *SunTrust Robinson Humphrey - Analyst*

You are assuming the zero to 1% demand growth continues for the next couple of years?

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**Terry Bassham** - *Great Plains Energy, Inc. - Chairman, President, CEO*

Well, we haven't given earnings guidance or haven't given demand guidance beyond this year. And again, as volatile as it's been in the past I would rather wait to see how we progress throughout this year before we give '14 demand guidance, if you will. What we said is zero to 1% in this year.

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**Ali Agha** - *SunTrust Robinson Humphrey - Analyst*

Okay. Fair enough. Thank you.

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**Operator**

Michael Lapidés, Goldman Sachs.

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**Michael Lapidés** - *Goldman Sachs - Analyst*

Hey, guys. Apologies. Asked and answered.

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**Terry Bassham** - *Great Plains Energy, Inc. - Chairman, President, CEO*

Okay. Thank you.

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**Operator**

Brian Russo, Ladenburg Thalmann.

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**Brian Russo** - *Ladenburg Thalmann & Company - Analyst*

Thank you. Just curious, Westar yesterday said that the weather-normalized residential sales were up 1.5% in the first quarter of '13. I am just curious if you could just maybe discuss the differences in the service territories in Kansas. And is there a way for you to break out weather-normalized sales growth in Kansas versus Missouri for your service territory?

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**Terry Bassham** - *Great Plains Energy, Inc. - Chairman, President, CEO*

Well, I could do the former, probably not the latter. Even though we are neighbors, especially on our Western edge, our territories are different. Their territory runs from the edge of our territory here in Kansas City all the way down to Wichita. They tend to have more rural territory, so they have a lot more acreage or coverage than we do. We are a little more urban.

So our drivers of demand tend to be considerably different between Kansas City and Wichita, for example, or Topeka. So we do have different territories from that perspective.

I don't know, candidly, how that would necessarily drive residential sales. But what I certainly can say is residential is a large part of our success, and that is why this first quarter has been a good quarter for us.

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**Brian Russo** - *Ladenburg Thalmann & Company - Analyst*

Okay. Any split between weather-normalized sales in Missouri versus Kansas? Or we should just assume the zero to 1% in both territories?

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**Terry Bassham** - *Great Plains Energy, Inc. - Chairman, President, CEO*

There is certainly not a material difference between Missouri and Kansas in our service territory. If you looked at what happened in Wichita versus what happened in St. Louis, that could be different.

But for us, living right on the state line, you run North and South as much as you would necessarily East and West in our territory to see any material weather difference. And there wouldn't be for us.

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**Brian Russo** - *Ladenburg Thalmann & Company - Analyst*

Okay, thank you.

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**Operator**

Andy Levi, Avon Capital.

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**Andy Levi** - *Avon Capital - Analyst*

Hi, just piggybacking off of Ali's line of questioning, you mentioned the word range as far as lag. So you talked about where the upside was on the lag. What kind of range are we talking about on the downside, potentially?

**Terry Bassham** - *Great Plains Energy, Inc. - Chairman, President, CEO*

Well, again for earnings guidance this year we have characterized it around lag, because of that discussion. And it is 50 to 150.

But what we have also said is that our goal was to be at 100 or better. We said we wanted to be on the top end of that range. So when I said range, that is what I was talking about is our prior target to reach 50, which we have always talked about.

But certainly on the high end or the top half of that range is what we are focused on. That is what I meant by lag range over the next several years.

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**Andy Levi** - *Avon Capital - Analyst*

Okay. So the downside would be the 150 and the upside about 50. Is that the way to think about it?

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**Terry Bassham** - *Great Plains Energy, Inc. - Chairman, President, CEO*

That is our guidance range for this year. It could change next year if things improve. But certainly our focus will always be to minimize regulatory lag and earn as close to that allowed return as we have got. And without rate cases, that involves demand growth and management of our O&M very, very tight.

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**Andy Levi** - *Avon Capital - Analyst*

Got it. Thank you.

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**Terry Bassham** - *Great Plains Energy, Inc. - Chairman, President, CEO*

You bet. Thank you.

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**Operator**

(Operator Instructions) There's no further audio questions at this time. Mr. Bryant do you have any closing remarks?

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**Terry Bassham** - *Great Plains Energy, Inc. - Chairman, President, CEO*

Yes, this is Terry. Thank you. Thanks, everybody, for joining us this morning. We are very happy to give everybody an up-to-date progress report on our first quarter.

And we remain committed to our strategy as we have talked about. So thank you for all your questions this morning and we look forward to talking to you soon. Thank you. Thank you, operator.

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**Operator**

Thank you for joining today's first-quarter 2013 earnings conference call. You may now disconnect your lines.

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