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EVRG.OQ - Q1 2024 Evergy Inc Earnings Call

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**OVERVIEW:**

Company Summary

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

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## PRESENTATION

**Operator**

Good day, and thank you for standing by. Welcome to the Q1 2024 Evergy, Inc. Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. I would now like to hand the conference over to your first speaker today, Pete Flynn, Director of Investor Relations. Please go ahead.

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

Thank you, Brianna. Good morning, everyone. Welcome to Evergy's First Quarter 2024 Earnings Conference Call. Our webcast slides and supplemental financial information are available on our Investor Relations website at investors.evergy.com.

Today's discussion will include forward-looking information. Slide 2 and the disclosures in our SEC filings contain a list of some of the factors that could cause future results to differ materially from our expectations. They also include additional information on our non-GAAP financial measures.

Joining us on today's call are David Campbell, Chairman and Chief Executive Officer; and Kirk Andrews, Executive Vice President and Chief Financial Officer. David will cover first quarter highlights, our updated integrated resource plan and provide an update on our regulatory and legislative priorities. Kirk will cover in more detail our first quarter results, retail sales trends and our financial outlook for 2024. Other members of management are with us and will be available during the Q&A portion of the call.

I'll now turn the call over to David.

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

Thank you, Pete, and good morning, everyone. I'll begin on Slide 5. This morning, we reported first quarter adjusted earnings of $0.54 per share compared to $0.59 per share a year ago. Relative to last year, this quarter's results were driven by higher operations and maintenance expense, depreciation and amortization expense and interest expense, partially offset by new retail rates and transmission margin.

Unseasonably warm weather was also a factor. Heating degree days were 11% below normal for the quarter, negatively impacting our results by an approximate $0.07 per share. Kirk will discuss these earnings drivers in more detail in his remarks. In terms of reliability, we've experienced a good start to the year through March, our average outage duration and frequency measured by SAIDI and SAIFI are trending favorably relative to our targets, demonstrating the benefits of our continued grid modernization investment and the hard work of our transmission and distribution teams. I'm also pleased to report that we're nearing completion of their 26 Wolf Creek nuclear refueling outage, consistent with our plans.

Wolf Creek generates around 1,200 megawatts of non-carbon emitting energy enough to power more than 800,000 homes. The plant employs over 700 people, and that number effectively doubles during outages. I'd like to thank everyone involved for their hard work and focus on sustaining the excellent operational performance of the plant.

Our team's execution has enabled a solid start to the year despite the mild weather, and we are reaffirming our 2024 adjusted EPS guidance range of $3.73 to $3.93 per share as well as our target long-term annual adjusted EPS growth target of 4% to 6% from 2023 to 2026.

Slide 6 highlights our triennial Integrated Resource Plan, or IRP, which was filed on April 1 in Missouri and will be filed on May 17 in Kansas. This year's IRP reflects the impact of updating our long-term expected load growth, including the addition of the recently announced Google data center in Missouri as well as other important inputs such as resource adequacy requirements of the Southwest Power Pool, construction cost estimates, and commodity price forecasts.

I'd like to briefly touch on the new rules recently issued by the Environmental Protection Agency. Our IRP process includes consideration of environmental rules, SVP rules and other regulatory requirements. So the EPA's newly issued rules will play a role in our resource planning going forward.

Our overarching goal in the IRP process is to identify the most cost-effective and resilient plan that reliably serves our customers across uncertain future scenarios. We believe that renewable and natural gas additions, as shown in our IRP, are being planned in a manner that will allow Evergy to reduce carbon emissions, take advantage of best-in-class efficiency and support economic development in our service territory while striving to minimize the impact on affordability and ensuring that we can provide reliable electric service.

We are assessing the potential impact of the new EPA rules from an affordability and reliability perspective as the rules would likely require significant incremental investment relative to what is currently in our IRP. For example, carbon capture and storage is an important element in the new greenhouse gas rule. At present, carbon capture and storage is an important element in the new greenhouse gas rule. At present, carbon capture and storage technology is not commercially demonstrated at scale on existing plants, along with costly and as yet unproven retrofitted control equipment, it require pipeline and storage infrastructure, which are not in place in our region. The EPA rules are expected to face legal challenges, and we will monitor those developments closely.

As a reminder, in 2023, nearly half of the energy that we generated for retail customers came from carbon-free resources, reflecting the contributions of our Wolf Creek nuclear plant and the 4,600-megawatt portfolio of renewable resources that we either own or contract through long-term power purchase agreements.

Evergy has invested significantly to enable our fossil units to meet existing environmental standards, operate reliably and be available to support our customers when called upon. We continue to take a balanced forward view of generation needs as shown through our IRP, which includes significant new solar, wind and natural gas balanced against the pace retirements of our coal fleet.

In aggregate, the 2024 preferred plan includes 5,800 megawatts of resource additions through 2033, representing an increase of 1,500 megawatts over the next 10 years, when compared to the 2023 preferred plan. As our generation fleet evolves, we are focused on achieving a responsible balance between renewables, which are non emitting and have low or negative marginal costs but are intermittent and both new and existing thermal resources, which have higher marginal cost for fuel and O&M, but can be dispatched to meet customer demand when they are needed most.

The ultimate goal of this balance is to ensure reliability and affordability for our customers as we advance a responsible transition of our generation fleet. This transition will require sustained investment over the coming years and will incorporate the most recent IRP and its higher levels of new generation when we provide an update to our capital plan in the third quarter earnings call later this year.

On Slide 7, we highlight details about 3 customers, Google, Panasonic and Meta, which represent major economic development wins in 3 of our 4 jurisdictions. In aggregate, demand from these 3 customers represents approximately 750 megawatts of load and each will be the largest customer in their respective jurisdiction by a wide margin.

The overall economic development pipeline continues to show promise in both Kansas and Missouri with more than $10 billion of projects considering locating in our service territories. We are very excited to work with these potential customers as they consider our region. As part of the exercise alongside the economic development rates that are in place in both Kansas and Missouri, we are looking at rate design elements to ensure that there is appropriate and adequate recovery associated with large new loads.

More broadly, our strategic focus on affordability and regional rate competitiveness, is an important contributor to this large pipeline and provides a foundation for our support of the tremendous economic potential in our states.

As shown on Slide 8, when factoring in economic development in these large new loads, including the recently announced Google Data Center, we are extending our weather-normalized demand growth forecast of 2% to 3% to 2028 off of the 2023 base, which previously ran through 2026.

Moving to Slide 9, I'll provide an update on our regulatory and legislative priorities in both Kansas and Missouri. I'm very pleased to start by discussing House Bill 2527 in Kansas, which becomes effective on July 1 of this year. The passage of HB-2527 signals the support of Kansas legislators, regulators and stakeholders for infrastructure investment in support of economic development and the importance of a competitive and constructive regulatory framework for that infrastructure investment. It is an exciting time in the region as reflected by the significantly higher sales growth forecast relative to recent history of the business [pride.]

In terms of financial impact, the piece of provisions in HB 2527 served to mitigate regulatory lag between rate cases, very similar to how it works in Missouri. The construction work in progress provisions that apply to new natural gas units also demonstrate Kansas' support for our plans to invest in new natural gas-fired generation.

For our current capital expenditure plan, many of you have asked to quantify the financial impact relative to not having HP 2527 in place and how it helps to reduce the gap between allowed returns and actual realized returns. Under the provisions of the new law, in the first year following a rate case at our current investment levels, the impact is roughly $0.03 to $0.04 per share. If we go 2 full years between rate cases, the impact is roughly $0.10 in the second year. And as we've described, we expect our cadence of rate cases going forward to be roughly every other year, though that won't be true for every jurisdiction.

Of course, that estimated impact is a stand-alone view of a single item and does not factor in any other potential drivers, such as changes in interest rates or changes to the capital plan just to cite 2 examples. Overall, the most important aspect of the passage of HB 2527 is the alignment that it reflects in Kansas about a competitive framework for investment as we respond to historic economic development opportunities.

I'd like to thank legislative leaders, Kansas Corporation Commission staff, representatives from CURB, industrial stakeholders, the Governor's office and many other stakeholders as well as the Evergy Public Affairs team for their participation and engagement in getting this legislation passed.

I also want to highlight the passage of Senate Bill 410, which provides a 10-year property tax exemption for newly constructed natural gas units. The benefits of this exemption will be shared with our customers. This bill further reflects Kansas' support for our planned natural gas investments, which are a crucial aspect of our long-term resource planning to meet the demands of our growing customer base and ensure reliability.

On May 17, we will file our 2024 IRP with the Kansas Corporation Commission. We bid our outlook for Kansas Central, similar to what we provided in our Missouri IRP filing.

Now pivoting to Missouri, we continue to work our way through our pending general rate case in Missouri West. On June 27, staff and other interveners will file their direct testimony and rebuttal testimony is due by August 6. During the subsequent weeks, parties will file true-up and (inaudible) testimony followed by a settlement conference around September 23. Hearings will occur in late September through early October and revised rates in Missouri West will go in effect January 2025.

We look forward to working collaboratively with the Missouri Public Service Commission staff and our stakeholders to achieve a constructive outcome for our Missouri West customers. Regarding Missouri legislative initiatives, Language to amend the piece of statute has passed the house and awaits further action in the set. Key provisions would amend the piece of statute to include new natural gas units and a 90% deferral and extend the piece of sunset to 2035.

Discussions around the topic and the need for new gas generation have been positive, reflecting broad support. However, given the schedule and overall session dynamics, it will be hard to get any new legislation passed in the short time remaining for the 2024 session. This initiative is no exception.

I'll conclude my remarks on Slide 10, which highlights the core tenets of our strategy, affordability, reliability and sustainability. Our efforts to enhance affordability have yielded significant progress in improving regional rate competitiveness over the past few years. Our strategic plan is designed to sustain this positive trajectory. By prioritizing affordability, we contribute the robust economic development pipeline ahead of us and support the substantial economic potential within our states.

Ensuring reliability is also a core element of our strategy as reflected by SAIDI safety -- excuse me, SAIDI, SAIFI, grid resiliency and public safety. This also includes a focus on metrics relating to customer service, the commercial availability of our fleet, safety in all elements of our operations, including infrastructure investments.

With respect to sustainability, we continue to advance the cost-effective transition of our generation fleet. Since 2005, we have reduced carbon emissions by 53% and reduced sulfur dioxide and NOx emissions by 98% and 90%, respectively. We look forward to ongoing progress along this path. Our mission is to empower a better future, and our vision is to lead the responsible energy transition in our region, always with an eye on affordability and reliability as well as sustainability.

I will now turn the call over to Kirk.

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

Thanks, David, and good morning, everyone. Turning to Slide 12. I'll start with a review of our results for the quarter. For the first quarter of 2024, Evergy delivered adjusted earnings of $124.7 million or $0.54 per share compared to $136.1 million or $0.59 per share in the first quarter of 2023.

As shown on the slide from left to right, the year-over-year decrease in first quarter adjusted EPS was driven by the following: First, similar to the first quarter of 2023, we saw milder-than-normal weather, particularly in the months of February and March this year. And while the year-over-year adjusted EPS impact was flat, compared to normal, weather was an estimated $0.07 unfavorable.

Next, compared to the strong demand recovery we saw in the first quarter of 2023, weather-normalized retail sales declined by 0.5% primarily driven by lower commercial and industrial demand will remain neutral to EPS. New retail rates in Kansas contributed $0.05 to the quarter. Higher transmission margins resulting from our ongoing investments to enhance our transmission infrastructure drove a $0.04 increase and O&M drove a $0.06 negative variance for the quarter. This was driven by significantly lower O&M in the first quarter of 2023, which resulted from the implementation of an early retirement program as well as timing of expenditures in '24. And overall, our O&M outlook is flat for the balance of the year versus 2023.

Next, higher depreciation and amortization expense due to increased infrastructure investment drove $0.04 decrease. Higher interest expense drove a $0.03 decrease and based on our expected capital investments and the current outlook for interest rates, our expectation for interest expense for the full year remains on target. And finally, other items drove a $0.01 decrease.

Turning next to Slide 13. I'll provide a brief update on our recent sales trends. On the left side of the screen, you'll see weather-normalized retail sales decreased by 0.5% over the first quarter of 2023, driven primarily by decreases in both commercial and industrial usage. While we did see further recovery from our largest refining customers in industrial, we also continued to see lower demand for other industrial customers. This was driven in part by plant retooling and expansion projects being undertaken by our customers in the food processing and additive sector, which began in late 2023.

As these events are expected to be temporary, with demand from these customers recovering thereafter, we expect industrial demand to recover as we move through 2024. This will be further augmented by the expected uptick as large customers from our recent economic development wins begin to come online later this season. And we expect a more notable pickup from these new customers beyond 2024 as we expect Panasonic, Meta and Google will fully ramp their usage to full run rates in 2026, 2027 and 2028, respectively.

As David noted in his remarks, in total, we are extending our weather-normalized demand growth forecast of 2% to 3% now through 2028. Our demand projections continue to be supported by a strong local labor market as Kansas and Kansas City metro area unemployment rates remain below the national average.

And finally, on Slide 14, I'll wrap up with an overview of our long-term financial expectations. We are reaffirming both our adjusted EPS guidance range for 2024 as well as our long-term adjusted EPS growth target of 4% to 6% through 2026 based on the original 2023 adjusted EPS guidance midpoint of $3.65 and continue to expect to achieve this growth without the need for new equity.

Our recently updated capital investment plan, which includes $12.5 billion in infrastructure investment does not yet reflect and incorporate the impact of changes that were reflected in our 2024 IRP. And as David mentioned earlier, we will provide you an update on our capital plan on our third quarter earnings call.

In addition to allowing us to achieve our financial targets executing on our investment plan advances our key objectives of ensuring affordability, reliability and sustainability over the long term.

And with that, I'm happy to open the call for questions.

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Our first question comes from the line of Nicholas Campanella from Barclays.

**Nicholas Joseph Campanella** - *Barclays Bank PLC, Research Division - Research Analyst*

Thank you for all the updates today. I just wanted to clarify, it's great to see the load growth extend into 2028. And I know you have the IRP coming in Kansas. Just how should we kind of think about you doing a 6% rate base CAGR right now? And does this extend your visibility to that CAGR? Or do you see that kind of pressuring higher in this new plan?

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

It's a great question. We won't get ahead of the capital expenditure update that we're doing in the third quarter, but I will describe that. You're right, our current expectation rate base growth through 2028 is 6%. So that was the capital expenditure plan we put out on our Q4 call. It is at the low end of all of our peers, significantly below the average of our peers and part of why HB 2527 was so important was because we do see a historic economic development opportunity and pipeline in our territory and investing to take advantage of that opportunity is a lot more difficult when the returns you can offer capital are not competitive.

HB 2527 significantly improves on that. So we've noted that we do plan to update our capital expenditure plan, and that's really to reflect several things. One is the updated IRP does have higher level of generation additions. So we incorporated the 2024 IRP. We'll also incorporate economic development activities and wins we've had, for an example, the Google announcement is subsequent to our capital expenditure plan. There's been a lot of other activity as well. And obviously, we're continuing to look at the other grid modernization and other opportunities that we have. So we will -- we do plan to give a capital expenditure update on the third quarter. We won't get ahead of what's in it. But there are several factors that I think will do create an upward bias, but we're always -- we always take a balanced approach. What we're excited to do will be able to invest to take advantage of the opportunities that we see for our region.

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**Nicholas Joseph Campanella** - *Barclays Bank PLC, Research Division - Research Analyst*

That's really helpful. And then I guess as we're kind of toggling CapEx and thinking about what could be incremental to the plan. Can you just remind us where you stand on your current credit metrics where you're trending for '24? And then where that is relative to your minimums and just how to think about equity needs past the time frame you've guided?

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

Sure Nick, it's Kirk. I'll focus on the Moody's metric, which we updated on our fourth quarter call. Due to a few items, most notably, the changes in the -- we were still waiting, obviously, to securitize the Missouri West Winter Storm URI -- cost, which we successfully did subsequent to the year-end. Pro forma for that other items going into 2024, we're about 15%, which is that threshold.

But as we move into 2024, some of the elements where we get a more current and efficient return both from an earnings and a cash perspective, most notably our transmission investments in Kansas and other items help contribute to the fact that we continue to see a surplus relative to that 15% threshold for Moody's.

We expect to utilize that surplus to help supplement our operating cash flow to fund those capital investments without the need for new equity through 2026, and we don't -- we won't sacrifice those credit ratios in the process. So we feel comfortable with that surplus and our ability to utilize it and sort of maintain our ratios at or above the threshold through 2026.

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**Operator**

Our next question comes from Shar Pourreza of Guggenheim Partners.

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**Shahriar Pourreza** - *Guggenheim Securities, LLC, Research Division - Senior MD & Equity Research Analyst*

Obviously, you guys have mentioned economic development. It's obviously been a key part of the slide decks. Data centers have obviously been kind of front and center for a lot of calls this cycle. Do you sort of have maybe a rule of thumb at this point for the amount of maybe transmission investments you're making with these sites. We've heard some of your peers like in Pennsylvania, talk about somewhere between $50 million to $150 million. Is that kind of fair to you?

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

Shar, it really does vary depending on where the location is. Typically, there are incremental investments for very large loads. They're system investments, so it's always a little difficult. If you pegged the last bit of investment and it's all tied to that single customer. But when you have loads in the hundreds of megawatts given the size of our system and as you think of the share of our overall transition base, there's certainly some loads that will have investments around that level if you get to a significant size.

So it does vary depending on where it is and where it locates. We typically have not -- don't have a lot of spare hundreds of megawatts of capacity in our system. So if you add that much load. And obviously, that's going to help you spread your fixed costs more broadly, but there will be some incremental costs as well.

So that's -- we even give them a rule of thumb, but when you're talking hundreds of megawatts that you're going to have incremental investment system. And I think probably most of our utilities will see similar numbers in the similar range.

And just to note, for our plan, both Meta and Panasonic have been advanced -- had been announced before we had put out our Q4 CapEx plan. So they are included in the plan that we published, but Google had not yet announced. So it has not yet been included in our CapEx plan.

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**Shahriar Pourreza** - *Guggenheim Securities, LLC, Research Division - Senior MD & Equity Research Analyst*

Then maybe just to hone in a little bit. Just maybe if you could just provide a little bit of directional color on the mechanics and the margin on the Google deal. Because if we understand it, you're supplying the actual megawatts, but some of the press releases, including coming from the governor, we're framing this as a self-supply setup 400 megawatts from Ranger and D. E. Shaw. So just trying to understand your exposure and obligations here.

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

So the rates are subject to (inaudible) agreements. I don't discuss rates. Generally, when you bring in large new loads, they're typically eligible for economic development rates. But as I described in my comments in the script, we're actively working on rate design elements to ensure that large new loads we -- the incremental considered.

There are a number of players who signed virtual PPAs. We'll still be the supplier to Google. So it will be a customer of ours and the megawatts they receive will be from us. They will -- their agreement will be in effect, a virtual PPA with -- there'll be a offtaker or an economic offtaker, but that asset where it's added will become another generation resource in the Southwest Power Pool.

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**Shahriar Pourreza** - *Guggenheim Securities, LLC, Research Division - Senior MD & Equity Research Analyst*

And then just lastly, on the EPA regs, I mean, obviously, this was a key part of your opening prepared, right? I mean there's obviously been a lot of chatter this quarter on the regs and potential impacts to IRPs and gas generation plans. Does the April IRP just put out account for this, thinking specifically, for example, on the gas additions you proposed, which may not get credit for coal-firing hydrogen under the final rules, so CCUs only. I guess how are you approaching planning around this?

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

Thanks, Shar. It's a great question. The IRP that we just issued in Missouri and it's an overall corporate IRP also we'll file in Kansas one here in a couple of weeks. But that IRP does not include the EPA's recently issued rules. It just came out too late to be included in the process. There's a ton of analysis that goes into it. So the new rules will be factored into our IRPs going forward.

I do not anticipate -- well, there's still a lot of analysis to do. I don't anticipate it's going to change our plans to build new gas units. We're going to need new gas to ensure reliability, we'll need it for the capacity in the system as well. I will impact our analysis of what type of gas units are added, what makes the most sense, and that will probably be an analysis that goes down the jurisdictional level. As you know, the EPA rules set rates that new efficient gas turbines can achieve. There are just some limits on the capacity factors at which they can run.

So for peaking units in effect, anything in a peaking unit level is a 20% capacity factor and then intermediate units can run up to a 40% capacity factor before CCUS carbon capture and storage is required.

Now we will be looking at this in the requirements because it is going to -- it will impact our resource plans, particularly with respect to the obligations for coal and the coal retirement timeline. And I won't go into all the details on this call, but basically, in a nutshell, as I mentioned in my remarks, for coal units that you're going to operate long term, carbon capture and sequestration is required. And that's just not a technology that's been proven at scale in a retrofit context for existing units.

So to operate a unit past 2038, you have to have carbon capture and storage and you have to have it in place by 2032. I think it is -- you can do gas co-firing if you get on that pass and operate to the mid- to late 2030s. So this rule is going to get -- the greenhouse gas rule we get a lot of scrutiny and attention as well the other rules of the EPA put out. We think we're pretty good position to comply with the other rules, but lots of analysis still to do. There'll be legal challenges that we'll monitor closely.

But our go-forward IRPs will reflect the impact of the EPS (inaudible) so we -- gas is going to be an important part of the equation for us to ensure reliability and meet the new customer demand we're seeing and able to keep the lights on affordably.

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**Operator**

Our next question comes from Durgesh Chopra of Evercore ISI.

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

Can I just -- can I just ask for clarification on the upside David that you listed from 2527 the House Bill 2527. The $0.03 to $0.04, is that really like a 20 -- like first year upsides for 2025. So this year because the bill is effective July is really 1/2 of that $0.03 to $0.04. Am I thinking about that correctly?

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

How I describe it, what HB 2527 does is it just helps to reduce the gap between the authorized return and you realize return. So it helps to mitigate regulatory lag. It gives us a better opportunity to get to approximate, to get closer to earning our authorized return.

The way I described it is in the first year filing a rate case it's $0.03 to $0.04. We are in the first year following rate case, it's fair to think of it that way. In the second full year following a rate case, it's roughly $0.10. So it was a stand-alone item without consideration issuing anything else. That's how to think about the impact in terms of reducing regulatory lag that would otherwise occur.

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

And the jump from $0.04 to $0.10, I'm sorry, this is not a great question, but that's just basically capital doubling, right, like your asset base doubling between the two.

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

Yes, it's a lot of like how it works in Missouri. I mean slightly different provision. It's a 90% deferral versus 85%. But for example, if you look at our realized returns in Kansas Central in '21 to '22 to '23, you saw those realized returns got lower and lower, much lower than an authorized level because we were in a 5-year stay out. So the regulatory lag impacts as we continue to invest in our system got higher and higher. So that's why you see the -- further you go out from a rate case the bigger the impact.

Now if you have a more regular cadence of rate cases, you'll eliminate that, right? So we don't -- we're not in a 5-year stay out and as we described, while won't be true in every jurisdiction. But general case, we expected every other year for rate case.

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

I understand it now. And then just quickly, can I ask you for your level of confidence in the retail sales. It was flat last year, '23 over '22. And then first quarter came in at 0.5% below the first quarter of '24 and obviously, you're projecting 2% to 3% end of the year? And what gives you that level of confidence? I know you mentioned a certain significant amount of load coming online, but just maybe share a little bit more color there.

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

Sure. I'll start and ask Kirk to wane. I think last year, if you break down the demand trends, residential and commercial were up 23.8% and 1%, respectively. I mean it was industrial that was down other industrial margins tend to be lower, as you know, and we can really trace the industrial demand being down to 2023 to a few customers that had unique circumstances.

So I think it is the basis for why we have the underlying confidence that we -- the robustness of the residential commercial sector last year and understanding the industrial trends at kind of the customer-by-customer level. And Kirk talked about that at length of the first quarter. We won't overreact too much to the first quarter.

There was still some pretty strong trajectory on the residential side. It was a very mild quarter. So we'll be tracking how to go through the year. Now in terms of the large new customers coming online, there can always be timing issues otherwise. But if you drive out to DeSoto, Kansas, you will see a very, very large battery manufacturing plant facility well underway in terms of construction. So we feel good about that. The Meta data center is under construction. Google is down the road, so it's got to run a further shop. But we feel good about the overall growth trajectory. Kirk, you agree with that?

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

I agree. I mean our residential and commercial growth assumptions are roughly consistent with what we saw in the actuals in 2023. It's really just buoyed by that expectation of industrial recovery, both sort of cycling through some of those temporary events that I talked about before and then supplemented by some of those you talked about the new economic development customers coming on later this year on the industrial side. So, I agree with that.

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**Operator**

Our next question is from Travis Miller of Morningstar, Inc.

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**Travis Miller** - *Morningstar Inc., Research Division - Director of Utilities Research and Strategist*

Congrats on getting all the stuff done there in Kansas. Wondering as a follow-on to that, what are you still working on? Is there a timeline? And what might be involved in getting more done in Kansas.

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

Our work is never done. No, just -- we certainly are working with our stakeholders on a series of issues in both states, really just looking for I think the most important thing is how do we respond to the economic development opportunities that are before us and ensure the best frameworks are in place to take advantage of those. So the discussion in Kansas, look, we HB 2527, I can't upsize enough that it's not only important in terms of provisions reducing lag, but also important as a reflection of the broad-based consensus and support for investments to take advantage of economic development opportunities and having a constructive framework for those investments.

Ongoing things that we'll look at. We'll continue to be -- we plan to have a workshop later this year on capital structure and ROE. We agreed with the parties that wouldn't be included in the legislative effort this spring, where we would talk about in a workshop this fall. So ensuring that Kansas has a competitive framework for kind of authorized returns, we think, continues to be important.

As I mentioned, our rate base growth is significantly lower than our peer jurisdictions, and we hear a lot from investors about the relative competitiveness of returns offered in various states. So we look forward to that dialogue in Kansas.

On the Missouri side, as I mentioned, there's been a broad-based support for legislation relating to natural gas plants because we and other utilities in the Missouri side are planning to build gas. It's really going to be needed for reliability in -- serve incremental load. So enhancing the provisions that are applicable to new dispatchable generation will be an important step to take over time in Missouri. But we've had a constructive dialogue with stakeholders in both states, really pleased with that constructive dialogue and we look forward to working with our regulators, legislators staff and other CURB and other intervenors, OPC in Missouri to move forward.

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**Travis Miller** - *Morningstar Inc., Research Division - Director of Utilities Research and Strategist*

That work step would be in the legislative sessions or regulatory?

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

Regulatory -- and we expect to have that later this year, admin schedule, but we're alignment parties, and we'll work with parties to find the right time to do it. I would expect it later this year, later this summer or fall.

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**Travis Miller** - *Morningstar Inc., Research Division - Director of Utilities Research and Strategist*

And then a higher level on the EPS growth. You've described obviously a lot of positive things going on. Your growth rate is at or higher than other utilities. You got the CapEx, which you've suggested might be higher. In the third quarter, what pushes you at least to a 5% to 7% number, maybe not back to the 6% to 8%, but why not get to that 5% to 7% or perhaps should we anticipate that when you come out with a new CapEx plan?

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

As I said earlier, we won't get ahead of the CapEx plan. We certainly won't get ahead of any earnings forecast. I think that when you look at our financial plan overall, we have the lowest rate base growth. And as a consequence of that, we have a relatively lower earnings growth trajectory. Those 2 are generally in sync, the rate base growth and the earnings growth targets, typically the earnings growth target lags some level, was a little lower than the rate base growth target because of the drag from finance.

So for us, what we're looking at fundamentally is how do we invest at the right level to ensure that we can take advantage of economic development opportunities, ensure reliability, make sure our system doesn't fall behind others. And in terms of performance, resilience, reliability and ability to meet new customer demand. I think that will lead to higher levels of investment, and we'll see where it goes from there.

But we certainly -- we start from the position of affordability, reliability, sustainability, how do we make sure that we are competitive and taking advantage of these great demand growth opportunities. I do think that will lead to more capital investment because I think that's going to be to the benefit of all of our customers and our strategic objectives. And we'll discuss over time what that means for the earnings trajectory. But we really start with the affordability of reliable sustainability, what is the capital investment plan that will best enable us to advance it.

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**Travis Miller** - *Morningstar Inc., Research Division - Director of Utilities Research and Strategist*

I figured you want to answer my question by saying, yes, 5 to 7. So appreciate the details. Thanks so much.

**Operator**

Our next question comes from Paul Patterson of Glenrock Associates.

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

Just wanted to go over just a few quick things on the quarter. First of all, the decrease in labor capitalization. Can you elaborate a little bit more on what's driving that and how that's going to impact the rest of the year?

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

It's Kirk. The decrease in labor capitalization is really a function, but we had a little bit of a change in our transformer labor capitalization approaches in the first quarter. There's a little bit of a catch-up there. So now what you're seeing is just the ongoing effects of that as we move forward.

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

Paul, you get the product for both in-depth reading and materials.

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

But what -- how much was that I guess?

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

We'll have to -- I have to get back to you offline on that. Paul will be happy to do that.

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

No problem. Then the sales growth numbers for the quarter, does that reflect leap year?

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

Yes, it does.

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

And then the PISA legislation, it sounds like you guys in Missouri, I'm talking about. It sounds like you don't see much opportunity for the House Bill. I think there's also a Senate Bill. I mean I know it's going to end soon, but is that -- is that pretty much how you feel? Does I hear you right, I guess?

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

I think, Paul, yes, you heard me right. We've had the PISA provisions, PISA language and changes to PISA relating to natural gas investments to 90% and extending the date past of the house. There's very good discussion around it. There's broad-based support. It's just hard -- given the tight time line in the session, overall session dynamics. It's going to be hard to get anything past. So we think this is no different. Wouldn't rule it out, we certainly think it will be beneficial, but the session dynamics is the time line on the real constraint, not support for the provisions. We think it's broad-based support.

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

Sorry, Paul, that transformer labor just to come back to you is about $0.02 year-over-year.

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

Then just on Missouri, if I'm correct, if you -- if it ends -- the session ends, the floor action ends tomorrow, is that right?

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

The 17th, I think, is when it formally ends. Paul?

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

But I thought there was a floor action deadline or something. Okay. But okay, the 17th, okay. Okay.

I appreciate that. And then finally, you mentioned that your next IRP will reflect the impact of the EPA rules. Do you think that -- how do you think about depreciation with these EPA rules? And when -- I mean you mentioned litigation and the uncertainty that's associated with it. How should we think about depreciation potentially changing with certain assets given these EPA rules.

And when that when you guys might have to deal with that regulatory or not? I mean just how are you sort of big picture, how are you thinking about the issue of asset life depreciation and these rules and how those would sort of figure out. How this would sort of pencil out if you follow me?

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

Well, Paul, it's a great question and one that is going to take a lot of work on our part and a lot of work with our stakeholders because the affordability and reliability impacts of the rules are ones that were really all have to dig into. And there are some provisions in the rules that give some potential outs on those, relatively short term in nature. But to your point, we'll have to assess carbon capture and sequestration is required for any unit that's operating beyond 2038 but does that apply if that technology is not commercially proven today.

I do not want to get ahead and analysis we're going to do in any discussions we have with our regulators around it. That provision, in particular, is around carbon capture and storage, there is no doubt going to be to focus a lot of discussion by a lot of parties, but the affordability and reliability impacts are certainly to the forefront and any change in depreciation schedules -- along with any incremental investments that might be required would have impacts on the affordability side.

So under the provisions of the rule, you can look at our RFP and it would imply absent CCUS, It's going to have some impacts in the out years. But we've got some time to analyze. I've got some time to work through with parties, but you're noting an important issue is that these rules are consequential and the affordability and reliability impacts are real and significant, and we'll be analyzing them over time. And we'll do that on a systematic basis because something that's important we won't rush into and we'll absolutely be working with our regulators and stakeholders in Kansas, Missouri as we do that analysis. And we'll be tracking the litigation closely.

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**Operator**

Our next question comes from Ryan Levine of Citi.

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**Ryan Michael Levine** - *Citigroup Inc., Research Division - VP*

On the one slide, you highlight over $10 billion worth of new development projects in Kansas and Missouri. But you provide a little bit of color around what industries are most represented in that $10 billion number in which service territories is there waiting towards? And any color around the loan opportunities that, that may enable?

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

Sure. So the -- it's -- you won't be surprised here. It's data centers, but also advanced in large manufacturing that can range from semiconductor, auto, food, products, food service industries are all pretty big presence in our space. So we, like others, we've got a pretty big presence in data centers already with Meta and Google, and there's a number of those are data centers, but there's also a lot of advanced manufacturing. And we're excited about all of them.

We have been quantified, but the exact megawatts, the $10 billion, obviously add up to a very material increase in potential load, but -- and it's across -- (inaudible) , it's across all of our jurisdictions. There are a number of those parties that are interested in the Metro region and our Missouri West area. So Meta, for example, Missouri West, Googles and Metro and the Panasonic data plants in Kansas Central.

So I think you'll continue to see a broad-based interest across those. I think I also left that aerospace. We've got a very large aerospace presence in the central part of Kansas, and that's also an area of high interest. So it's an exciting time, and we're glad with the big new customers will be able to land. It's been a mix of data centers and large manufacturing. I think we continue to see that kind of mix across those and are not exclusively data centers. I know there tend to be a lot of focus of the discussions recently, but we're big fans of advanced manufacturing coming in our territories too because they're bringing a lot of jobs and incremental benefits.

Data centers are also big positive. They don't bring as much jobs, of course. But it's an exciting time in terms of the pipeline.

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**Ryan Michael Levine** - *Citigroup Inc., Research Division - VP*

As you're working through your resource planning and with the favorable legislation passed in Kansas, are there any nonfinancial constraints to be able to serve incremental load in your service territories, i.e., particularly on the gas generation side that we should keep in mind that may constrain your growth?

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

I mean, I think for all of us, all utilities and for us, when you look as far as our system, adding the 3 customers I mentioned today, we said approximately 750 megawatts of load. That's a nearly -- between a 5% or 10% increase in our overall demand peak. So you add several hundred megawatts in a location, you're going to run into where the valuation is on transmission and distribution infrastructure. So what do you have adequate transmission, you've adequate substation infrastructure in place. And with Southwest Power Pool requirements getting tighter, there's certainly capacity issues as well.

So it's -- when we're looking at sites and sites that are opportunities for our customers, a lot of them -- we're being responsive to where they're interested, but to the extent they're flexible, then it's all about how do you work through the grid constraints, so transmission, distribution and then capacity constraints. So it absolutely is factored into our overall resource planning. That's part of why you see more resources in our plan.

Some of that is higher requirements in the Southwest Power Pool, but some of that is a reflection of higher demand. So there are grid constraints and capacity constraints you need to work through and it's an opportunity. I think we're not unique in that. I think it's a general phenomenon across the U.S. We're seeing a higher level of demand than we've seen in decades.

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**Ryan Michael Levine** - *Citigroup Inc., Research Division - VP*

What I was trying to get at is if you're building new gas plants, are there any pipeline constraints or anything else that (inaudible) more onerous to overcome or permitting or any other challenges that we should keep in mind?

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

Yes. I think that the -- I think the EPA rules are structured. The new efficient gas turbines can meet the requirements, so there will be capacity factor rotations. Our team's evaluation of new gas sites that we've not announced where the new gas sites are certainly taking into consideration existing gas and grid infrastructure. So we think we'll be able to work through those. There's always a permitting an interconnection process. So it takes years to get these things done, and that's a reflection of why the big gas plants are appearing in the years. They appear that really reflects the lead time that we expect to be required to work through all those various issues. But we do think we'll be able to get it done.

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**Operator**

Our final question comes from Michael Sullivan of Wolfe.

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

Just wanted to ask on the mild weather to start the year and how you're thinking about levers to offset that?

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

So it's welcome to 2024, same as 2023 because we had a mild start to 2023 as well. Like we look across various levels of our business, but the important part of that, obviously, is cost management. We mentioned that the new legislation in Kansas in the first year following rate case provides a benefit. So obviously, we're in the first year following a rate case. So we've got a relatively large enterprise. We got a range of levers that we typically work through. It's -- it's not -- the first quarter is not our biggest quarter. So we'll be watching to see how second and third quarter go in particular.

But I put it -- I view it as that's sort of in the routine category things to manage. So we always prefer to be normal weather, but we've got some levers that we can work on and some positives that we've seen also already manifested.

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

And then when I just think about this upcoming CapEx refresh. I think you usually do that for 5 years and the IRP is kind of more like a 10-plus year outlook. If I just -- I know you're talking about capacity upside over 10 years. But if I just look at like the next 5 plan over plan, I think we're in a similar spot, a different mix of generation, but just wanted to try to reconcile that as we think about CapEx plan refresh and what changed in this IRP.

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

It's a good question, Mike. You'll see that we've also got some incremental. If you look at -- I anticipate our CapEx refresh will be through '28. We probably won't introduce '29 until February, but Kirk and the planning team may decide that they -- I'll leave it to them and where we approach that. Because we've got a lot of gas that's coming in the '28 to '30 time frame, that will lead to some earlier spend. A lot of renewable spend, you can time a little more closely to when the online date is, but the gas plants will have an earlier spend trajectory.

Part of why we're really very pleased with the construction work in progress provisions in the legislation in HB 2527. So between that, between the evaluation that we're doing relating to economic development between other grid modernization efforts we're going to look at, there are some factors that we think create an upward bias in the capital plan. But again, we'll lay those all out when we get to the third quarter.

But the IRP, just looking at a stand-alone basis, if you think about the amount of gas that we'll be bringing on in '29 and '30, we do expect it will be the IRP in and of itself will also -- there will be incremental investments, really reflecting the demand growth that we're that we've seen in the generation we're adding to Meta.

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**Operator**

This now concludes the question-and-answer session. I would now like to turn it back to David Campbell for closing remarks.

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

Thank you, Brie, and thank you, everyone, for your interest in Evergy. Be safe and have a great day. This now concludes our call.

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**Operator**

Thank you for your participation in today's conference. This does conclude the program. You may now disconnect.

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