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Q4 2018 Evergy Inc Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and thank you for standing by. Welcome to the Evergy Corporation conference call. (Operator Instructions) As a reminder, this conference call is being recorded.

I would now like to turn the conference over to Ms. Lori Wright. Ma'am, please begin.

Lori A. Wright ***Evergy, Inc. - VP of Corporate Planning, IR & Treasurer***

Thank you, Howard. Good morning, everyone, and welcome to Evergy's fourth quarter call. Thank you for joining us this morning.

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. Additional information and non-GAAP financial measures can be found on Slide 3.

We issued our fourth quarter 2018 earnings release and 2018 10-K after market close yesterday. These items are available, along with today's webcast slides and supplemental financial information for the quarter on the main page of our website at evergyinc.com.

On the call today, we have Terry Bassham, President and Chief Executive Officer; and Tony Somma, Executive Vice President and Chief Financial Officer. Other members of the management are with us and will be available during the question-and-answer portion of the call.

As summarized on Slide 4, Terry will recap our 2018 accomplishments, provide a business update and give an outlook on 2019 and beyond. Tony will update you on our financial results, then offer details on our 2018 earnings guidance and other financial projections.

With that, I'll hand the call to Terry.

Terry D. Bassham ***Evergy, Inc. - President, CEO & Director***

Thanks, Lori, and good morning, everybody. I'll start my comments on Slide 6. 2018 was a very good year for Evergy. The merger took many twists and turns, as you know, over the past few years, but I'm extremely pleased with our team's ability to thread the needle on successful regulatory proceedings, operational execution and integration of both business and culture. These accomplishments unlock the value of this combined company and allow for the delivery of solid financial and operational results, which we reported last night.

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Let me touch on some 2018 highlights. As mentioned, closing the merger allowed us to start capturing the benefits for our shareholders, customers and employees for years to come. Our company is now better positioned at operate efficiently and approach the future from a position of strength. We executed our target merger savings over the first 7 months of our company. We're able to achieve constructive regulatory outcomes and settled each of our 4 rate reviews, which reflect tax reform benefits for our customers. Not an easy task, especially following a multiyear merger proceeding. We work with stakeholders in Missouri to move Senate Bill 564 forward that modernizes the regulatory framework in the state. We've officially implemented the plant and service accounting benefits of this bill, which should improve our ability to earn our allowed return in Missouri for years to come.

We grew our dividend with the announcement of an increase last fall to our current indicated annual rate of $1.90 per share. We successfully executed our capital allocation plan, including the launch of our share repurchase program. By year-end, we retired over 16 million shares, a good start to tackling our total 60 million share target by mid-2020. Along with share repurchases, we invested approximately $1.1 billion across our service territory enabling us to continue to provide the quality service customers expect. We continued our strategy of transforming our fleet in a sustainable manner, retired 1500 megawatts of end-of-life fossil generation, while adding 244 megawatts of wind energy to our portfolio. This contribute to a 36% reduction in carbon levels since 2005. We're expecting this trend to continue. And by 2020, we project carbon reductions of more than 40% from the same 2005 base. And lastly, we delivered our customers energy in a safe and reliable manner. Our customer reliability metrics were in the first or second quartile for industry ranking, marking the second straight year that each of our utilities has been ranked in the top half of the 3 major reliability metrics. This is a testament to the continued dedication and commitment of our employees. These highlights help drive total shareholder return to the top quartile of the EEI index.

Moving now to Slide 7, I'll give you the latest on our regulatory proceedings. Integrating our workforce and following through a merger commitments continue to be a high authority. We're still on track with our target merger savings plan. Actual 2018 savings were ahead of our gross targets. Higher-than-expected severance cost tied to a voluntary exit program caused net savings to be shy of our target. Including these severance costs, we are in line with our 2018 expectations. Going forward, this will better position the company for more efficient operations, and we'll continue to increase our efficiency efforts in 2019 as our saving targets ramp up year-over-year. Much of this increase will come from the annualized benefit of our 2018 savings. And second wave of our supply chain sourcing efforts will also continue.

In December, we officially announced the closing of two end-of-life fossil plants: Montrose, a 330 megawatt co-plant owned by KCP&L; and Sibley, a 400 megawatt co-plant owned by GMO. In addition to merger savings, we'll also see the benefit of a full year of cost reductions related to these two plant retirements. Related to the closing of our Sibley plant in early January, Office of Public Counsel and Midwest Energy Consumers Group filed a complaint in Missouri requesting an accounting authority order to defer cost reductions associated with the retirement. In February, we responded asking the commission to dismiss the complaint as it fails to meet the standards of a formal complaint under state law. We also disagreed with the many allegations in the complaint, including total O&M savings reductions. The commission has ordered that any party wishing to respond to our motion to dismiss do so by February 22. And earlier this week, we made a joint filing with the other parties in the docket proposing a procedural schedule should the commission choose to proceed hearing the complaint.

Cost savings aren't the only merger commitment we've been focused on. In the fourth quarter, we distributed $60 million of upfront bill credits to customers as well as met with regulators in both states to provide merger updates. Along with the updates stipulated in our merger settlement, we opened compliance dockets to track merger-related items and commitments like merger savings, service quality metrics, capital plans and a comprehensive study of Kansas rates. As the Kansas legislature session ramped up earlier this year, we received some attention on our rate study I just mentioned. The staff of the Kansas Corporation Commission also produced their own independent Kansas rate study, both yielded similar results, which presented to the Senate and House committees last month.

Now moving to Slide 8., I'll update you on our investment outlook before turning things over to Tony. This morning, we introduced our 2019 adjusted earnings guidance range of $2.80 to $3 per share. The $2.90 midpoint is the base of our new target EPS compounded growth -- annual growth rate of 5% to 7% through 2023. Commensurate with earnings growth, we target -- continue to target 60% to 70% dividend payout ratio growing in line with earnings. We believe these targets and our commitment to no rate reviews for the next 4 to 5 years allow us to provide an attractive risk-adjusted total shareholder return profile.

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To summarize, 2018 was a good year for Evergy, and we're even more excited about 2019.

So with that, I will now turn the call over to Tony.

Anthony D. Somma ***Evergy, Inc. - Executive VP & CFO***

Thanks, Terry, and good morning, everyone. I'll take us through full year results, review our capital allocation plan and then finish up with the details on our 2019 and beyond outlook.

Now turning to Slide 10, I'll start with pro forma results, which exclude non-merger-related items and compared results as if Evergy reformed on January 1, 2017. Fourth quarter pro forma EPS were $0.08 a share compared to a $0.25 loss for the same period last year. The large increase is due primarily to the revaluation of nonutility deferred income taxes in 2017 as a result of tax reform. This pickup was partially offset by higher O&M and depreciation expense in the quarter. The increase in O&M was driven by $7 million of severance costs due to a voluntary employee exit program as well as $19 million of inventory write-offs associated with plant retirements in Missouri. Additionally, we had about $8 million in COLI proceeds in the fourth quarter. GAAP earnings for the quarter were $0.07 a share, a $0.01 lower than pro forma with the difference all coming from merger-related expenses. For the quarter, pro forma residential sales are up around 4.6% and commercial sales were up 1.2%, weather they were slightly favorable, we estimate it helped about $0.02 when compared to normal. Pro forma industrial sales were up about 3.6%, lower than in the same period last year. The decrease is mainly driven by three of our largest industrial customers within the chemical and oil sector having multi-week outages within the quarter, some of which were unplanned.

Moving on to full year results on Slide 11. Full year 2018 pro forma EPS were $2.67 a share compared to $1.73 last year. The primary driver of the year-over-year increase was due to a decrease in tax expense, mainly from the revaluation of nonutility deferred tax liabilities that I mentioned. Other items contributing to the pickup include increased sales due primarily to favorable weather, which helped by $0.37 compared to last year, $0.19 for Westar's deferred income tax revaluation based on the new composite tax rate upon closing the merger and about $0.03 of other. Providing an offset to these items were $0.08 of increased depreciation and amortization expense and $0.05 of higher O&M, which includes $23 million of voluntary severance expense and $31 million of plant inventory write-offs. Full year GAAP results were $2.50 a share, include merger-related costs that aren't in pro forma results and reflect lower shares outstanding. Also GAAP only includes KCPL and GMO results for the period post-merger close, whereas, pro forma includes them for the full period. On a pro forma basis, 2018 residential sales were up 10%, while commercial sales were up 3% compared to last year. Sales were driven by the favorable weather, which when compared to normal, we estimate helped about $0.31 for full year pro forma results. Industrial was down about 1.5%, mostly due to some of our larger customers returning to normal levels in 2018 as well as the extensive outages that I mentioned in the fourth quarter.

Moving to Slide 12, I'll give you an update on our recent financing activities and the progress we've made on share repurchase program in the fourth quarter. In November, we entered into another accelerated share repurchase and continue with open market purchases. For the year, we purchased more than 16 million total shares or a little over a quarter of our 2-year 60 million share target. We've continued to chip away in 2019 still focusing on the same measured approach of dollar cost averaging over time. We expect to have repurchased a total of around 19 million shares by early March. We project that we'll issue around $1.5 billion of holding company debt in 2019 to help with our rebalancing activities. The ultimate amount of debt will vary based upon share price, timing and total number of shares repurchased. As I mentioned before, the 60 million share by mid-2020 continues to be our target. The cadence in ultimate number of shares repurchased are subject to market factors and the financial outlook of the company.

Now let me get into some details on our guidance on Slide 13. As Terry mentioned, our 2019 adjusted EPS guidance range is $2.80 to $3 per share. This range does not include merger-related costs or severance and rebranding expenses, which total $0.10 a share, as we do not expect these transition expenses to be incurred after this year certainly not in any meaningful amount. Additionally, embedded within our guidance is the impacts of a major ice storm in January, the worse we'd experienced since 2002, costing us about $30 million, of which over half was O&M.

Now here are some of the drivers of our earnings guidance. We expect sales anywhere from flat to 50 basis points of growth. Our focus

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on merger savings will help reduce O&M expense, which we're targeting at $1.2 billion, plus or minus 2%, excluding transition expenses in severance -- for severance and rebranding. Depreciation and amortization will increase $80 million to $90 million compared to our 2018 pro forma amount. Now as far as interest expense goes, we plan to refinance about $700 million in long-term debt maturities at our utilities, plus we'll issue approximately $1.5 billion of holding company debt. Lastly, we'll continue to make progress on our share repurchase goal and expect the average annual share count to be about 240 million shares, plus or minus 2%.

Now looking beyond this year, we've updated our capital expenditure forecast for 2019 through 2023. That 5-year plan is relatively consistent with our previous forecast, totaling over $6 billion of infrastructure investment. It should be noticed our plan includes viable projects and no placeholders. Should an investment opportunity arise outside of our current project list, we will certainly review its merits. We'll continue to evaluate the incremental infrastructure opportunities that provide value to customers like grid modernization and renewable. This CapEx plan does take advantage of projects in Missouri and will continue to evaluate opportunities additional projects that qualify to spend that will deliver value to our customers. The capital plans push our previously disclosed 3% to 4% rate base growth using 2017 as a base year. However, by moving the base year to 2018, the capital plan will now drive rate base growth in a 2% to 3% range over the next 5 years. This investment plan reduces lag, while we're in a base rate stay out for the next 4 to 5 years. We remain very intentional within our investment and giving preferences to earning certainty as we're zeroed in on earning our allowed returns during this time. This 5-year investment cycle balances the interest of shareholders and customers, aligning long-term sustainability of both stakeholder groups.

We've also updated our 5-year EPS forecast, targeting a 5% to 7% CAGR through 2023, based of the $2.90 midpoint of 2019 guidance. The new CAGR answers the questions many of you have posed to us as to what the EPS CAGR would be if we updated to start from a more current period rather than a stay-up 2016 and take it beyond 2021. Additionally, this new trajectory is a result of rebasing on a year, which will include many of the advantages of our merger like the near-term impact of the cost reductions and share repurchases and now fully reflects the imputed savings that are agreed to in our 2018 regulatory settlements.

And having not adjusted the book ends of our guidance range and stayed with the 2016 through 2021 EPS CAGR, we still affirm the 6% to 8% CAGR, but would give you -- we guide you to the middle or lower end of the range, primarily due to the higher cost of the share repurchase plan. It should be noted that new EPS CAGR is not linear, and we expect a jump going into 2020 above the 7% CAGR.

We remain confident in the opportunity in front of us and continue to believe in our compelling investment thesis that offers a competitive and attractive risk-adjusted shareholder return.

With that, I'll turn the call back over to Terry.

Terry D. Bassham ***Evergy, Inc. - President, CEO & Director***

All right. Thank you for joining us this morning. We'll take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question or comment comes from the line of Julien Dumoulin-Smith from Bank of America.

Julien Patrick Dumoulin-Smith ***BofA Merrill Lynch, Research Division - Director and Head of the US Power, Utilities & Alternative Energy Equity Research***

Just to follow up on those last questions as part of the conversation here. When you said that there's -- it's not linear and it's a jump going into '20 above the 7%. Can you help elaborate a little bit more on '20 and '21 and how you're thinking about that? Obviously, you get the front-end-loaded benefits of the CapEx and the rate savings, synergies as well as rate cases here. Can you just give us a little bit more detail on '20 and '21 versus the later years, where obviously CapEx seems to slow? And then maybe let me just jump to it and ask the second question at the same time. How do you think about backfilling CapEx? I mean, it's fairly consistent across the sector that we see sort of CapEx trailing off in the later years and that subsequently filled in. How do you think about that right now given the specifics of your rate case timing expectations and the ability to recover or not recover as it maybe longer-dated CapEx in '22 and '23, specifically?

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Anthony D. Somma ***Evergy, Inc. - Executive VP & CFO***

Julien, this is Tony. As far as the EPS goes, given the share buybacks and the ramp up of the synergies, which is consistent with what we said along, the near-term's earnings ramp would be steeper than the out years. And this is consistent even though we rebased it off of current 2019 adjusted EPS CAGR of midpoint of $2.90 per share. So those two items, the share repurchases, the ramp up of the synergies will drive EPS at a steeper rate than when you get to the out years post 2021. As far as backfilling the CapEx, the investment thesis from the get-go, the merger was that we weren't going to be a rate base growth story that both legacy companies had spent large amounts of capital growing rate base. And the value of the merger was in combining these two companies and harvesting the efficiencies for both customers and investors, we certainly have opportunities being in the Midwest, and located in the basket of the wind tunnel, if you will, to invest more. But at this time, we would have to look at refreshing our RPS and some other things, and we've laid out there what we see today as viable projects.

Julien Patrick Dumoulin-Smith ***BofA Merrill Lynch, Research Division - Director and Head of the US Power, Utilities & Alternative Energy Equity Research***

Got it. And let me just clarify what you said. You would still be in the 6% to 8% range, in the low- to mid-end of that for -- through the entire period that you had previously?

Anthony D. Somma ***Evergy, Inc. - Executive VP & CFO***

No. Through 2021.

Julien Patrick Dumoulin-Smith ***BofA Merrill Lynch, Research Division - Director and Head of the US Power, Utilities & Alternative Energy Equity Research***

Through '21.

Anthony D. Somma ***Evergy, Inc. - Executive VP & CFO***

When we announced the deal, it's 6% to 8% CAGR off of Westar's 2016 earnings, and we took that out to 2021. And as we're on the road, folks have said, that's little stail and so we're updating it off of a more current period.

Julien Patrick Dumoulin-Smith ***BofA Merrill Lynch, Research Division - Director and Head of the US Power, Utilities & Alternative Energy Equity Research***

So that would be for '21 somewhere between $3.25 and $3.41 if you took the low- to mid-on of that range?

Anthony D. Somma ***Evergy, Inc. - Executive VP & CFO***

Yes. I'm not going to argue with your math, if that's what you come up with and then you have.

Operator

Our next question or comment comes from the like of Michael Sullivan from Wolfe Research.

Michael P. Sullivan ***Wolfe Research, LLC - Research Analyst***

Just wanted to follow up on a couple of those questions and then your comments at the end there. So I guess, just to start on the 2019. Can you just directly quantify what the O&M hit was worth and then share repurchase costing a little more on an EPS basis and kind of where you would have been, otherwise?

Anthony D. Somma ***Evergy, Inc. - Executive VP & CFO***

I must first understand your question, Michael, as far as the O&M hit. What do you mean by the O&M hit?

Terry D. Bassham ***Evergy, Inc. - President, CEO & Director***

The storm.

Michael P. Sullivan ***Wolfe Research, LLC - Research Analyst***

The storms. The storms.

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Anthony D. Somma ***Evergy, Inc. - Executive VP & CFO***

Yes, yes. So the guidance includes us eating the storm. The storm is roughly $30 million, and we're still telling the O&M piece of that it's probably a little more than half.

Michael P. Sullivan ***Wolfe Research, LLC - Research Analyst***

Okay. And then what about the repurchase program costing more than you guys would have otherwise thought? How much of a drag is that?

Anthony D. Somma ***Evergy, Inc. - Executive VP & CFO***

So obviously, when we announced the deal, and you can look on testimony filed, we're probably thinking we were going to issue around $1.1 billion, $1.2 billion holdco debt. Tax reform put a little bit of a crimp on that as that hurts cash flows and just overall values of utilities relative to tenures, they pretty stout. And obviously, it makes the share repurchase program more expensive, but it's obviously still accretive and the right thing to do to rebalance the capital structure.

Michael P. Sullivan ***Wolfe Research, LLC - Research Analyst***

Okay. And just to kind of put a point on that. As far as relative to your initial expectations and what you've kind of looked at since the merger closed. These are really the only things that have changed just these storm cost this year and then the repurchase program costing more than you would have otherwise expected.

Anthony D. Somma ***Evergy, Inc. - Executive VP & CFO***

Since we announced, well, there's tax reform. I mean, there's a lots of pluses and minuses going, but those are kind of the bigger ones.

Michael P. Sullivan ***Wolfe Research, LLC - Research Analyst***

Okay. And then the last one just on '19 guidance. Can you just explain the tax rate assumption? And why that's so low?

Anthony D. Somma ***Evergy, Inc. - Executive VP & CFO***

The 12% to 14%? It's a couple of factors. The legacy Westar has a COLI plan. And so I think embedded within the guidance is about $23 million of COLI proceeds. Additionally, we have large quantities of wind resources, which has produced production tax credits, which will lower your effective tax rate. That's our estimate going into the year.

Operator

Our next question or comment comes from the line of Greg Gordon from Evercore ISI.

Gregory Harmon Gordon ***Evercore ISI Institutional Equities, Research Division - Senior MD and Head of Power & Utilities Research***

Sorry that I'm going to beat the dead horse a little more here, but a few questions around the guidance revision. First, just mathematically, if I do use $2.43 as like the "even if it's stail based, I get that," but if I use that and I just do a CAGR to the new guidance range implied by guidance for '21, that's about 5.6% to -- that's basically 5.5% to 6.5% CAGR off of the $2.43 number, which is a $0.05 to $0.25 reduction, a $0.05 to $0.25 reduction in the low end and the high end of the range. So it is -- it's not a rebase guys, it's a significant reduction in expected earnings outcomes, that's why the stock is down 6%. So I'm just -- I just want to understand from your perspective, and I know, Tony, you just said there are a lot of moving parts, but what are the key things that took $0.25 off the high end of the range? Was it higher assumed share purchase price, higher interest expense because of the tax reform at the parent level? What are the big structural drivers that took the $0.25 off the high end?

Anthony D. Somma ***Evergy, Inc. - Executive VP & CFO***

So let me first state you're correct. Those are coming off some of the pretty ones, Greg. The tax reform obviously reduced cash flows. And when tax reform came out, we said this obviously will move us in the range. And we never said where we were in the range originally. We said the original range was 6% to 8% off of the $2.43. And additionally, the valuations in our sector as well as interest rates rising is making the share repurchase program more expensive, but it's still accretive and the right thing to do is to rebalance the balance sheet.

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Gregory Harmon Gordon ***Evercore ISI Institutional Equities, Research Division - Senior MD and Head of Power & Utilities Research***

Okay. But you still expect -- as we're thinking about modeling here that a combination of the rate settlements and your ability to harvest synergies would allow you to earn out or renew your authorized returns across the different regulated business units and should we model accordingly?

Anthony D. Somma ***Evergy, Inc. - Executive VP & CFO***

Yes. And recall, we never said the thesis was over-earning. The thesis was earning our allowed returns and staying there.

Terry D. Bassham ***Evergy, Inc. - President, CEO & Director***

Greg, we're on track with our synergy expectations, and we expect to earn right at our allowed returns. We've said before, we don't really expect to over-earn, but we expect to be able to earn on our allowed returns.

Gregory Harmon Gordon ***Evercore ISI Institutional Equities, Research Division - Senior MD and Head of Power & Utilities Research***

Right, okay. So we need to contemplate in our models earning at the authorized returns and really the leakage here and the growth came -- comes around really the financing costs and the impact of tax reform and all that. How that sort of pulls through your financial outcomes? Is that a fair summary?

Anthony D. Somma ***Evergy, Inc. - Executive VP & CFO***

Yes, fair summary. The earnings power of the company is the $14.2 billion of rate base that we have today, right? That's what rates are set at and then us harvesting the synergies going forward.

Gregory Harmon Gordon ***Evercore ISI Institutional Equities, Research Division - Senior MD and Head of Power & Utilities Research***

Okay. Is there anything in the articulated range built in for potentially earning back the rate credits in Kansas or getting into the sharing bands? Or if you were to be able to harvest a little bit of higher earned ROE above your authorized through executing and getting into the sharing bands like where would that put you inside this range?

Anthony D. Somma ***Evergy, Inc. - Executive VP & CFO***

You're asking contemplating earning above on the band in Kansas, which would kick in the sharing mechanism, as I'm understanding it right?

Gregory Harmon Gordon ***Evercore ISI Institutional Equities, Research Division - Senior MD and Head of Power & Utilities Research***

Yes. I'm basically saying like, if I assume the midpoint is that you're earning at your -- is the midpoint that you're earning at your authorized returns. I mean, because do you have -- and I know that you're telling us don't assume we over-earn, assume we just earn our authorized returns. But you have the ability to harvest more synergies and potentially flow back to customers significant incremental benefits and then keep something for shareholders. Is that at all contemplated in the guidance range?

Anthony D. Somma ***Evergy, Inc. - Executive VP & CFO***

Well, it certainly is possible, Greg, but there's a lot of pluses and minuses that would go into a forecast, particularly going out 5 years. And the whole -- one thing costed -- we generally avoid that. Again the thesis behind the merger is us earning our allowed returns and staying there. And if we do earn above those in Kansas and there is a mechanism in place that we could share those and that would obviously help us on the EPS CAGR.

Terry D. Bassham ***Evergy, Inc. - President, CEO & Director***

Yes. I mean, to your point, I think, I understand what you're saying is that we were earning toward the top end or even into the sharing ranges that would push us up in the range of earnings guidance, is that what you're suggesting?

Gregory Harmon Gordon ***Evercore ISI Institutional Equities, Research Division - Senior MD and Head of Power & Utilities Research***

Yes, yes. I'm just asking whether the range contemplates the ability to do that? Or whether if you achieved that, it would be above the range? But you are saying that it would just push you up inside the range.

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Terry D. Bassham ***Evergy, Inc. - President, CEO & Director***

Yes, yes.

Operator

Our next question or comment comes from the line of Michael Lapides from Goldman Sachs.

Michael Jay Lapides ***Goldman Sachs Group Inc., Research Division - VP***

Real quick on the docket Missouri that OPC and the industrials follow up. Can you just talk to us about how that process will work from here?

Terry D. Bassham ***Evergy, Inc. - President, CEO & Director***

Yes, we've -- we filed a motion to dismiss kind of based on our prior practice, where we've asked for accounting orders on different things that we don't believe this -- the request meets the standard. So the commissions setup time line for other folks to comment on that issue. We'll either get a ruling yea or nay on a dismissal. And if it's not -- if it is dismissed, obviously, we're up and running. If we -- if it's not dismissed, then we would work with the parties and the commission staff, ultimately, to establish a time frame for hearings and briefing and all that kind of stuff. And that could run through the summer, if those processes don't move fairly quickly.

Michael Jay Lapides ***Goldman Sachs Group Inc., Research Division - VP***

What the complainants basically seeking is to keep for customers to get the economic benefit of the O&M savings from the plant retirements. Was that originally embedded in as part of the merger agreement? Or as what they're seeking that the retirement benefit is actually greater than what was originally disclosed during the merger process?

Terry D. Bassham ***Evergy, Inc. - President, CEO & Director***

No, no, it's the former. Again, we were very transparent about all of these business matters while we were doing our negotiations. So they were well aware this was happening, their position is. Even though it occurred after the test year and after the effective new rates, they want those savings accounted for and flowed back later. I will say that even in the context of that request, they're -- we don't believe the number is right. They just kind of assume every dollar allocated to the plant goes away. And some of those employees were reassigned other things. So the less -- the total number they've alleged is higher than we believe. But it's the former, not the latter of your question.

Michael Jay Lapides ***Goldman Sachs Group Inc., Research Division - VP***

Got it. Okay. And then one question just on the merger savings and cost savings in general. Do you look at and I think there is upside to the original merger or cost savings that you laid out? And if so, what areas like if I were to go back to Steve Busser's testimony during the merger process. What area or what bucket within the various buckets of cost savings do you think the greatest opportunities exist for you guys?

Terry D. Bassham ***Evergy, Inc. - President, CEO & Director***

I don't think we really identified a lot of upside that we've already outlined and what was in Steve Busser's testimony. Obviously, every time you make an estimate like that, you drive to your goal and hope that you can find others. But I would say, this early in the process, we are implementing the charters and the plans that we put in place to achieve those targets. And then we would hope over time we find more. But I wouldn't say at this point, we've identified any additional opportunities that are material.

Anthony D. Somma ***Evergy, Inc. - Executive VP & CFO***

We are finding some. Obviously, we're consolidating the back office of Wolf Creek.

Michael Jay Lapides ***Goldman Sachs Group Inc., Research Division - VP***

Got it. Okay. Last one, and I know you've gotten a gazillion questions on kind of the earnings growth. Is it safe to assume you're above the 5% to 7% just in 2020? Or do you think that's a 2020 and '21 is well that you're above that range. And therefore, you'd obviously mathematically have to be at the probably closer to what your rate base growth would be in like '22 and '23?

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Anthony D. Somma ***Evergy, Inc. - Executive VP & CFO***

So in the near term, obviously, the savings ramp up and the share repurchases Michael drive the ramp up going from '19 to '20. I never looked at '20 to '21. We're not given '20 guidance today or '21 guidance, but we are telling you that the 5-year EPS CAGR is not linear and it's going to ramp up in the early years.

Operator

Our next question or comment comes from the line of Ali Agha from SunTrust.

Ali Agha ***SunTrust Robinson Humphrey, Inc., Research Division - MD***

Tony, there I just wanted to clarify comments that you've already made just to make sure I'm understanding it right. First off, coming back to the growth rate outlook. So once the share buyback impacts are fully factored in which, as you say, are 2020 and 2021. Then we should look at the growth rate beyond that really as a function of rate base growth since you're already earning your authorized returns, presumably there's not that much more upside from an earned ROE basis. So is rate base growth then a good proxy once share buyback plan is fully factored in?

Anthony D. Somma ***Evergy, Inc. - Executive VP & CFO***

Well, it's going to depend, right? It'll depend on numerous factors. And what we're saying today is the ramp up is happening here early because of the share repurchases and the merger efficiency that you've outlined. But it won't be the same slope of the line, if you will, probably once you get past 2021.

Terry D. Bassham ***Evergy, Inc. - President, CEO & Director***

Yes. And just to be clear on the issue, I mean, we've not tried to place placeholders in later years that will then work to necessarily to drive a greater growth rate. That doesn't mean that we don't have other opportunities and as we begin to move towards the end of our time period for a freeze and there's our test year involved, and we're working towards what is our future generation and needs and plans that we won't have additional CapEx opportunities. What we haven't done is suggest to you that we're going to work to a blind target in the later years, just increase the growth rate. We're trying to be very transparent here.

Ali Agha ***SunTrust Robinson Humphrey, Inc., Research Division - MD***

Okay. Then on the share buyback, again, I wanted to clarify, Tony, your comments. So you had bought back 16 million shares through the end of the year. And did I hear it right that based on the accelerated and other programs that by early March that 16 million would become 19 million? So in another words another 3 million would have been bought by early March? Did I hear that right?

Anthony D. Somma ***Evergy, Inc. - Executive VP & CFO***

That's correct.

Ali Agha ***SunTrust Robinson Humphrey, Inc., Research Division - MD***

So that would imply -- I mean, if I just look at the run rate from the last 3 months or the fourth quarter, which was about $8 million or so, that would be a pretty sizable slowdown in your buyback between Jan 1 and early March. Any reason for that? And as suggested, given the pullback in your stock price, I mean, is there a motivation to potentially accelerate this and maybe do it before mid-2020?

Anthony D. Somma ***Evergy, Inc. - Executive VP & CFO***

Well, that's -- there's a potential there, but we'll have to see. We want to keep our options available. And we've kind of been pretty transparent that we prefer the dollar cost average over time. And if we think valuations utilities are cheap and our stock is cheap, and naturally, we'd like to step on the gas a little bit more.

Ali Agha ***SunTrust Robinson Humphrey, Inc., Research Division - MD***

Okay. And then lastly, also clarifying these points your made about the cost of the buyback has gone up and now you're looking at issuing $1.5 billion of debt, previously was about $1.1 billion, $1.2 billion. Also for modeling purposes, when should we assume that debt needs to be issued? Is that also happening now earlier than expected in the context of how '19 numbers maybe shaping up that the interest expense maybe also higher because the debt needs to be issued a bit earlier as well?

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Anthony D. Somma ***Evergy, Inc. - Executive VP & CFO***

Yes. So clearly, the debt and associated interest would put pressure on earnings. It depends on the cadence of the share repurchases so one would issue that debt. It'll be some time later this year, third quarter or so.

Ali Agha ***SunTrust Robinson Humphrey, Inc., Research Division - MD***

Oh! So we should assume -- for modeling purposes -- for modeling purposes, it's third or fourth quarter?

Anthony D. Somma ***Evergy, Inc. - Executive VP & CFO***

Yes.

Operator

Our next question or comment comes from the line of Paul Ridzon from KeyBanc.

Paul Thomas Ridzon ***KeyBanc Capital Markets Inc., Research Division - VP and Equity Research Analyst***

Just a quick question. Just if you could review the interplay of your rate freeze and opportunities under Senate Bill 564 kind of how we should be thinking about that? Are you somehow constrained through opportunities because of the rate freeze?

Terry D. Bassham ***Evergy, Inc. - President, CEO & Director***

You're talking about Missouri PISA or what, Paul?

Paul Thomas Ridzon ***KeyBanc Capital Markets Inc., Research Division - VP and Equity Research Analyst***

Sorry, what?

Terry D. Bassham ***Evergy, Inc. - President, CEO & Director***

You're talking about Missouri PISA or what?

Paul Thomas Ridzon ***KeyBanc Capital Markets Inc., Research Division - VP and Equity Research Analyst***

Yes, yes.

Terry D. Bassham ***Evergy, Inc. - President, CEO & Director***

The constraint is in the bill itself. And remember, in Missouri, there is a cap there. And remember, Missouri, we don't have a technical rate freeze on the merger itself, it's related to the bill. So there's no additional constraint from a merger perspective. That was the settlement part of the Kansas deal. Does that make sense?

Operator

Our next question or comment comes from the line of Charles Fishman from Morningstar Research.

Charles J. Fishman ***Morningstar Inc., Research Division - Equity Analyst***

Just one question, merger savings, Slide 20. That does not include the $200 million total of merger savings from the closing of Montrose and Sibley, is that correct?

Anthony D. Somma ***Evergy, Inc. - Executive VP & CFO***

This is Tony, Charles. Yes, that's correct.

Charles J. Fishman ***Morningstar Inc., Research Division - Equity Analyst***

So that is -- I guess what keeps that? Because you controlled it, you've already closed those plants. What keeps that $200 million going from potential to realized?

Anthony D. Somma ***Evergy, Inc. - Executive VP & CFO***

I'm just trying to understand.

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Terry D. Bassham ***Evergy, Inc. - President, CEO & Director***

Yes, let me say that allowed and made us help to answer the question. Remember that ultimately, the closing of the plants that you just mentioned for KCP&L were already announced. And they weren't merger savings. So those aren't considered merger savings for the purposes of that we have a merger saving discussion. It was the closing on the Westar side that sped those closings up and therefore, considered merger savings. Does that make sense?

Charles J. Fishman ***Morningstar Inc., Research Division - Equity Analyst***

Yes, okay. But -- I mean, I guess, the $200 million has been baked into your guidance then obviously?

Terry D. Bassham ***Evergy, Inc. - President, CEO & Director***

Oh! Yes, it is. The savings associated with shutting the plants down is all part of our expectation going forward, absolutely.

Charles J. Fishman ***Morningstar Inc., Research Division - Equity Analyst***

Okay. So I could have done a better job of asking the question.

Operator

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

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

So just back on the complaint case in Missouri. What is the cost savings? I mean, you mentioned that you guys think it's less than what these guys are suggesting. Could you tell us what you think it is?

Terry D. Bassham ***Evergy, Inc. - President, CEO & Director***

So I think they -- and they're pleading. They said $22 million.

Anthony D. Somma ***Evergy, Inc. - Executive VP & CFO***

$27 million.

Terry D. Bassham ***Evergy, Inc. - President, CEO & Director***

$27 million. I'd say, we probably think it's half or a little more that actually could be related to specific costs. Again, you take them out, it should be allocated to that and then where actual outcomes were given. So I don't know that we quantify the exact number. But...

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

Okay. But roughly speaking about half or maybe about a little bit more than that number?

Terry D. Bassham ***Evergy, Inc. - President, CEO & Director***

Yes.

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

Okay. And then -- and your guidance basically assumes that basically that you guys have -- as you guys have indicated before, it's your position that basically -- this is already announced and therefore, should not be caught back or anything like that, is that correct?

Terry D. Bassham ***Evergy, Inc. - President, CEO & Director***

Yes, not just that. But in past years, we have sought accounting orders for costs such as factors and other things pretty straightforward that we ask to be accounted for. And it was determined pretty clearly, and the parties involved here that are asking for this argued that they were not extraordinary and shouldn't be. And these are very similar, not exact kinds of cost. So we think it's pretty clear under the words of the commission in past cases that these should not be provided for accounting works.

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

Okay, understood. And then the Kansas legislative study. Could you comment a little bit further on that in terms of this issue of competitive rates? And where you see if you see anything happening with respect to the legislature or the KCC or whatever regarding this topic, if you follow me?

Terry D. Bassham ***Evergy, Inc. - President, CEO & Director***

Yes. So we are in lockstep with the commission staff. We've actually testified on one of the bills early on, and we strive for an agreement. We provided our rate studies and the commission staff provided theirs that we had agreed to provide. And they were very similar. The bills have been filed now, cover a range of things, but the one specifically on the rate study does more than just asked for a study, what it does is an attempt to change the law that would address how you look at those things, and we think that's clearly not the intent of the rate study language. And again, the commission staff agrees with us. So I think, in the end what we expect to come out of the discussion is that we would have an additional rate study around, in particular, of larger customers that we would have spent the next year or 2 depending on how it all comes out, looking at how we compare to other regional costs. This is a reminder. 10 years ago, we were well below the national average. And currently, you're right, at above the national average, after about 10 years of both EPA and infrastructure spend. It speaks exactly to why we've done the merger and exactly why we've agreed to process over the next 4 or 5 years without rate increases.

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

Okay. And then with respect to the rate base growth and it being more modest perhaps than other areas -- other companies. I guess, is there any potential for opportunities with respect to perhaps that you might be exploring that would be in addition to your rate base growth that could be seen as potentially reducing operating costs or fuel costs or what have you? Is there any opportunities that you guys are exploring in that? And how might that impact your rate base growth other than what you guys are providing here?

Anthony D. Somma ***Evergy, Inc. - Executive VP & CFO***

So this is Tony. As I -- we jokingly say, we're in the Saudi Arabian of wind. And so there's always opportunities for renewables. In fact, many of our customers like to go greener. And those would be some things that we would look at, would be providing more renewable resources to our customers.

Terry D. Bassham ***Evergy, Inc. - President, CEO & Director***

In the near term, we've got a very specific plan. Obviously, we talked about as we've had in the later years, we're obviously -- always looking at opportunities, as Tony mentioned, kind of opportunities you talked about, but we haven't put any -- anything in the forecast that shows a bucket of opportunity dollars. Instead, we'll be working and analyze those as we go in, be updating investors as if we become more firm and planned, as we're providing RFPs and other things to our commission.

Operator

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

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

Sorry, I hopped on a few minutes late. Did -- on sort of the Sibley complaint, you don't have an outcome or a potential outcome in that case in your outlook, correct?

Terry D. Bassham ***Evergy, Inc. - President, CEO & Director***

Well, the soon there's no order granting the deferrals those costs that they've remained as we close the last rate case.

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

Got it, okay. And then just -- obviously, this is then hit on way too much, but the growth profiles obviously is (inaudible) a little bit right. So you've got the back -- the front-ends loaded, the back-ends somewhat tepid, especially as you guys sort of wait to file rate cases. Can you -- I know you've talked about wind and renewables. But clearly, there is capital spending that sort of have been withheld, while you've gone for this entire process. I'm curious as you think about the next wave of rate cases, outside of the incremental items around renewables, is there any other sort of capital opportunities you see on the base business? And then it's likely going to be somewhat of a

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healthy ask in the various states. And obviously, your synergies and efficiencies are helping. What sort of is the outlook for rates when you sort of go through this next wave of rate cases? And curious if the profile of that growth can reemerge closer to what people's past expectations were when you file for a new set of proceedings?

Terry D. Bassham ***Evergy, Inc. - President, CEO & Director***

Well, certainly, as we get closer to our test year work that will ultimately lead to rate cases, we'll have our better feel for what kind of increases there are. We're also be working to streamline and manage our O&M kind of costs. Got the idea of being able to spend more on rate base and less though and ended the strategy. But as we get closer to that, we'll certainly and are now looking at opportunities that customers may want from a renewable prospective. And other than generation, yes, we are a very reliable T&D system. And so opportunities from both the transmission and distribution perspective on an ongoing basis, whether it be grid modernization or just stability of the system or both opportunities that continue.

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

And so when you go through that revisit of that capital program and whether it's renewables or your base spending needs. Do you guys feel like you've got enough efficiencies out there as they're building to mitigate sort of a massive amount of rate inflation?

Terry D. Bassham ***Evergy, Inc. - President, CEO & Director***

Yes, I mean, I think -- I understand your question. I mean, the notion would be to -- we think our system is in good shape. We think we have opportunities from both -- as we have more recently with coal plants retiring and opportunities with wind that we can continue that transition of being a Tier 1 type T&D company with more and more clean renewable type energy without having to raise rates dramatically, but continue to give us the ability to invest in our systems.

Operator

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

Ashar Khan

Most of my questions have been answered. Can I just ask you, can you share with us what the synergy levels are, say, increase from '19 to '20? Is there anything you can provide on guidance on that? How the synergies improve year-over-year from '19 to '20 and '21? Is there anything you can provide?

Anthony D. Somma ***Evergy, Inc. - Executive VP & CFO***

Yes, it's Slide 20 in that deck. In '19, there is a target of about $110 million. In '20, it ramps up to $145 million. And this would exclude, obviously, the power plant savings that we talked about earlier.

Ashar Khan

And so I can just take the delta in between those and after-tax it at what tax rate, Tony?

Anthony D. Somma ***Evergy, Inc. - Executive VP & CFO***

Up 25%, Lori, all-in?

Lori A. Wright ***Evergy, Inc. - VP of Corporate Planning, IR & Treasurer***

Yes, yes.

Ashar Khan

Okay. So I can just take the delta and after-tax 25%. And that would be incremental year-over-year earnings, right?

Terry D. Bassham ***Evergy, Inc. - President, CEO & Director***

All other things being equal. Yes, obviously, it's -- we've got other things happening, but that would be the relationship to those costs.

Operator

Our next question or comment comes from the line of Andrew Levi from ExodusPoint.

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Andrew Levi ***ExodusPoint Capital Management, LP - Portfolio Manager***

There's two questions. First one, I just want to make sure I heard correctly or maybe I misinterpreted it. Just on the stock buyback itself, you're not deviating at all from the amount dollar-wise that you're buying back or are you because of what you said about tax reform, et cetera, et cetera?

Anthony D. Somma ***Evergy, Inc. - Executive VP & CFO***

No, the target is still 60 million, no change in plan.

Andrew Levi ***ExodusPoint Capital Management, LP - Portfolio Manager***

Okay. Just wanted to make sure that didn't know if I heard correctly. And then just the other thing too. So obviously, you've met us several times, so -- in the last couple of months. So basically, what you're saying is in the outer years -- so you're saying there's 2%, 3% rate base growth based on your '19 base. However, if in time, as you kind of get through this stock buyback and you kind of look at opportunities in the future, that rate base/CapEx numbers in the outer years should grow or you're not saying that?

Terry D. Bassham ***Evergy, Inc. - President, CEO & Director***

I'm saying that certainly opportunity there. Obviously, what we're describing is what's in our guidance. But as we move through that time period, we move towards our upcoming rate cases, and we continue to work on issues such as customer growth and integrated resource planning. Yes, we'd expect there to be opportunity to evaluate opportunities.

Andrew Levi ***ExodusPoint Capital Management, LP - Portfolio Manager***

Okay. And that probably is what unlike the -- probably see that unlike the 2020 type time frame or '21 or...

Terry D. Bassham ***Evergy, Inc. - President, CEO & Director***

Yes, I mean...

Andrew Levi ***ExodusPoint Capital Management, LP - Portfolio Manager***

Not the actual dollars that will get that kind of update.

Terry D. Bassham ***Evergy, Inc. - President, CEO & Director***

Yes, we'll continue to update you along the way as we go with the plan. And again, we're not going to put placeholders to work towards. We're going to put in what we're working on at the time and be transparent about that.

Operator

Our next question or comment comes from the line of Kevin Fallon from Citadel.

Kevin Fallon

I just wanted to do -- I just wanted to clarify that when you guys are looking at the rate base ruling for that your assumption is you're earning -- you're authorized on your actual current year rate base, correct?

Anthony D. Somma ***Evergy, Inc. - Executive VP & CFO***

Well, there's a lot of pluses and minuses. But yes, that's the whole idea is that the merger savings will hopefully offset whatever spend there is on the capital side.

Kevin Fallon

Okay. But the base is moving higher...

Anthony D. Somma ***Evergy, Inc. - Executive VP & CFO***

I understand you want to make it very precise, but there's a lot of pluses and minuses that go into the forecast and a lot of levers that move.

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Kevin Fallon

I don't know that I can definitely appreciate it. I just want to make sure that as the rate base is moving up 2% to 3% that your opportunity is set and your target is to have earn on that growing rate base?

Anthony D. Somma ***Evergy, Inc. - Executive VP & CFO***

Yes.

Kevin Fallon

Okay, exactly. The other thing -- just in terms of clarity on the back end in terms of the CapEx for all these other things like wind and grid mod and what not. What is it that you need to wait for to start to have like a line of sight to be able to update those plans? Like do you have like PPAs rolling off? Or is there something under the legislation in Missouri? What drives the timing in terms of updating that?

Terry D. Bassham ***Evergy, Inc. - President, CEO & Director***

Well, it's traditional utility planning. On the front end, where we just started the merger, the strategy is to be able to earn on our spend without increasing rates for customers. That's what we've agreed for the short -- the near term, not to have rate increases. As we work through our planning for a test year and hopefully in those cases, we'll have an update on what's happening with our different units. We working with customers on their needs and wants around additional wind and opportunities for wind, which not just simply reduce overall cost, which we've done in the past. Given this opportunity at that point to look at whether we want to own those in rate base or whether we want to have PPAs. Remember that, in the past, both companies tended to lean on PPAs because from a capital perspective, we were spending on environmental and other things and didn't need additional CapEx or rate base spend. The only other kind of limitation might be is PISA. As we look at PISA on Missouri side, there's opportunity there, but there's also limits in the legislation itself, and we'll be watching that as well.

Kevin Fallon

Just to follow on...

Terry D. Bassham ***Evergy, Inc. - President, CEO & Director***

Does it make sense?

Kevin Fallon

Yes, it does. Just as a follow-on, is there a certain time frame in terms of when you have these PPAs rolling off? Is it a kind of a front -- like when you look out to 2023 in your deck, is that the time frame where you start to have PPAs rolling off? Or is that kind of a further out in the future?

Terry D. Bassham ***Evergy, Inc. - President, CEO & Director***

This is Tony, it be further out. I think both legacy companies probably put wind on '07, '08 time frame their own wind resources. We put on some more, but -- and those are 20-year PPAs.

Operator

We've a follow-up question from Ali Agha from SunTrust.

Ali Agha ***SunTrust Robinson Humphrey, Inc., Research Division - MD***

Just a very quick one. Coming back to the Sibley complaint. I know there you mentioned that the commission has asked for comments to your filing for dismissal today. But just given that schedule, when would you expect the commission to rule whether to dismiss this or not?

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Terry D. Bassham ***Evergy, Inc. - President, CEO & Director***

I put a deadline for filing comments/bar against, I guess, but comments around it. There didn't typically a deadline around when the commission would make a decision. Once they get all in, they'll review with everybody, it said. And it will depend on kind of a final order meeting schedule, which happens every -- usually every week. But until they put it on the docket for us to see, we wouldn't know how quickly that would happen.

Ali Agha ***SunTrust Robinson Humphrey, Inc., Research Division - MD***

Understood. But are we thinking weeks or months, I mean, just a rought sense?

Terry D. Bassham ***Evergy, Inc. - President, CEO & Director***

Probably weeks on the move forward, don't move forward. And then if they don't dismiss the case, probably months in terms of how to process a complaint case.

Operator

We have a follow-up question from Mr. Paul Ridzon from KeyBanc.

Paul Thomas Ridzon ***KeyBanc Capital Markets Inc., Research Division - VP and Equity Research Analyst***

Just can you review kind of what the potential blackouts are on the buyback? And could your agent being there today taking advantage of this weakness?

Anthony D. Somma ***Evergy, Inc. - Executive VP & CFO***

So as we said before, the intent is to have the infrastructure in place to be able to buy back shares through blackout periods.

Paul Thomas Ridzon ***KeyBanc Capital Markets Inc., Research Division - VP and Equity Research Analyst***

And then what does guidance contemplate as far as the savings from the plant closings? Is that embedded in guidance? Or is that upside?

Anthony D. Somma ***Evergy, Inc. - Executive VP & CFO***

It is embedded in guidance.

Operator

Thank you. I'm showing no additional questions in the queue at this time. I'd like to turn the conference over to Mr. Terry for any closing remarks.

Terry D. Bassham ***Evergy, Inc. - President, CEO & Director***

Okay. Thanks, Howard, and thank you, everybody, for joining the call this morning. I know we've got a lot of information we provided today. And we appreciate you being on the call and participate with us. Have a good weekend. Thank you.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes the program. You may now disconnect. Everyone, have a wonderful day.

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