

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

The Office of the Public Counsel and)	
Midwest Energy Consumers Group,)	
)	
Complainants,)	Case No. EC-2019-0200
)	
v.)	
)	
KCP&L Greater Missouri Operations)	
Company,)	
)	
Respondent.)	

**KCP&L GREATER MISSOURI OPERATIONS COMPANY’S
VERIFIED NOTICE OF ADVERSE MARKET RESPONSE**

COMES NOW, KCP&L Greater Missouri Operations Company (“GMO”)¹ and for its notice of adverse market response respectfully states as follows:

1. The Commission discussed this matter in its public agenda session on October 9, 2019, at approximately 10:30 a.m. Central Daylight Time (“CDT”). At about that time, three commissioners had indicated their intent to support an order granting the accounting authority order requested by the Office of the Public Counsel (“OPC”) and the Midwest Energy Consumers Group (“MECG”).

2. Shortly after the Commission’s public agenda discussion of this matter on 10:30 a.m. CDT on October 9, 2019, the share price of Evergy, Inc. (which holds GMO as a wholly-owned subsidiary) fell by more than \$1. From the opening bell on October 9, 2019 and through 11:00 a.m. CDT on October 10, 2019, the share price of Evergy fell by \$1.68 (from \$65.19 to \$63.51) (See Attachment A with time shown in Eastern Daylight Time), a reduction in market value of about \$400 million. The timing of the discussion of this matter at the Commission’s

¹ Effective October 7, 2019, Evergy Missouri West, Inc. d/b/a Evergy Missouri West adopted the service territory and tariffs of GMO. However, since this docket was initially filed using the GMO name, GMO will be used in this document.

public agenda session compared to the timing of the drop in Evergy's share price makes it clear that Evergy's share price fell as a direct result of the Commission's discussion of this matter at its public agenda session.

3. To put Evergy's share price reduction from market opening on October 9, 2019 through 11:00 a.m. CDT on October 10, 2019, in context with the overall market for utility stocks, it is useful to observe changes in share price on a percentage basis. Evergy's share price at 11:00 a.m. CDT on October 10, 2019, was 2.58% lower than the opening price on October 9, 2019, while the utility sector overall (represented by the UTY index) was up by 0.28% during that same time period. See Attachment A. Relative to the overall utility sector, therefore, Evergy's share price fell by 2.85% from market opening on October 9, 2019, through 11:00 a.m. CDT on October 10, 2019. See Attachment B. This represents a loss in relative value in the utility market of \$438 million to Evergy shareholders, approximately 3,200 of whom are citizens of Missouri owning, in the aggregate, more than one million shares.

4. During the hearing of this matter, GMO advised the Commission that issuance of the AAO requested by OPC and MECG would likely cause the investment community to question the fairness of Missouri regulation. See Ex. 24, Ives Rebuttal, p. 24. On October 9, 2019, after the Commission's discussion of this matter at its public agenda session, a number of investor research groups published commentaries on the matter, including:

- Evercore ISI, a utility industry equity research firm, issued an advisory mentioning the Commission's discussion of this matter at its public agenda session, concluding,

But EVRG may now have some pause at spending more capex in MO given this Sibley decision, as our view is cherry picking aspects of a black box settlement is not behavior reflective of a balanced regulatory environment. See Attachment B.

- Wolfe Research, another equity research firm with experience and emphasis in the utility sector, also issued an advisory mentioning the Commission’s discussion of this matter at its public agenda discussion, concluding that it’s a “bad look for Missouri” because, in part:

Not only is there a financial impact, but it disincentivizes potential future coal retirements in the state, as utilities would be unable to keep the savings between rate cases. It’s also bothersome to see this happen after these parties settled on the merger and we expected several years of regulatory certainty. See Attachment C.

- The equity research branch of Bank of America Merrill Lynch (“BAML”) issued an advisory mentioning the Commission’s discussion of this matter at its October 9, 2019, public agenda session and noting, among other things, that “[W]e now see incremental capital as less likely given the negative regulatory development . . .” and downgrading their rating from “Strong Buy” to “Neutral” while also reducing its Evergy share price target by \$4, representing a loss of approximately \$1 billion in market value. See Attachment D.
- Evergy personnel have had preliminary conversations with ratings agency personnel at Standard & Poor’s and Moody’s regarding the Commission’s discussion at its October 9, 2019, public agenda session. Based on those conversations, Evergy personnel believe that the credit ratings agencies would consider the issuance of an AAO in this proceeding to be a credit-negative event.

Given the impact of the Commission’s discussion of this matter during its public agenda session on Evergy’s share price on October 9 and 10, 2019, and the advisories from utility equity research groups’ commentaries of those same days discussed above, it is apparent that Mr. Ives was correct.

6. The adverse market response to the Commission’s public agenda discussion of this matter on October 9, 2019, strongly indicates that the investment community is questioning the

fairness of Missouri regulation, and this could impair the ability of GMO and other investor-owned utilities with Missouri operations to obtain capital on reasonable terms to the detriment of customers. Put in more concrete terms:

- Why would a Missouri electric utility follow a preferred resource plan identified in its Integrated Resource Plan filing as having the lowest expected net present value of revenue requirements if that plan involves closing a coal plant well before the end of its depreciable life as reflected in its depreciation rates if, as appears likely, the Commission will order deferral of savings related to that closing between rate cases to reduce future rates? The preliminary indications, if followed through in a final order granting an AAO in this proceeding, create a perverse incentive for electric utilities to continue operating older, smaller and less efficient coal-fired generating units until the last cent of depreciable value has been wrung out of them. This perverse incentive will serve to deter investment in renewable generating resources in replacement of fossil fuel-fired units and will likely cause customers to bear higher costs than would otherwise be the case.
- Why would a Missouri electric utility choose to make incremental investment in Missouri when there exists such a clear view that regulatory lag is a one-way street; that is, regulatory lag which erodes utility financial performance (such as increased costs associated with SPP transmission expenses and property taxes) is acceptable to the Commission and not subject to deferral, but regulatory lag which boosts utility financial performance (such as the closing of a coal-fired power plant between general rate proceedings) is not acceptable to the Commission and deferral will be ordered? In being potentially the first in the nation to do so, granting an

AAO in this case will thus serve to deter incremental investment by electric utilities in Missouri.

- How can a Missouri electric utility reasonably rely on a rate case settlement made with full knowledge of the parties and the Commission that a generating station would be closed in the near future and, then, almost immediately after that settlement takes effect, deferral of savings associated with that closing would be ordered with no evidence whatsoever of excessive earnings by the subject utility? In this case, the record evidence reflects that granting an AAO as requested by OPC and MECG will reduce GMO's annual earnings by \$30 million (MECG's estimate) to \$39 million (OPC's estimate). Reducing GMO's earnings by such amounts for the 12-month period ending March 31, 2019 would have produced an achieved return on equity for GMO of approximately 5.69 – 6.32%, well below the reasonable expectations GMO had under the rate case stipulation of equity returns in the 8.35 – 11.35% range. GMO's expectations were based on the ROE recommendations in the case which ranged from 9.3 – 9.85%. See Ex. 24, Ives Rebuttal, p. 28.
- Why would investors be willing to lend money to Missouri electric utilities on pricing terms comparably favorable to electric utilities without operations in Missouri who are subject to regulatory regimes that are more balanced and even-handed than the Missouri regulatory climate? Such investors will have no choice but to offset the higher risk in Missouri, by charging higher interest rates to Missouri utilities which will lead to higher prices for their customers.

7. In light of the adverse market response to the Commission's public agenda discussion of this matter on October 9, 2019, GMO requests that the Commission announce that it

will delay issuing its order herein to undertake additional proceedings for the purpose of considering the impact of the Commission's decision herein on perceptions of the investment community on the fairness of Missouri regulation and continued access of investor-owned utilities with Missouri operations to the capital market on reasonable terms. Those additional proceedings could include oral argument on this notice where the Commission has the opportunity to ask questions of the parties as well as the taking of additional testimony regarding the impact the granting of an AAO in this case will have on perceptions of the investment community regarding the fairness of Missouri regulation and the ability of Missouri electric utilities to attract capital on reasonable terms.

WHEREFORE, GMO respectfully requests that the Commission consider this notice of adverse market response, announce that it is delaying the issuance of its order herein and undertake further proceedings as described in Paragraph 7 herein.

Respectfully submitted,

/s/ Robert J. Hack

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**Attorneys for KCP&L Greater Missouri
Operations Company**

CERTIFICATE OF SERVICE

I do hereby certify that a true and correct copy of the foregoing document has been hand-delivered, emailed or mailed, postage prepaid, to all parties of record this 10th day of October 2019.


/s/ Robert J. Hack

Attorney for KCP&L Greater Missouri
Operations Company

VERIFICATION

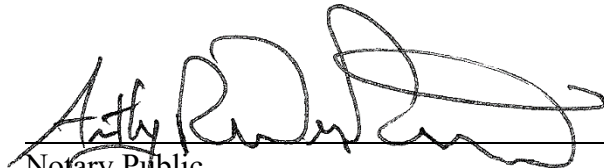
STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)

Darrin R. Ives, being first duly sworn, on his oath and in his capacity as Vice President, Regulatory Affairs, states that he is authorized to execute on behalf of KCP&L Greater Missouri Operations Company the foregoing document, and has knowledge of the matters stated in this application, and that said matters are true and correct to the best of his knowledge and belief.



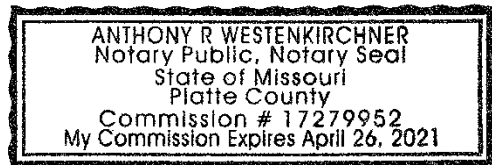
Darrin R. Ives

Subscribed and sworn to before me this 10th day of October 2019.



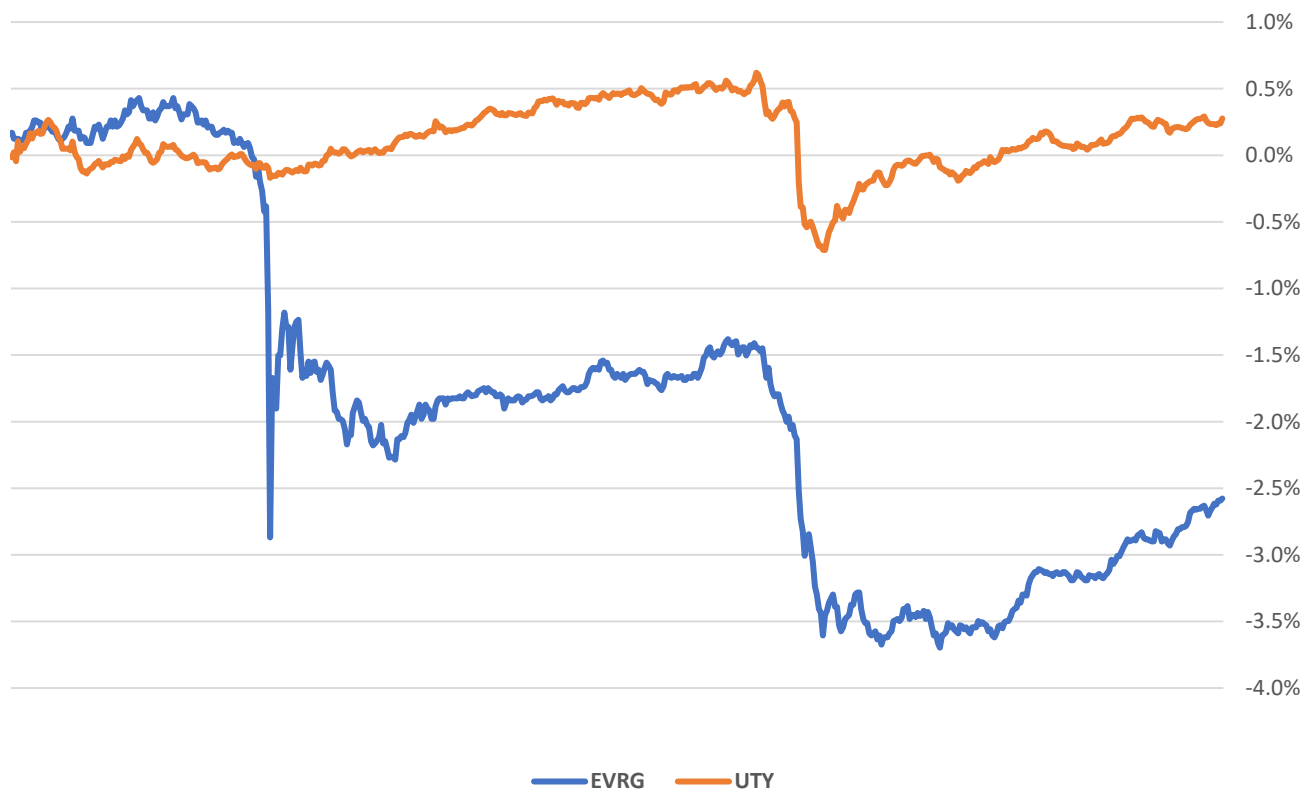
Notary Public

My Commission Expires: 4/26/2021





EVRG's Stock Price Reaction to MPSC Sibley Discussion



Evergy

EVRG | \$63.96 | Target: \$59.00 | Outperform

Negative: MPSC Votes To Establish An AAO In The Sibley Case. Dilutive To EPS

Lowering target from \$60 to \$59. On a “market agnostic” basis our target would be \$69. Rating Outperform.

Today, the MPSC preliminarily voted 3-2 against EVRG’s position in the “Sibley case” and indicated they will issue an Accounting Authority Order in the docket. The preliminary order, for which an official vote is expected next week, is to create an Accounting Authority Order (AAO) to reserve against the O&M savings from the Sibley plant closure until the next rate case. The savings amount was not specified and will need to be determined in a separate proceeding. This preliminary decision stems from an OPC complaint arguing for creation of an AAO for \$27m in annual O&M savings. EVRG argued against such a decision given the “black box” nature of the last rate case settlement, but also argued the savings are <\$27m. We assume the worst case would be a \$27m or \$0.08 annual EPS impact with no cash flow impact until the next rate case in mid-’22 for rates in ’23, with a lower impact if EVRG successfully argues for a lower savings amount.

Today’s stock price reaction (-1.9%) is appropriate. EVRG was trading at 19.5x ’21 EPS based on last night’s close. Given a \$0.05-0.08 EPS impact the price decline in EVRG is rational. We did not believe the MPSC would approve an AAO given that Staff was in agreement with EVRG’s position. The market consensus clearly agreed.

What if EVRG terminated its buyback plan early in order to invest more in MO under PISA? If the buyback terminated by YE19 instead of mid-’20, we estimate EVRG would have 12m more shares. A pivot to more capex in MO (let’s say \$200m/year) given our understanding of PISA would be another nickel dilutive to EPS in ’20/’21 but still get EVRG inside guidance of \$3.52-\$3.80 by ’23 once those assets are put in to rate base in the ’22 rate case, with improved rate base growth and cash flow vs. the buyback completion scenario. In the long run that would be accretive to value. But EVRG may now have some pause at spending more capex in MO given this Sibley decision, as our view is cherry picking aspects of a black box settlement is not behavior reflective of a balanced regulatory environment.

[Click Here for the Report](#)

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Important Disclosures

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Regulateds – Market Underweight

Integrations – Market Overweight

IPPs – Market Overweight

Gas/Power Infrastructure – Market Overweight

October 9, 2019

Energy

(EVRG US Equity – \$63.80 – Outperform)

MO-mentum killer

[View Full Note \[PDF\]](#)

[View EVRG US Equity Model \[XLS\]](#)

[View Full Note \[PDF\]](#)

[View EVRG US
Equity Model \[XLS\]](#)

MO PSC indicates it will rule in favor of Sibley complaint; disappointing

Today during its agenda meeting, the Missouri PSC held a case discussion regarding the accounting complaint related to Evergy's retirement of the Sibley coal plant. At the end, the commission indicated a 3-2 vote in favor of the complainants (MECG/OPC), and against EVRG, as well as MO PSC Staff. A formal order is yet to be issued, but this is a disappointing outcome – both from a financial and regulatory perspective. Complainants had estimated O&M cost savings of \$27M and Missouri's regulation had been trending positively.

We quantify the EPS impact as \$0.08-0.10 at most depending on year

Assuming the \$27M cost savings number and depending on year/shares, the impact is \$0.08-0.10 of lost EPS. There were also \$10M of depreciation costs that were already agreed to be deferred and booked as a regulatory liability.

Refresher on what happened here and why it's a bad look for Missouri

In December, Midwest Energy Consumers Group and Office of Public Counsel, filed a petition requesting an accounting order deferring cost savings associated with the Sibley retirement. EVRG and Staff then argued the plant shutdown was not an extraordinary event and thus shouldn't qualify for an AAO. Not only is there a financial impact, but it disincentivizes potential future coal retirements in the state, as utilities would be unable to keep the savings between rate cases. It's also bothersome to see this happen after these parties settled on the merger and we expected several years of regulatory certainty.

Next steps: official order, proceeding on cost savings; likely appeal

Our understanding is that the discussion wasn't necessarily a final decision. Pending the order, EVRG may file an appeal. There will likely be a proceeding where the actual amount of cost

Integrations – Market Overweight

IPPs – Market Overweight

Gas/Power Infrastructure – Market Overweight

October 9, 2019

Trading and Fundamental Data

Price Target **\$ 67**

Current Price \$63.80

52-Week Range \$55-\$68

Market Cap. (MM) \$15,020

Enterprise Value (MM) \$24,690

Shares Out. (MM) 235.5

Dividend Yield 2.98%

Dividend Payout Ratio 65.9%

ROE 7.7%

Debt to Cap 52.3%

Avg. Daily Vol. (000) 1,614

Price Performance **YTD** **LTM**

savings is debated as well. EVRG indicated they believe the number is closer to half of the \$27M cited by complainants.

Cutting estimates by a nickel across the board; Price Target to \$67

We cut our estimates by \$0.05 across the board, as we assume there could be offsets to the \$0.10 impact – either by negotiating the O&M amount lower, additional cost savings, or incremental capex. Our PT goes to \$67 from \$68.

[View Full Note \[PDF\]](#)

EVRG US Equity	12%	14%
Utility Index	22%	19%
S&P 500	16%	1%

Source: FactSet/Wolfe Research

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If you would like to follow-up with any questions, please email us at Utilities@WolfeResearch.com.

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Sibley Hearing Points to Negative Outcome; D/G to Neutral, \$67 PO

Rating Change: NEUTRAL | PO: 67.00 USD | Price: 63.80 USD

Equity | 10 October 2019

Sibley complaint: vote points to 3-2 against KCP&L

The Missouri PSC held a nonbinding vote yesterday with a 3-2 outcome in favor of petitioners (against EVRG) in the ongoing Sibley Generating Station complaint. The Office of Public Counsel (OPC) and the Midwest Energy Consumers Group (MECG) as petitioners are requesting the commission to issue an order requiring Kansas City Power & Light Greater Missouri Operations (GMO) to defer to a regulatory liability account the revenues associated with costs related to the retirement of Sibley units 1-3 not contemplated in the most recent rate case. Total O&M costs as outlined in the complaint are ~\$27m/year with depreciation expense of ~\$10m/year, though we note some possibility around a final outcome at a different level owing to the black box settlement of the most recent rate case. On our estimates this ruling represents an EPS impact of \$0.13-0.14/sh (assuming all O&M costs are clawed back), although we assume mgmt. can identify some offsets to mitigate the impact – accordingly we reduce our GMO 2020-22 estimates by ~\$0.08/sh.

Incremental MO PISA capex now in doubt

EVRG has recently flagged the potential for an additional \$850m in net capex spending that would be allowed under PISA, prior to the next anticipated KCP&L MO rate case filing in 2022. The additional spend was not part of the spending plan pending the evaluation of projects that would be eligible. Capital invested under the PISA framework is eligible to earn a debt return on 85% of the debt-funded spend until the next rate case becomes effective. We now see incremental capital as less likely given the negative regulatory development as mgmt. looks to re-evaluate its strategy in the state assuming the ruling holds (i.e. stands up to expected appeal, etc.). We could see MO rate case timing shifted & now see only up to \$850 Mn capex.

Downgrade to Neutral, \$67 PO as ROE risks linger

We reduce our EPS estimates through '22 to reflect our expectation of a negative Sibley order, partially offset by savings, with an associated drag of ~1% on earned ROE. We mark to market our model (recently rolled forward to '22 ests) to a 19.2x peer group multiple. PO moves to \$67 from \$71, and we reduce our rating to Neutral reflecting the lower upside we now see in shares.

Estimates (Dec)

(US\$)	2017A	2018A	2019E	2020E	2021E
EPS	2.27	2.50	2.84	3.03	3.23
GAAP EPS	2.27	2.50	2.84	3.03	3.23
EPS Change (YoY)	-7.0%	10.1%	13.6%	6.7%	6.6%
Consensus EPS (Bloomberg)			2.88	3.17	3.31
DPS	1.60	1.84	1.95	2.07	2.19

Valuation (Dec)

	2017A	2018A	2019E	2020E	2021E
P/E	28.1x	25.5x	22.5x	21.1x	19.8x
GAAP P/E	28.1x	25.5x	22.5x	21.1x	19.8x
Dividend Yield	2.5%	2.9%	3.1%	3.2%	3.4%
EV / EBITDA*	28.7x	19.1x	13.8x	13.5x	13.1x
Free Cash Flow Yield*	1.1%	3.1%	2.4%	2.4%	3.8%

* For full definitions of *IQmethod*SM measures, see page 11.

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Refer to important disclosures on page 12 to 14. Analyst Certification on page 9. Price Objective Basis/Risk on page 9.

Attachment D 12051049

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Timestamp: 10 October 2019 06:38AM EDT

Key Changes

(US\$)	Previous	Current
Inv. Opinion	A-1-7	A-2-7
Inv. Rating	BUY	NEUTRAL
Price Obj.	71.00	67.00
2021E Rev (m)	5,997.3	6,045.5
2020E EPS	3.11	3.03
2021E EPS	3.32	3.23

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Stock Data

Price	63.80 USD
Price Objective	67.00 USD
Date Established	9-Oct-2019
Investment Opinion	A-2-7
52-Week Range	54.57 USD - 67.81 USD
Mkt Val (mn) / Shares Out (mn)	13,660 USD / 214.1
Average Daily Value (mn)	124.53 USD
BoFAML Ticker / Ex change	EVRG / NYS
Bloomberg / Reuters	EVRG US / EVRG.N
ROE (2019E)	7.4%
Net Dbt to Eqty (Dec-2018A)	83.1%

PISA – Plant In Service Accounting

KCP&L – Kansas City Power & Light

iQmethodSM – Bus Performance*

(US\$ Millions)	2017A	2018A	2019E	2020E	2021E
Return on Capital Employed	4.1%	4.7%	4.5%	4.4%	4.5%
Return on Equity	8.4%	7.7%	7.4%	8.1%	8.5%
Operating Margin	25.6%	21.8%	23.2%	22.5%	22.3%
Free Cash Flow	148	428	323	328	522

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2017A	2018A	2019E	2020E	2021E
Cash Realization Ratio	2.8x	2.8x	2.4x	2.5x	2.5x
Asset Replacement Ratio	2.1x	1.7x	1.5x	1.5x	1.3x
Tax Rate	31.0%	9.8%	15.0%	15.0%	15.0%
Net Debt-to-Equity Ratio	102.9%	83.1%	120.3%	134.3%	129.7%
Interest Cover	3.9x	3.3x	2.9x	2.7x	2.8x

Income Statement Data (Dec)

(US\$ Millions)	2017A	2018A	2019E	2020E	2021E
Sales	2,571	4,276	5,596	5,797	6,045
% Change	0.3%	66.3%	30.9%	3.6%	4.3%
Gross Profit	1,782	2,937	3,858	3,921	3,994
% Change	-2.1%	64.9%	31.4%	1.6%	1.9%
EBITDA	1,030	1,552	2,141	2,196	2,257
% Change	1.0%	50.7%	37.9%	2.6%	2.8%
Net Interest & Other Income	(171)	(334)	(500)	(522)	(533)
Net Income (Adjusted)	324	535	679	659	684
% Change	-6.5%	65.2%	26.9%	-3.0%	3.7%

Free Cash Flow Data (Dec)

(US\$ Millions)	2017A	2018A	2019E	2020E	2021E
Net Income from Cont Operations (GAAP)	337	546	689	677	701
Depreciation & Amortization	372	619	840	889	910
Change in Working Capital	0	0	(53)	(24)	(30)
Deferred Taxation Charge	150	124	124	124	124
Other Adjustments, Net	55	209	0	0	0
Capital Expenditure	(765)	(1,070)	(1,278)	(1,338)	(1,183)
Free Cash Flow	148	428	323	328	522
% Change	NM	189.7%	-24.6%	1.5%	59.3%

Balance Sheet Data (Dec)

(US\$ Millions)	2017A	2018A	2019E	2020E	2021E
Cash & Equivalents	3	160	1	1	1
Trade Receivables	291	559	839	870	907
Other Current Assets	433	962	1,290	1,321	1,358
Property, Plant & Equipment	9,730	18,783	19,220	19,669	19,943
Other Non-Current Assets	1,167	4,965	4,965	4,965	4,965
Total Assets	11,624	25,429	26,316	26,826	27,174
Short-Term Debt	304	1,839	1,924	2,031	2,020
Other Current Liabilities	519	1,028	1,584	1,620	1,665
Long-Term Debt	3,769	6,687	8,204	8,658	8,611
Other Non-Current Liabilities	3,171	6,053	6,427	6,801	6,925
Total Liabilities	7,764	15,607	18,139	19,110	19,221
Total Equity	3,956	10,066	8,419	7,958	8,195
Total Equity & Liabilities	11,720	25,673	26,558	27,068	27,416

* For full definitions of iQmethodSM measures, see page 11.

Company Sector

Electric Utilities

Company Description

Evergy, formed by the merger of Westar and Great Plains, has a combined ratebase of \$13.1Bn and is headquartered in Kansas City, Missouri. It operates through its subsidiaries Westar Energy, Kansas City Power & Light (KCP&L), and Great Missouri Operations (GMO). Evergy has 1.57Mn electric customers served by 13GW of its owned generation capacity in addition to 10,000 miles of transmission lines, 51,700 miles of distribution assets, and 3GW of existing renewable assets.

Investment Rationale

We rate shares as a Buy. We believe shares do not fully price in the 60Mn share buyback through 2021, with growth prospects on 6-8% EPS at the high end of the sector. We see the EVRG story widely de risked given current rate case stay outs, and note the buyback also provides technical support for shares. The story otherwise remains fundamentally quiet, with recent concerns on O&M deferrals overdone, in our view.

Stock Data

Average Daily Volume 1,951,811

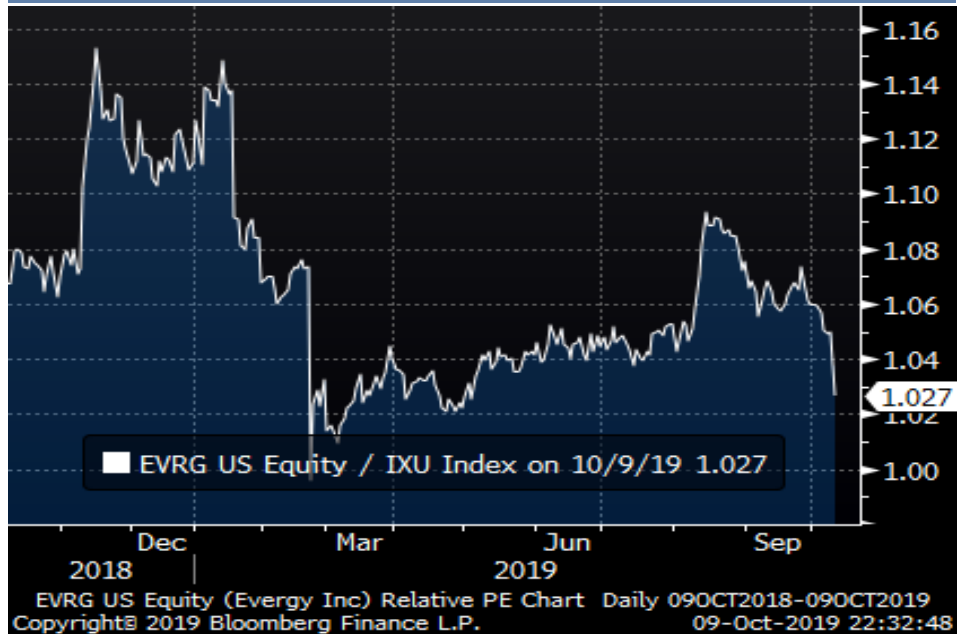
Quarterly Earnings Estimates

	2018	2019
Q1	0.44A	0.44A
Q2	0.56A	0.58A
Q3	1.34A	1.47E
Q4	0.06A	0.42E

What do we think of shares?

EVRG shares have completed a round trip to near their recent low point in terms of valuation relative to the peer group in 2019. After re-rating vs. peers following the announcement of a potential \$850m in incremental PISA capex spend on the Q2 call, shares have mostly drifted down relative to the peer group, with the recent sudden drop attributed to the Sibley news. Shares continue to trade at a premium to the peer group, however, we see modest upside under the current regulatory development. We estimate 2-3% rate base growth through the forecast period and see potential for further regulatory uncertainty with the Kansas SB 69 rate review ongoing and not expected to provide data points until Q1 2020. The Sibley vote introduces regulatory and strategic uncertainty, implying increased risk to EPS growth outlook and regulatory overhang to EVRG shares.

Exhibit 1: EVRG shares vs. peer group: de-rated of late, still pricey



Source: Bloomberg

Moving to the sidelines on increased risks to outlook

We are downgrading to Neutral as we perceive increased risk to the EPS growth outlook with the latest regulatory development related to the Sibley plant. While we see low probability of a negative outcome, the latest decision by the Missouri Public Service Commission (MO PSC) is a high impact outcome, potentially requiring mgmt. to re-evaluate its capital deployment strategy in the state as it defers potentially a substantial portion of revenues until ultimately given back to customers in the next rate case. Given expectations for nearly \$850mn of incremental capex were likely baked into shares, EVRG could tread water for some time as mgmt. reconsiders its strategy in MO. We rate shares as Neutral as we perceive increased risk to the EPS growth outlook with the latest regulatory development related to the Sibley plant, partially offset by savings. While we see mgmt. to continue its share buy-back plan, we expect modest upside with rate base growth of just 2-3%, potential regulatory lag in the MO and regulatory overhang on shares until mgmt. delineates a more concise plan.

MPSC indicates potential unfavorable ruling

Wednesday's news that the Missouri Public Service Commission PSC indicated in a nonbinding vote that it is leaning 3-2 toward ruling against EVRG came as a surprise given commission staff reply briefs suggesting alignment with EVRG's position. In our recent [Toronto NDR](#) mgmt. expressed optimism that the ruling will come back in the company's favor, allowing it to keep earning on O&M and depreciation associated with the retired Sibley units through the next rate case filing. We ascribe this optimism to recently filed staff briefs which found that the interveners in the complaint – the Missouri Office of Public Counsel and the Missouri Energy Consumers Group – had not met the requisite burden of proof to show that the retirement of Sibley was an extraordinary event. We believe the news likewise took investors by surprise given the positive messaging of late.

Timing of formal vote uncertain

Yesterday's commission meeting had a nonbinding vote of the 5-person commission which was returned 3-2 in favor of the petitioners. We expect a formal vote to come as soon as next week, though an official agenda item has not yet been posted.

Giveback amount and timing unknown; earnings impact through '22

We estimate costs of \$27m related to O&M and an additional \$10m of depreciation expense associated with the Sibley complaint. However as EVRG has previously flagged, the most recent rate case contained a black box settlement which raises questions about the final amount of the decision, should one be returned in the petitioners' favor.

Assuming an order is returned with an unfavorable ruling, the timing of the giveback remains uncertain given the questions around whether the order will contain a settlement amount and whether a timeline is proscribed. Nevertheless we expect EVRG to recognize a regulatory contingency upon the receipt of a negative order even if the final amount remains to be settled. We see the impact on earnings through the effective date of the next MO rate case ('23 first full year) as the company had expected to continue earning on the cost savings until the next case.

PISA incremental capex in question

We now see the \$850m of additional net capex spending related to PISA in MO that mgmt. had contemplated as unlikely to be added to the capital plan in the near term: *moreover it appears that this figure is now 'up to' the total \$850 Mn book-end rather than an expectation for the full figure.* On the Q2 call mgmt. had identified \$850m of additional capital projects that it was considering. Investment spending related to PISA is eligible to earn a debt return on the debt funded portion of the spend, so some degree of regulatory lag would be associated with any incremental spend until the additional capital is placed into rates, with a filing forthcoming in '22 with first full year of effective rates in '23. Given the EPS drag associated with a negative Sibley ruling (we estimate -\$0.08/sh) incremental spending which would not earn a full ROE until new

rates are in effect would create additional regulatory lag in the near term. Given the signs of an imminent unfavorable ruling in the Sibley proceeding, we now assume that mgmt. will remain committed to its existing plan of additional share buybacks through mid-22 rather than pursuing additional PISA capex prior to its next rate case filing.

Balancing buyback with credit implications

With incremental PISA capex in doubt we believe EVRG mgmt. will remain committed to its plan to buy back shares, particularly in light of the expected EPS drag associated with the Sibley decision. We forecast approximately \$1.5B in additional spend on buybacks through 2020 toward mgmt.'s goal of 60m shares. Based on our updated PO of \$67 we expect the company will be able to achieve most of the goal toward 60m shares repurchased.

Table 1: EVRG Buyback Progress and Forecast

	2018	H1 2019	H2 2019e	2020e	Total Plan
Shares Bought Back (m)	16.4	20.0	11.5	10.4	
Shares Bought Back Cumulative (m)	16.4	36.3	47.8	58.3	60.0
Average Share Price (\$/sh)	64	31	67	67	
Buyback Spend (\$m)	1,042	1,129	771	700	3,642

Source: BofA Merrill Lynch Global Research estimates, Company filings

We forecast EVRG's credit metrics as declining y/y through 2020 as the company completes its share buyback program before resuming an upward trajectory. Considering that EVRG recently issued \$1.5B in holdco debt to help fund its buyback we remain comfortable with this level of FFO/debt, particularly given the upward trajectory in the 2020+ period. Since dialing back on the share repurchases would have a further dilutive effect on EPS, we see this as an unattractive option for mgmt. to consider following the Sibley development.

Table 2: Credit metrics improving after initial dip

Pro Forma Projections vs Guidance	2017A	2018E	2019E	2020E	2021E	2022E
<i>Company Guidance from Docket 18-KCPE-095-MER Testimony</i>						
Equity Ratio (Exlc Short Term Debt)						
Guidance	58.00%	54.00%	48.00%	48.00%	48.00%	48.00%
BAMLe		59.90%	50.43%	47.66%	48.54%	49.59%
FFO/DEBT						
Guidance	17.80%	19.40%	18.40%	19.00%	18.60%	18.40%
BAMLe – Unadjusted	22.42%	17.74%	16.33%	15.81%	16.32%	16.87%

Source: BofA Merrill Lynch Global Research estimates, Company filings

Ongoing regulatory questions in MO and KS

A negative ruling on the Sibley complaint introduces a degree of regulatory uncertainty that had previously not been assumed in KCP&L's relationship with the state. While the backdrop in MO had been improving of late, a negative ruling in the Sibley matter (and one that contradicts the commission staff's position) makes us less confident in the ongoing relationship with regulators. In our view, rather than pursue additional capex opportunities in the MO jurisdiction we see ongoing share buybacks as the most likely option at this point.

In Kansas, SB 69 passed out of the state legislature earlier this year. Under the bill, a two-phase study of utility rates will be conducted by an independent third party. The first portion of the study is expected to be completed by January 8th, 2020 with a subsequent part to be completed by July 1, 2020. The legislative council recently selected a consultant to conduct the first part of the study, which is set to focus on effectiveness of rate making practices. The council is currently working through a separate RFP for the second half of the study which will focus on rate impact of energy matters. EVRG mgmt. conducted its own study of the rate making practices under

review in phase 1, and expressed confidence that the independent third party's findings are unlikely to lead to drastically different findings. While there is not a direct read-through to developments in Kansas from the Sibley vote, we see potential for investors to begin to question the likelihood of negative regulatory outcomes. Actions in Kansas should prove benign based on our conversations in the state.

ROE impact: GMO 1.5% below authorized thru '22

We reduce our forecast on GMO earned ROEs through 2022 with the assumption that the impact of a negative Sibley ruling of approximately \$0.14/sh will be offset through O&M and other savings for a net drag of \$0.08. Accordingly we see GMO earning an 8.35% ROE in '20-22, after which we expect new rates to be in place following a case filing in 2022. While GMO had turned a corner after the merger and was poised to earn its allowed ROE (after years over of underarming), the latest regulatory decision now puts further pressure on earned ROEs.

Table 3: EVRG ROE: GMO earns ~1.5% below authorized on Sibley impact

Evergy ROEs by Subsidiary	2018E	2019E	2020E	2021E	2022E	2023E
KCP&L						
Regulatory ROE (Avg)	6.72%	9.60%	9.60%	9.61%	9.61%	9.62%
Regulatory ROE (YE)	6.69%	9.49%	9.48%	9.53%	9.56%	9.54%
Authorized ROE		9.60%	9.60%	9.61%	9.61%	9.61%
GMO						
Regulatory ROE (Avg)	8.03%	9.85%	8.35%	8.35%	8.35%	9.85%
Regulatory ROE (YE)	7.97%	9.78%	8.28%	8.32%	8.34%	9.81%
Authorized ROE		9.85%	9.85%	9.85%	9.85%	9.85%
Westar						
Regulatory ROE (Avg)	9.28%	9.52%	9.53%	9.55%	9.53%	9.56%
Regulatory ROE (YE)	9.05%	9.31%	9.32%	9.40%	9.42%	9.43%
Authorized ROE		9.52%	9.53%	9.54%	9.55%	9.56%

Source: BofA Merrill Lynch Global Research estimates, Company filings, Bloomberg

EPS Estimates: Reducing for Sibley impact through '22

We estimate the impact of the Sibley ruling at approximately \$0.13-0/14/sh. Our estimate is derived by accounting for the \$27m in O&M costs and \$10.3m in depreciation expense that EVRG would have recovered through rates, tax effected at 21%. We assume offsets in the form of O&M savings that the company will be able to utilize in the forecast period in order to reduce the overall drag on EPS to ~\$0.08/sh through 2022, after which time we assume earning at or near authorized ROEs. Our updated estimates are below, reflecting reduced earned ROEs through 2023 after which time we expect the upcoming case filing rates to be in place. Our updates reflect an EPS CAGR of 4.8% from the midpoint of company guidance through 2022 as compared to the guidance range of 5-7%.

Table 4: EVRG estimates – reduced through '22 on Sibley, partial cost savings offset

EPS Estimates by Subsidiary	2018A	2019E	2020E	2021E	2022E	2023E
KCP&L	\$0.76	\$1.00	\$1.13	\$1.19	\$1.20	\$1.22
GMO	\$0.35	\$0.42	\$0.40	\$0.41	\$0.41	\$0.49
Westar	\$1.58	\$1.53	\$1.76	\$1.88	\$1.93	\$1.98
Parent/Other	(\$0.19)	(\$0.10)	(\$0.25)	(\$0.25)	(\$0.21)	(\$0.23)
Combined EPS	\$2.50	\$2.84	\$3.03	\$3.23	\$3.33	\$3.46
YoY EPS Growth %		13.7%	6.6%	6.5%	3.3%	3.9%
Prior estimates	\$2.50	\$2.84	\$3.11	\$3.32	\$3.43	\$3.47
Consensus (BBG)		\$2.88	\$3.17	\$3.31	\$3.47	\$3.61
DPS	\$1.84	\$1.95	\$2.07	\$2.19	\$2.30	\$2.42
Dividend Payout (60-70%)	73.52%	68.57%	68.20%	67.88%	69.01%	69.73%
EPS Trajectory (Company Guidance: 5-7% Updated)						
Low		\$2.80	\$3.05	\$3.20	\$3.36	\$3.52
Mid		\$2.90	\$3.07	\$3.26	\$3.45	\$3.66
High		\$3.00	\$3.10	\$3.32	\$3.55	\$3.80
EPS CAGR off 2019 Mid-point			4.54%	5.51%	4.76%	4.5%
OLD EPS Trajectory (Company Guidance, Prior 6-8%)						
Low	\$2.73	\$2.89	\$3.07	\$3.25	\$3.45	\$3.65
Mid	\$2.78	\$2.98	\$3.19	\$3.41	\$3.65	\$3.91
High	\$2.83	\$3.06	\$3.31	\$3.57	\$3.86	\$4.16
EPS CAGR off 2016A	1.48%	5.39%	5.69%	5.85%	5.42%	5.20%
Shares Outstanding (Avg)	214	239	217	212	212	212

Source: BofA Merrill Lynch Global Research estimates, Company filings, Bloomberg

Valuation

Our PO remains goes to \$67/sh after marking to market of the latest peer group multiple and taking into account reduced EPS from the Sibley complaint ruling which we had previously considered a remote possibility. Additionally we apply an -0.5x turn premium to EVRG's MO jurisdictions to account for perceived greater level of regulatory risk owing to the unexpected outcome in the Sibley matter (-0.25x for KCP&L due to business mix). While we see modest upside in shares following the pullback we see better risk/reward elsewhere in the space.

Table 5: EVRG SOTP valuation

Everygy Sum-of-the-Parts Valuation	2022 EPS		P/E Multiple			Equity Value/Sh		
	Low	Peer	Prem/ Discount	Base	High	Low	Base	High
Group Peer Multiple - Electric	-	19.2x	-	-	-	-	-	-
Group EPS '18-'22 CAGR - Electric	-	5.00%	-	-	-	-	-	-
		20.2x	-	-	-	-	-	-
KCP&L	\$1.20	18.9x	-0.3x	19.9x	20.9x	\$22.77	\$23.97	\$25.17
GMO	\$0.41	18.7x	-0.5x	19.7x	20.7x	\$7.72	\$8.13	\$8.54
Westar	\$1.93	19.2x	0.0x	20.2x	21.2x	\$36.93	\$38.86	\$40.79
Parent & Other	-\$0.21	19.2x	0.0x	20.2x	21.2x	-\$4.04	-\$4.25	-\$4.46
Total Implied Utilities	\$3.33			20.1x		\$63.00	\$67.00	\$70.00
Shares outstanding (Average 2022)	212							
Shares outstanding (Y/E 2022)	212							
EVGR Price Objective						\$63.00	\$67.00	\$70.00
Implied Return							5.02%	
EVGR Standalone NTM Dividend Yield							3.18%	
Total Return							8.20%	

Source: BofA Merrill Lynch Global Research estimates, Company filings, Bloomberg

Price objective basis & risk

Evergy, Inc (EVRG)

Our \$67 price objective for EVRG shares is based on sum of the parts valuation, applying an in-line utility peer 2022E P/E of 19.2x. Electric peer P/E multiple is grossed up for a year to 2020 by 5% to reflect capital appreciation across the sector. We further apply a -0.5x turn discount to the Missouri jurisdiction to account for regulatory risk.

Downside risks to our price objective are adverse regulatory outcomes in rate cases, higher interest rate environments, adverse and unexpected risks associated with operating a nuclear facility.

Analyst Certification

I, Julien Dumoulin-Smith, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

North American Utilities, Alternative Energy & LNG Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Julien Dumoulin-Smith
	AltaGas Canada	YACI	ACI CN	Julien Dumoulin-Smith
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	Aqua America	WTR	WTR US	Julien Dumoulin-Smith
	Atlantica Yield	AY	AY US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Julien Dumoulin-Smith
	Entergy	ETR	ETR US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Julien Dumoulin-Smith
	Fortis Inc	FTS	FTS US	Julien Dumoulin-Smith
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	Vivint Solar	VSLR	VSLR US	Julien Dumoulin-Smith
NEUTRAL				
	AES	AES	AES US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Julien Dumoulin-Smith
	Edison International	EIX	EIX US	Julien Dumoulin-Smith
	Eversource Energy	EVERG	EVERG US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	NextDecade	NEXT	NEXT US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	Pattern Energy Group	PEGI	PEGI US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Julien Dumoulin-Smith
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
UNDERPERFORM				
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Julien Dumoulin-Smith
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	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Julien Dumoulin-Smith
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	Terraform Power	TERP	TERP US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
RSTR				

North American Utilities, Alternative Energy & LNG Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
	Algonquin Power & Utilities Corp	AQN	AQN US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Julien Dumoulin-Smith
	El Paso Electric Company	EE	EE US	Julien Dumoulin-Smith

iQ^{method} SM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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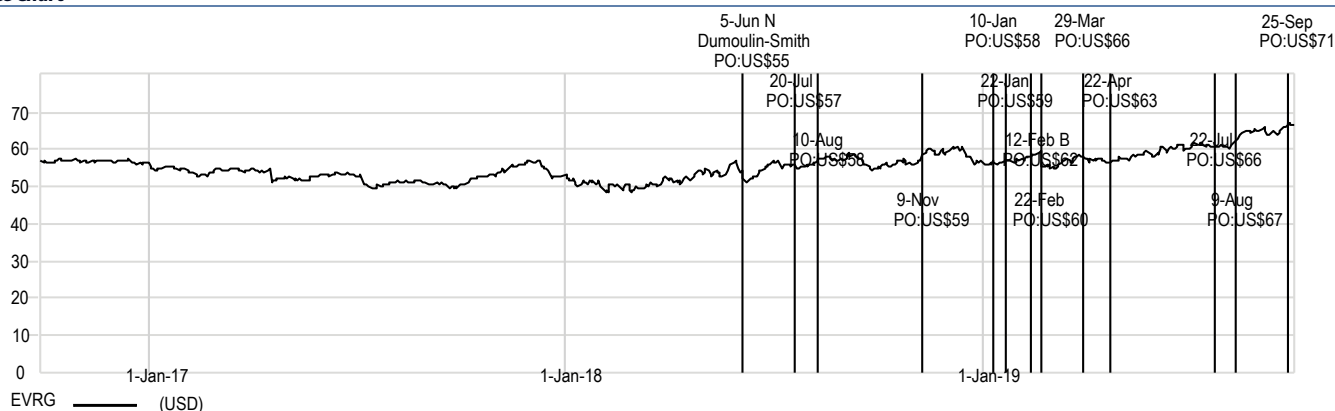
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Disclosures

Important Disclosures

EVRG Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of September 30, 2019 or such later date as indicated.

Equity Investment Rating Distribution: Utilities Group (as of 30 Sep 2019)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	67	47.86%	Buy	51	76.12%
Hold	36	25.71%	Hold	24	66.67%
Sell	37	26.43%	Sell	26	70.27%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2019)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1517	50.30%	Buy	964	63.55%
Hold	680	22.55%	Hold	434	63.82%
Sell	819	27.16%	Sell	408	49.82%

* Issuers that were investment banking clients of BofA Merrill Lynch or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofA Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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