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PRELIMINARY TRANSCRIPT

EVRG.OQ - Q4 2022 Evergy Inc Earnings Call

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OVERVIEW:

EVRG reported 2022 adjusted earnings of $853.8m or $3.71 per share. Expects 2023 GAAP and adjusted EPS to be $3.55-3.75.

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PRESENTATION

Operator

Thank you for standing by, and welcome to Evergy's Fourth Quarter 2022 Earnings Conference Call. (Operator Instructions)

I would now like to hand the call over to Peter Flynn, Director Investor Relations. Please go ahead.

Peter Flynn

Thank you, Latif, and good morning, everyone. Welcome to Evergy's Fourth Quarter 2022 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 2022 highlights, provide upcoming regulatory and legislative updates and discuss our upcoming integrated resource plan. Kirk will cover our fourth quarter and full year results, retail sales trends as well as our financial outlook for 2023. We 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'd be remiss if I did not start with the recognition of the Kansas City Chiefs and their victory in Super Bowl 57. For football fans, who have never been to Arrowhead Stadium definitely added to your list. Chiefs Kingdom is quite something to behold.

I'll begin on Slide 5, and I'll start by thanking our employees who work tirelessly throughout the year to advance our strategic objectives of affordability, reliability and sustainability. I'm proud and honored to lead the Evergy team. With respect to 2022 results, I'm pleased to report that we had another solid year. We delivered adjusted earnings of $3.71 per share compared to $3.46 per share in 2021. These results reflect another year of strong execution relative to our objectives.

We entered 2022 with a guidance range of $3.43 per share to $3.63 per share and our results came in $0.08 higher than the top end of the range. Kirk will discuss the drivers of our 2022 results in more detail. Last year, we executed on our capital plan to further improve reliability and resiliency, investing $2.2 billion in infrastructure to modernize our grid and replace aging equipment. I'd like to recognize the hard work of our regulatory staff as we completed our first 2 Missouri rate cases since the merger in 2018.

We reached partial settlements on key economic issues at both Metro and Missouri West delivering significant O&M savings back to our customers. These rate cases underscore our continued progress in maintaining affordability for our customers and increasing our regional rate competitiveness. Through November 2022, we've limited cumulative rate increases to 2.7% since 2017, well below the rate of increase for our regional peers and the prevailing rate of inflation over the 5-year period.

Slide 6 profiles a significant improvement that we've made in customer satisfaction as measured by J.D. Power's annual survey of utility customers. Since 2018, we've climbed 10 spots in J.D. Power's Midwest large utilities category, coming in at fifth out of 15 companies in 2022. Customer satisfaction remains at the forefront of our strategy.

Safety tops our list of core values and Slide 7 highlights the considerable progress we've made in limiting safety-related events. Both OSHA recordables and dark cases have declined by over 50% since 2018. The promoting a culture of safety and focusing on every employee going home safely every day are paramount to our success as a company. On Slide 8, we introduced our 2023 GAAP and adjusted EPS guidance of $3.55 per share to $3.75 per share.

We know the importance of consistent execution, and we recognize that 2023 falls short of the midpoint relative to our long-term targets, reflecting regulatory lag in our Kansas jurisdiction and our commitment to a 5-year rate case stay out as part of the merger. But we remain confident in our ability to deliver annual 6% to 8% adjusted EPS growth through 2025 off of the 2021 baseline, and we are reaffirming that target today.

Moving to our 5-year capital plan on Slide 9. We have updated and extended our forecast through 2027. Our new 5-year investment plan totals $11.6 billion from 2023 to 2027, which represents a $900 million increase relative to our 2022 to 2026 forecast or 9%. Nearly 60% of our planned investment is targeted towards transmission and distribution projects as we continue to modernize our grid to improve reliability and enhance resiliency for our customers.

By replacing aging equipment and investing in smart grid technologies will also enable further efficiency gains and serving our customers, which has been a hallmark of Evergy's strategy over the last 5 years.

Slide 10 profiles our progress in driving cost savings. Despite historically high inflation in 2022, we held adjusted O&M flat relative to 2021, representing $232 million in cumulative savings since 2018 or 18%. The work is not done yet, and we remain laser-focused on our target of an additional 11% reduction in adjusted (inaudible) through 2025. As part of this effort, the company implemented a voluntary retirement program fall of 2022, which combined with ordinary course retirements and attrition resulted in an 8.5% reduction in the size of the organization by year-end.

I can't say enough about the hard work of the Evergy team in delivering against and exceeding the savings for customers that were promised as part of the merger that formed our company. As shown on Slide 11, Evergy has been able to limit cumulative rate increases to 2.7% since 2017 based on the latest available data from the EIA, which runs through November 2022. This compares favorably to our regional peer states and the prevailing rate of inflation over the same time frame.

Advancing and improving regional rate competitiveness, our priorities in our long-term plan and our front of mind for many of our stakeholders and that's exactly what we've accomplished over the past 5 years. Moving to Slide 12, I'll provide an update on regulatory and legislative priorities, beginning with our rate case filings in Kansas.

In mid-April, we'll file our first rate cases at Kansas Central and Kansas Metro since completion of the Evergy merger in 2018. We believe these rate reviews will be relatively straightforward, requesting recovery and return on our grid modernization and infrastructure investments over the past 5 years and passing on the benefits of the cost savings we've achieved to our customers.

We look forward to working with our regulators and stakeholders to achieve a constructive outcome for our Kansas customers and community. In Missouri, [this] year, we anticipate acquired legislative session relative to last year, which saw the extension and amendment of PISA further supporting the constructive regulatory environment in the state. On the regulatory front, we have open dockets for the approval of an operating certificate of convenience and necessity for our acquisition of [Persimmon] Creek wind farm as well as the securitization of winter storm Yuri costs incurred at Missouri West.

Initial post-hearing briefs are due on March 6 in the Persimmon Creek docket with an order requested by April 6. We firmly believe Persimmon Creek is the lowest cost solution to serve Missouri West customers, consistent with the IRP preferred plan, and we'll continue to work collaboratively with our regulators to secure the necessary approval. Missouri Public Service Commission's approval of our request to securitize extraordinary costs from Winter Storm Yury was appealed to the Missouri Court of Appeals by the Office of Public Counsel in early January.

OPC's initial briefs are due by early April, 90 days following the appeal day. We believe the commission's decision to approve our request is well supported by the record. While we cannot complete our securitization financing until the appeal plays out, incremental carrying costs incurred prior to approval will ultimately be recovered when we issued the debt. The last item on the regulatory agenda that I'll reference is the expected June filing of our annual integrated resource plan updates in both Kansas and Missouri, which I'll cover more as you turn to Slide 13.

The planning process for our IRP filings is well underway as we continue to assess the beneficial impacts of the [inflation] Reduction Act on our generation resource planning. The longer-term certainty the IRA provides around renewable energy tax credits, will enhance our ability to task the abundant renewables potential in our region and deliver savings to our customers by replacing higher cost energy.

We expect our Wolf Creek nuclear plant to be eligible for the IRAs nuclear production tax credit. The benefits of which will accrue to our customers in years with low realized prices for Wolf Creek. In addition to these IRA tailwinds, we'll be incorporating updated commodity projections, construction costs, and higher capacity requirements in the Southwest Power Pool into the annual update.

We are excited to advance our integrated resource plans to deliver additional benefits to our customers. I'll conclude my remarks on Slide 14, which summarizes the Evergy [value] proposition. The left side of the page covers the core tenets of our strategy to advance affordability, reliability and sustainability through a relentless focus on our customers, supported by stakeholder collaboration, sustainable investment and financial and operational excellence.

The right-hand side features what we believe are particularly attractive and distinctive features for Evergy given our business mix, and geographic location. We are excited about the opportunities for our company, and we are committed to the sustained effort required to deliver against our high performance objectives.

I will now turn the call over to Kirk.

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

Thanks, David. Good morning, everyone, and I'll start with the results for the quarter on Slide 16. For the fourth quarter of 2022, Evergy delivered adjusted earnings of $68.6 million or $0.30 per share compared to $32.9 million or $0.14 per share in the fourth quarter of 2021. As shown on the slide, the year-over-year increase in fourth quarter EPS was driven by the following: first, an increase in heating degree days, partially offset by lower demand drove a net $0.08 increase in EPS compared to the fourth quarter of 2021.

High transmission margins resulting from both our ongoing investments to enhance our transmission infrastructure and higher volumes drove a $0.04 increase. A decrease in O&M versus the fourth quarter of 2021 drove an $0.08 increase in adjusted EPS for the quarter. These positive drivers were partially offset by (inaudible) of higher D&A expense and $0.09 from the combination of higher interest expense and lower AFUDC equity.

Income tax related items, including increased wind and other tax credits and the timing of the use of tax credits compared to the prior year, drove $0.06 of higher EPS in the quarter. And finally, other items, both positive and negative, drove a net $0.02 of year-over-year increase. These items consist of higher COLI proceeds and other margin, which were partially offset by $0.06 from the Kansas earnings sharing program, which was 1 of our merger commitments, which expired in 2022. Warmer weather through the summer and into the fall drove our earned ROE at Kansas Metro above our current authorized 9.3%, requiring us to refund half of that excess back to customers. I'll turn next to year-to-date results, which you'll find on Slide 17.

For the full year 2022, adjusted earnings were $853.8 million or $3.71 per share, which compares to $795.2 million or $3.46 share in 2021. Again, moving from left to right, our full year EPS drivers versus '21 include following: Weather contributed $0.21 versus 2021. Relative to normal, weather drove an estimated $0.29 favorability in 2022. Weather-normalized demand was 1.1% higher than 2021, driving an $0.11 increase. Higher transmission margins from increased investment as well as higher volumes, drove a $0.15 year-over-year increase and lower O&M drove adjusted EPS $0.02 higher versus 2021.

These positive drivers were partially offset by $0.11 of D&A and $0.14 of increased interest expense and lower AFUDC equity, with higher interest expense accounting for $0.11 of the $0.14 decrease in adjusted EPS.

Finally, other items drove a net $0.01 of favorability consisting primarily of $0.04 from the expiry of merger bill credits, $0.02 from tax credits and $0.01 of other items, which were partially offset by $0.06 from the earnings sharing program or ERSP, at Kansas Metro, which I mentioned earlier in my fourth quarter remarks.

Turning to Slide 18. I'll provide a brief update on our recent sales trends. On the left-hand side of the slide, you'll see that total retail sales increased 3.5% in 2022, driven primarily by a strong increase in residential usage and supported by healthy commercial and industrial growth. Looking to the right-hand side of the slide, after adjusting for the estimated impact of weather, retail sales increased 1.1% for the full year. These results were bolstered by strong industrial demand from the oil and chemical refining sectors.

The 1.7% increase in weather-normalized commercial demand was driven by customer growth [and] a continued return to normal post COVID. Underlying the continued growth in residential and commercial customers is a strong labor market, highlighted by Kansas and the Kansas City Metro area unemployment rates of 2.9% and 2.4%, respectively, as of year-end.

These remain below the national average of 3.4%. Overall, in 2022, we saw continued recovery following pandemic and our economy is well positioned to extend that positive trend. As a result, adjusting for 30-year weather, we expect an approximate 1.6% increase in weather-normalized demand in 2023, which I'll discuss as part of our 2023 EPS guidance, which you'll find on Slide 19.

Starting on the left side of that slide and beginning with [2022] adjusted EPS of $3.71, we expect an $0.11 decline from demand or just under 1% decrease in total demand. This $0.11 decrease is the net impact of removing that estimated $0.29 impact in '22 from weather, partially offset by an $0.18 increase in weather-normalized demand. Removing the largely weather-driven impact of the earnings sharing program, or ERSP at Kansas Metro in 2022, results in a $0.06 increase.

We expect an approximate $60 million reduction in pretax O&M deliver a $0.20 EPS increase as we continue to execute on our cost savings programs as part of our focus on and commitment to affordability and operational excellence. Higher transmission margins are expected to add $0.13 in 2023 as we continue to make investments to improve our transmission infrastructure.

The pending acquisition of the Persimmon Creek wind farm is expected to drive $0.05 of EPS. These positive drivers are expected to be partially offset by the following: increased D&A of $0.16 as we continue to invest in infrastructure and execute our capital plan, increased interest expense of $0.21 due to higher debt balances at higher rates, and $0.02 of other items, primarily driven by lower year-over-year earnings from a combination of the expiry of a wholesale contract in Kansas and the onetime true-up of [Yuri] carrying costs in 2022 and which were partially offset by higher expected COLI proceeds.

Turning next to Slide 20. Our strong results in 2022 reflect our ongoing focus on and continuing to build a track record of consistent execution. As David mentioned earlier, we're reaffirming our long-term compound annual EPS growth rate target of 6% to 8% from 2021 to 2025 as we remain confident in achieving that trajectory. And as we continue to progress on that path, we also remain committed to returning capital to our shareholders and target dividend growth in line with earnings growth with that dividend payout ratio of [60%] to [70%].

Our updated 5-year CapEx plan from 2023 to 2027 totals $11.6 billion and implies rate base growth of approximately 6% from 2022 to 2027. We've included some additional disclosures in the appendix of today's presentation, including a breakdown of planned expenditures by category and by utility, which we hope you will find helpful.

In addition to allowing us to achieve these financial targets, executing on this investment plan also advances our key objective to advance affordability, reliability and sustainability over the long term. I'll conclude by reviewing some specific 2023 objectives as you turn to Slide 21. Building on the positive momentum from our strong results over the past 2 years, we remain focused on meeting or exceeding our financial targets in 2023. This year, we'll be working collaboratively with our Kansas regulators and stakeholders to achieve a constructive outcome in our first Kansas Central and Metro rate cases since the merger in 2018.

As a key factor in achieving our goal of affordability, we look forward to providing our Kansas customers with the benefits of significant O&M savings we've achieved over the last 5 years. Consistent with the needs identified in our integrated resource plan, we are focused on closing the acquisition of the 200 megawatts Persimmon Creek Wind Farm this year, which is PISA eligible and will serve our Missouri West customers with clean low-cost energy.

Finally, we've recently launched a new renewables RFP, focused on sourcing the balance of our 2024 renewables as well as our 2025 and 2026 investment objectives, and we will look to complete this process later this year to begin executing agreements to achieve those objectives. We will also update our integrated resource plans in both states in June, which will, for the first time, incorporate the benefits of the [inflation] Reduction Act. With that, -- we'll be happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from the line of Michael Sullivan of Wolfe Research. Michael.

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

David, maybe I just wanted to start with the reaffirmation of the 6% to 8% CAGR through 2025. Can you maybe just at a high level, talk to maybe some of the drivers that get that back on track from 2023, the guidance you gave today?

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

You bet. Thanks, Michael. So we acknowledged as I noted in my remarks that the -- we had some headwinds in 2023, and we're sort of the midpoint, but we are reaffirming our -- I believe we mean that back in that 6% to 8% range. And the main driver I'd say 2 factors, but the biggest driver is we're in our peak regulatory lag year, which impacts Kansas Central in particular.

As you know, there are some elements of lag in our Kansas jurisdiction, and it's been 5 years since our last rate case. So as we advance rate case this year, rates go into effect at year-end that will help address the under-earning that we're having on the many investments that we've made over the past 5 years, and that's the biggest factor that helps get us back on track. We're sort of in the peak lag year this year. And we've been taking good steps to overcome that lag in '21 and '22.

So we're pleased with the results we're able to offset it. We had some interest rate headwinds and some impacts from Missouri that we didn't fully offset for this year, but we have gone through our model in detail, and we absolutely are reaffirming our commitment '24 and '25. The second factor is well known, and that's the ongoing advancement of cost savings. We're going to be delivering significant cost savings in this rate case. The cumulative impact of savings since 2018, but we have ongoing opportunities ahead of us. And between those 2 levers primarily is how we're going to stay on track with respect to our 6% to 8% annual earnings growth.

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

Okay. That's very helpful. Maybe just on -- you mentioned the regulatory lag. Just on the metro side, I think this was alluded to in the remarks, but the fact that you hit the sharing this year? I take it that was mostly weather. Like was that under earning to maybe adjusted for weather or just give us a feel for where metro is at into this rate filling?

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

Yes, it partly relates to the nature of the jurisdiction. Metro has -- actually, it's higher prices, but it's got a level of investment. It's not -- it's a much more dense urban system. We've been doing a lot of systematic replacement across our much bigger and broader Kansas Central service territory. The biggest factor in Metro was weather and the impacts in 2022 and obviously reflects the relative level of investments.

Even in a normalized weather, we're close to earning our authorized return in Metro, but we're well short of it in Central. So it's a different characteristics of those 2 jurisdictions. Central is also a lot bigger overall, so a bigger impact on results, but the earnings sharing was a reflection of weather impacts in particular in 2022 in the Metro jurisdiction.

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

Okay. Great. And then just last 1 for me. Can you maybe just give us a sense of where things are at and where you expect to go in terms of some of the bills pending at the Kansas legislature looking at things like appointed commissions and such?

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

Sure. So there are multiple bills in flight in Kansas, a pretty active session with respect to utility bills. The 1 that was passed out of committee but has been -- well, I don't want to get into too much process detail. So the -- the expectation -- our expectation is that there'll be a robust discussion around potential election of commissioners. We don't think that makes sense as a policy approach, and that probably has less broad support. So we don't think that, that's in advance. But there, we'll continue to be good discussion around that.

There have been bills advanced relating to right of first refusal for transmission projects, which we think could really benefit customers in terms of predictability, regulatory oversight and consistency of approach and process. There's a bill that has been advanced related to our transmission delivery charge that is subject to ongoing discussion that was passed out of committee but it was -- the process term is called [Bless] by the speaker. So it has not been voted on by the full house since in discussions around that.

And if it does end up going to this whole house, then, of course, we would go over to the Senate. So I think there'll be ongoing discussions in Kansas, unclear (inaudible) ultimately pass this year, but we're working closely with stakeholders and -- we think those discussions are going constructively.

Operator

Our next question comes from the line of Shar Pourreza of Guggenheim.

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

So just on the cases in Kansas, which I guess will be followed between now and your next update -- so you've got the Kansas Central fuel balance to recover starting in April for 2 years. You've got, I guess, some O&M give back since the last case and the merger. I guess -- how should we think about the holistic targets here for rate increases with all the puts and takes at play?

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

It's a great question, Shar, because there are a number of elements that will go through the rate case, a number of elements that will not. So -- for example, the -- you referenced the [uri] fuel cost recovery, it's about $125 million that we'll recover over 2 years. Kansas Central is well insulated from urine costs relative to most jurisdictions in our region because it's not as gas heavy, a pretty modest amount in total is still going out to recover. That has already been approved through regulatory process that's not going to be the best in the rate cases.

So the rate cases we'll focus on the investments that we've made since our last piece, and that will be distribution, generation, general plant transmission. Kansas Central was reviewed at FERC, so it will not be in the rate case. But of course, our O&M savings will be part of the rate case. And we put out estimates as part of our various workshops with the commission, what the rate impacts will be. Now our estimate of rate impacts were through 2024 and then it works up in December were through 2026 because it was about a 5-year plan.

But in general, we've always described that we're targeting rate increases that are in line with or below the annual rate of inflation. Now it's been 5 years since the last rate case. It's going to be a cumulative increase, but we'll -- but our stakeholders will understand that, that will be reflecting our cumulative investments over that time frame. And given the very high inflation in 2022, we're obviously optimistic we'll be able to be under well under inflation given how high it was broadly in the economy.

So we've been able to describe our investment plans as well as our cost reduction programs in a lot of detail. So it's not going to be a lot of surprises because we had those workshops about our capital plans in 2020 and then through May of '21 and again in December of last year. So -- it will still be a lively case as they always are, the first 1 in 5 years, but we do think it's pretty straightforward, focused on reviewing our investments in categories I mentioned, and the cost savings that we've delivered. And there will be the usual discussion around ROE, of course, and elements like that. Hopefully, that covers the question, Shar.

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

No, it does. It does. That's helpful. And then just -- I want to just slightly tweaked the prior caller's question here, and it's good to see the CapEx roll the [27]. But I'm just sort of thinking about even directionally, the profile of the EPS growth beyond the '25 guide, right? So the latest CapEx gets you to around 6% implied rate base growth. Is there more to squeeze on the O&M side? Or is it more dependent on the Kansas case and the IRP update, I guess put differently, the drivers that would push you in and out of your current 6 to 8 guides we look ahead.

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

So it's a great question, Shar, and we're not introducing 2026 or beyond guidance today, as you know. So the drivers are, as you know, over time, are going to be fundamentally related to rate base growth, how we fund that.

And we've got a strong balance sheet to support our investments and of course, our ongoing cost savings. Now we are -- we've consistently really since the SEP was first introduced, have laid out cost targets consistent with what we've shown through 2025. We think that we've got a good system and our employees do a terrific job driving efficiency in our business.

The kind of step functions and costs that we have are not going to be sustainable over the long term, but annual productivity gains and seeking to drive those are certainly going to be important. So if you noted it, it's going to be rate-based growth, how we fund it and the O&M cost savings. We're going to update RRP this year. That's going to have some impacts on our plans with respect to renewables.

As I mentioned, the Southwest Power Pool is getting tighter, both because of incremental demand, but also because of a change in how the reserve margins are calculated and an increase in reserve market requirements. So capacity needs are higher, and demand trends have been strong. We'll start seeing impacts from electrification as well as we get to latter parts of the decade. So a lot of moving parts. But like other utilities, (inaudible) down to the fundamental drivers of rate base growth, demand growth, how you fund it and then know now. So we feel good about those drivers in our service territory. And we look forward to providing an update when we've gotten through the IRP update as well as our rate cases.

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

So I guess just not to paraphrase what you're saying, but put all that together, you feel okay about tightening up that delta between rate base growth and EPS growth in time.

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

We like the drivers in our service territory, and we know those -- we're certainly confident in our range through 2025 to 6% to 8%. And the long-term drivers, we like to set up in our territory, and we look forward to going through 2026 and beyond when we had those details to share.

Operator

Our next question comes from the line of Nicholas Campanella of Credit Suisse.

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

So I wanted to just follow up on the IRP because absolutely a focus here. When you kind of think about the opportunity set in front of you, and the fact that you've kind of -- you're now showing a rate base CAGR of 6% out to '27%. Does the IRP extend that 6%? Or could it potentially increase it? Just trying to understand the magnitude of what's to come.

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

I feel like I'm your parents telling you, Nicolas. That's a great question. The IRP update is in process. We include our expectations for new generation and our forward CapEx plans. We've seen a slight shift in our expectations regarding the mix of PPAs renewables. We've got a very heavy weighting towards PPAs right now in our renewables. And we think it's beneficial for customers to have a balance.

But in Kansas, we've shifted to a 2/3 assumption of owned and 1/3 assumption of PPA. So that's something that will play out in terms of what happens in the actual RFPs that we run and what's going to be most competitive, what offers the most benefits for customers. That's sort of an element no matter what's in the IRP. I do think there are some factors, Nick, that could drive more attractive opportunities for customers in the IRP.

And those relate to -- we now have significant benefits from the IRA that we didn't have modeled in the IRP last year. Those are not only sizable, but they're -- we know they're going to be placed for a period of time. That clearly aids the relative cost of new renewables, which are pretty cost effective in our region. And relative to energy provided from fossil resources, we've got a lot of coal and the traditional ability to have -- drive lower cost for customers by replacing high variable costs, high fuel cost generation with renewables is going to -- I think the IRP will reflect that.

Now wildcard is going to be what our construction costs. My personal view is we may still be facing some bottlenecks that are driving higher cost for construction for renewables. But we've seen in the cycles over time, those do those constraints are lifted and generally, the supply responds robustly, and that helps drive down costs over time. So I think that there are going to be opportunities given the amount of energy we still produce at a relatively high variable and high fuel costs and the tailwinds from the IRA that are going to benefit we'll have incremental opportunities to -- for renewals.

But we'll have to see how the math plays out. And it may be -- the math is more compelling once we see construction costs where they are and where they're trending. And the other piece is with capacity requirements tighter, we're going to have to make sure in solar is weighted more heavily towards capacity, gas peakers or potentially CT settlement capacity. With growth like what we're seeing in Panasonic with [Meta] coming in, there's also going to be a growth dynamic that may help drive some incremental resource needs to and that are weighted more towards capacity reforms No, it's a long answer to your question, but hopefully, that makes sense. Net-net, I do think there could be some tailwinds in the IRP.

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

Okay. And then I guess just on the financing plan. I'm just trying to understand, is it your intention to not do any equity past the '25 time frame that you have this CapEx plan out to '27? Just wondering how to fund that.

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

Nick, it's Kirk. We certainly, as we've reiterated a number of times through our 6% to 8% growth rate through 2025, there is no new equity in that particular plan. As you'll see, we came out of 2022, as David said earlier, with a strong balance sheet. We're ahead of our targets. We've got strong robust free cash flow. We're not a current taxpayer. So we translate net income very efficiently into operating cash flows, which gives us a pretty good stable of equity to help supplement financing with debt to keep this balance sheet in line.

We certainly expect that to be the case through 2025. That will continue because we don't expect to be a tax cash payer until towards the end of the decade. So we're going to look to balance those 2 objectives. We'll look at the IRP, obviously, an impact on the capital expenditure plan, but our goal is to successfully balance our objective to maintain that long-term growth rate as robustly as we can.

And that obviously means being prudent about issuing equity, while at the same time maintaining those balance sheet objectives. But fortunately, with the combination of those robust cash flows, and the foundation we come out of 2022, we feel good about where those balance sheets are and we'll continue to focus on it.

And as we get through the rate case in Kansas and update the IRP, we'll have more specifics about the financing plans long term. But again, that's a robust cash flow and our tax yield is a tailwind for us. We moved forward even beyond '25.

Operator

Our next question comes from the line of Durgesh Chopra of Evercore.

Durgesh Chopra - *Evercore ISI Institutional Equities, Research Division - MD and Head of Power & Utilities Research*

David, you've answered all my other questions. Maybe just hit on the PPA opportunity that you've discussed in the past? And what is the sort of the opportunity set there for perhaps 2023 and then longer term?

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

Yes, Durgesh, It's Kirk. Continuing to focus on that, as we talked about in 2022, in particular, we were disappointed we weren't able to bring one of those over the finish line. Despite a number of engagements with various counterparties, that continues to be the case. As I'm sure you're well aware, there have been a number of renewable portfolios out in the marketplace, there continue to be. Those renewable portfolios often has -- continues to be the case going forward, includes some of our PPA counterparties -- so we are continuing to be involved in that process.

And I think with the clarity that's provided by the IRA that's given us a little bit better foundation for negotiating that. I don't expect that if we get one of those done and we're certainly focused on doing and I think it's certainly possible in 2023. I don't expect that to be a major driver, as I said before, we probably get at least one done because going back to next question previously, that we want to maintain the strength of our balance sheet as well as stay out of the equity markets as long as we can to maintain that growth rate.

But we do have the capacity to get one of those done and I think it would be additive. It's not in our capital expenditure plan. But certainly, as a proof concept of moving that forward. I think there's opportunities are abundant. And with a lot of the renewable sales out in the market right now, there are opportunities to participate and get that done. So more updates to come can't be more definitive than that. But Certainly, we've got a growing backlog and an opportunity set to look at with that 4,400 megawatts or 3,800 megawatts of PPAs.

Durgesh Chopra - *Evercore ISI Institutional Equities, Research Division - MD and Head of Power & Utilities Research*

Got it. And just to be clear, like the recovery process or the return on that 4 gigawatts worth of opportunity? Is that through -- do you have to go through rate cases as you or get approvals as you buy out those PPI opportunities? Or how does that actually work?

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

We would, yes. In certain cases, especially in Kansas, we can kind of pursue that through a predetermination type process. But yes, ultimately, we have to pursue both prudency in prosecuting that into a rate case. And obviously, in the case of a simple buy in, we'd look to do that to more or less replace the pass-through of what is existing PPA with a rate base investment that's neutral, if not beneficial to our ratepayers.

Operator

Our next question comes from the line of Angie Storozynski of Seaport.

Agnieszka Anna Storozynski - *Seaport Research Partners - Research Analyst*

Just a really quick question. So you have $0.21 of a drag in interest expense. And I'm just wondering, I'm assuming that some of it gets trued up in the upcoming Kansas rate cases. So if I look forward, roughly how much of it would persist beyond this rate case cycle?

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

So that's obviously a year-over-year increase. And I think the better way to think about that '22 going to '23. Obviously, '22 was a little bit the tale of 2 rates for lack of a more elegant way of putting it. We saw increasing rates more in the back half of the year, and that's obviously a full year effect year-over-year. You're correct. We do have a number of items in that interest rate sensitivity we showed you before, that are at the utility.

So we would expect some of that, especially some of those (inaudible) control bonds that you see there -- there's a portion of those at Kansas Central. There's at least half of those at Metro. And we'd also look -- some of that interest rate exposure is obviously our short-term interest rates. Now a lot of that gets taken up in our AFUDC mechanism. But as we look to move from our construction work in process to plant and service, we'll look at that short-term rates, which are obviously higher given the backwardation of the curve and turn some of that out. I would expect that we do that in 2023, we will do that time -- certainly in Kansas that will probably take place in the context of our rate case. So a lot of that will get trued up at the end of the day.

Agnieszka Anna Storozynski - *Seaport Research Partners - Research Analyst*

Meaning the drag for the year-over-year drag, I mean, there shouldn't be any, so that there should be actually a benefit for a year-over-year math for '24, right? Yes, yes. Okay.

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

I think, the better way to think about that is we've just rolled from a partial year to a current year. So now we're kind of at current rates in that regard. So I would not -- we don't see a step function going forward into yet another increase in rates over time, and it's really just the increase in debt rather than increasing rate exposure at the end of the day, you're thinking about moving from '23 and forward.

Operator

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

Paul Patterson - *Glenrock Associates LLC - Analyst*

So on the IRA and Wolf Creek, I was wondering if you could give us a flavor for what the potential quantification could be? And if that immediately goes to ratepayers or if there might be some sort of positive rate lag? Or how should we think about that?

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

So Paul, it's going to be fascinating as the rules come out around it. The first I noted that the eligibility will start in 2024. But it is an impact that will flow directly to our customers. So we'll not have an earnings impact. Now I think it's anything that helps with respect to customer costs is a good thing. Regional rate competitiveness and affordability are critically important for us.

And so there's a tangible benefit that we're really excited about as well. In terms of the mechanism, it will be interesting to see how the rules operate, like presumably since it's based on yearly realized prices, that may be assessed on a monthly basis. It may be assessed in a back cast at the end of the year, maybe based on dated markets that probably makes more sense rather than real time, but all that is yet to be seen.

But the net-net is if you went back a couple of years, it wouldn't have been true in '22, given the high commodity prices, but if you look back at '21 and '20 and '19 and '18, the realized prices of Wolf Creek were below the thresholds that are laid out in the IRA for legibility for PTC. And it wouldn't be the full $15 per megawatt hour in all years. But depending on what the go-forward pricing is, could be up to $15 a megawatt hour for 1,200 megawatts nuclear unit. So it's a sizable potential benefit for customers. But the mechanism, we believe that's going to flow directly through the fuel clause, which is, again, very important, but not an earnings driver. But it will be interesting to see as the rules come out and it starts in '24.

Paul Patterson - *Glenrock Associates LLC - Analyst*

Great. And then with respect to Persimmon, which you guys put a pretty strong argument for staff does seem to be -- it's a contest case guys now, I guess, is there any possibility for a settlement?

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

Well, we had hearings this week. And obviously, we've been in discussions with in advance of the hearing. So I do think it's in the commission's hands at this point. We're always -- as I mentioned, we're always seeing the work constructively towards approval. We think it is clearly a great option. It's a well (inaudible) option that drives the best overall benefits for our customers in terms of cost in our view. And so we think we've got compelling arguments for adding it. So we can sell that will be great, but it's in the commission hands, given that (inaudible) is likely to be an issue of the commission results.

Paul Patterson - *Glenrock Associates LLC - Analyst*

Okay. Great. And then with respect to the ROFR Bill, I'm sure you guys are familiar with the Fifth Circuit ruling, I guess, dealing with a Texas law in next (inaudible). I'm wondering, is there anything different about this law versus that? Or how should we think about the Fifth Circuit ruling? And I guess I'm sure it will be appealed to the Supreme Court order whatever, but -- how should we think about how that will may or may not interact with that court ruling?

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

So it's a good question, and I was actually in Texas at the time the Texas law was passed. So that has some unique elements reflecting the unique elements of the Texas market. There are ROFRs in place, right of first refusals in place in dozens of jurisdictions around the U.S. And they've stood the test of time in those markets have been beneficial and may employ most of our neighbors happen, the state in the SPP have them. So we'll track that maybe narrow to the Texas law, may not. There's not -- we don't have ROFR in place in Kansas on Missouri. So 1 step at a time. But I do think the ROFRs that are in place across multiple states, there -- they've been resilient, but we'll obviously have to follow how those cases go. But some unique beaters, as you know, to the Texas and Texas law.

Paul Patterson - *Glenrock Associates LLC - Analyst*

Okay. And then just finally on transmission, there are a number of FERC proceedings. They seem rather small to me, but there are a number of them, I guess. So it's very tactical -- frankly, over my head, to some degree in terms of the formulas and what have you, how should we think just cumulatively those proceedings and how you feel about any potential exposure there or not there, if you follow me?

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

I do. And we've resolved a couple of proceedings and one was ruled on by the FERC last year. So I think that we've -- our go-forward guidance reflects our view of the impact of the overall regulatory framework. It's probably the easiest way to frame it.

And some of it is complicated, but probably the most complicated one that was pending because it related to a formula that was in the tariff that was under review, and so we had to follow the tariff, but obviously, we need to get the formula related to the transmission delivery charge and the transmission formula rates at the FERC level. And that was resolved last year. And our forward guidance that we've discussed reflects the impacts of that case. So there are a lot of technical ones. I guess the easiest way to describe it is that we -- our view of their impact is reflected in our forward plan.

Operator

Our next question comes from the line of Ashar Khan of Verition.

Ashar Khan

David, I think so all my questions have been answered. But if I can just -- I was just trying to sum up, if I may you said you're going to have another $100 million of lower savings between now and 2025, if I see the chart. And if I'm right, [20s] -- that's nearly about $0.40 or $0.45. So half of them came this year, if I'm right in 2023 because you're showing an O&M decrease or benefit of $0.20. So is it fair that another $0.20, $0.25 is left in the next 2 years? And the other bridge is going to be, of course, transmission earnings and then the Kansas case next year? And shall we factor in another Missouri case that will have some impact for 2025?

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

I'll ask Kirk to comment on the O&S piece. But in general, you can do the -- we've got about [230] million shares. So you can play how much O&M savings we've got in the next year, I think it's [$50] million range. So it would be the remainder that would come through in -- and Kirk can correct me. We do expect rate cases in the every other year time frame. So that would imply -- we haven't finalized our plans, so that would -- you are correct, that would mean to 2024 Missouri rate case. So I think you've got a good sense for the drivers. But Kirk, anything you'd add?

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

On the O&M front, just to clarify that, you're right. if I incorporate the $60 million, and that's roughly what that '22 to '23 reduction in O&M equates to, I think I even mentioned that when I was going through the slides. That puts us -- I think we came out of '22. You can go through our disclosures about $1.74 billion nonfuel O&M in '22. So that means with that $60 million of savings, you're at $1.14 billion. We've put a target out there. Our '25 target is [$950] million. So that gives you about $54 million between -- from 2023 to '25 over that period of time. So you're right. That rounds to about $0.20 prospectively once you get outside of '23, just to clarify that.

Ashar Khan

Okay, okay. And then if I can just end up, and. don't -- I know I don't want to front run this because you have been meeting your objectives that thing. But when will you do a revise, right? Because right now, the CAGR is based on 2020, it's -- is that something which will happen a year from now? Or is that a 2025 exercise?

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

Yes, it's likely to be a year from now, Ashar. We were going to have the integrated resource plan update, and we'll get to the Kansas rate case. So I think that that's going to be most informative for investors. Again, we think the can rate case is pretty straightforward, but it's -- a lot of eyes are going to be on that rate case. So I think the most likely time for forward is going to be, I think Q4 call, about a year from now, which I hope to open with a celebration of another Chief Super Bowl.

Operator

Thank you. I would now like to turn the conference back to David Campbell for closing remarks. Sir?

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

All right. All right. Thanks, Latif. For everyone on the call or reading later, thank you for your time this morning, and thank you for your interest in Evergy. Have a great day.

Operator

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