EVERGY MISSOURI WEST, INC.

Financial Statements as of December 31, 2019 and 2018 and for the Years Ended December 31, 2019 and 2018 and Independent Auditors' Report

EVERGY MISSOURI WEST, INC.
Consolidated Statements of Comprehensive Income

	2019	2018
	(millions)	
OPERATING REVENUES	**$ 836.4**	$ 836.9
OPERATING EXPENSES:		
Fuel and purchased power	**292.6**	264.4
Operating and maintenance	**213.0**	238.4
Depreciation and amortization	**104.2**	108.2
Taxes other than income tax	**46.6**	47.6
Total Operating Expenses	**656.4**	658.6
INCOME FROM OPERATIONS	**180.0**	178.3
OTHER INCOME (EXPENSE):		
Investment earnings	**3.7**	0.7
Other income	**0.9**	0.5
Other expense	**(15.9)**	(17.1)
Total Other Expense, Net	**(11.3)**	(15.9)
Interest expense	**57.7**	57.2
INCOME BEFORE INCOME TAXES	**111.0**	105.2
Income tax expense	**14.5**	48.2
NET INCOME	**$ 96.5**	$ 57.0
COMPREHENSIVE INCOME		
NET INCOME	**$ 96.5**	$ 57.0
OTHER COMPREHENSIVE INCOME		
Defined benefit pension plans		
Net gain (loss) arising during period	**(1.5)**	1.4
Income tax (expense) benefit	**0.4**	(0.4)
Net gain (loss) arising during period, net of tax	**(1.1)**	1.0
Amortization of net losses included in net periodic benefit costs	**0.6**	0.8
Income tax expense	**(0.2)**	(0.2)
Amortization of net losses included in net periodic benefit costs, net of tax	**0.4**	0.6
Change in unrecognized pension expense, net of tax	**(0.7)**	1.6
Total other comprehensive income (loss)	**(0.7)**	1.6
COMPREHENSIVE INCOME	**$ 95.8**	$ 58.6

The accompanying Notes to Audited Consolidated Financial Statements are an integral part of these statements.

EVERGY MISSOURI WEST, INC.
Consolidated Balance Sheets

	December 31 2019	2018
ASSETS	(millions, except share amounts)	
CURRENT ASSETS:		
Cash and cash equivalents	**$ 1.2**	$ 1.6
Receivables, net	**39.5**	46.4
Related party receivables	**1.6**	1.2
Accounts receivable pledged as collateral	**50.0**	50.0
Fuel inventory and supplies	**52.1**	56.5
Income taxes receivable	**38.2**	27.2
Regulatory assets	**35.0**	63.6
Prepaid expenses and other assets	**4.0**	5.1
Total	**221.6**	251.6
PROPERTY, PLANT AND EQUIPMENT, NET	**2,522.0**	2,424.7
OTHER ASSETS:		
Regulatory assets	**328.4**	339.8
Goodwill	**351.6**	351.6
Other	**32.6**	28.4
Total Other Assets	**712.6**	719.8
TOTAL ASSETS	**$ 3,456.2**	$ 3,396.1

The accompanying Notes to Audited Consolidated Financial Statements are an integral part of these statements.

EVERGY MISSOURI WEST, INC.
Consolidated Balance Sheets

	December 31	
	2019	2018
LIABILITIES AND EQUITY	(millions, except share amounts)	
CURRENT LIABILITIES		
Current maturities of long-term debt	**$ 1.1**	$ 1.1
Notes payable and commercial paper	**93.4**	150.0
Collateralized note payable	**50.0**	50.0
Accounts payable	**91.8**	85.2
Related party payables	**99.2**	108.3
Accrued taxes	**7.5**	7.3
Accrued interest	**6.8**	5.6
Regulatory liabilities	**7.8**	36.1
Asset retirement obligations	**11.9**	3.4
Other	**8.1**	8.3
Total Current Liabilities	**377.6**	455.3
LONG-TERM LIABILITIES:		
Long-term debt, net	**1,071.4**	972.5
Deferred income taxes	**329.0**	205.6
Unamortized investment tax credits	**2.6**	2.8
Regulatory liabilities	**328.2**	328.0
Retirement benefits	**22.2**	20.8
Asset retirement obligations	**21.2**	28.9
Other	**22.6**	21.6
Total Long-Term Liabilities	**1,797.2**	1,580.2
Commitments and Contingencies (Note 12)		
EQUITY:		
Common shareholder's equity		
Common stock-1,000 shares authorized, $0.01 par value		
10 shares issued, stated value	**1,276.9**	1,276.9
Retained earnings	**6.2**	84.7
Accumulated other comprehensive loss	**(1.7)**	(1.0)
Total Shareholder's Equity	**1,281.4**	1,360.6
TOTAL LIABILITIES AND EQUITY	**$ 3,456.2**	$ 3,396.1

The accompanying Notes to Audited Consolidated Financial Statements are an integral part of these statements.

EVERGY MISSOURI WEST, INC.
Consolidated Statements of Cash Flows

Year Ended December 31	2019	2018
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:	(millions)	
Net income	**$ 96.5**	$ 57.0
Adjustments to reconcile income to net cash from operating activities:		
Depreciation and amortization	**104.2**	108.2
Net deferred income taxes and credits	**113.6**	182.2
Payments for asset retirement obligations	**(0.5)**	(3.8)
Other	**0.6**	0.5
Changes in working capital items:		
Accounts receivable	**11.9**	(3.7)
Related party receivables	**0.4**	(2.2)
Fuel inventory and supplies	**4.4**	20.7
Prepaid expenses and other current assets	**22.7**	(19.1)
Accounts payable	**(1.3)**	0.2
Related party payables	**(9.1)**	13.9
Accrued taxes	**(10.8)**	(30.6)
Other current liabilities	**(26.0)**	(4.0)
Changes in other assets	**(12.0)**	6.1
Changes in other liabilities	**7.9**	25.9
Cash Flows from Operating Activities	**302.5**	351.3
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:		
Additions to property, plant and equipment	**(169.0)**	(148.8)
Other investing activities	**(1.0)**	1.2
Cash Flows used in Investing Activities	**(170.0)**	(147.6)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:		
Short term debt, net	**(56.7)**	(60.4)
Proceeds from long-term debt	**99.9**	-
Retirements of long-term debt	**(1.1)**	(105.1)
Cash dividends paid	**(175.0)**	(40.0)
Cash Flows used in Financing Activities	**(132.9)**	(205.5)
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(0.4)**	(1.8)
CASH AND CASH EQUIVALENTS:		
Beginning of period	**1.6**	3.4
End of period	**$ 1.2**	$ 1.6

The accompanying Notes to Audited Consolidated Financial Statements are an integral part of these statements.

EVERGY MISSOURI WEST, INC.
Consolidated Statements of Changes in Equity

	Common stock shares	Common stock	Retained earnings	AOCI - Defined benefit pension plans	Total equity
	(millions, except share amounts)				
Balance as of December 31, 2017	10	$ 1,276.9	$ 67.7	$ (2.6)	$ 1,342.0
Net income			57.0		57.0
Dividend declared on common stock			(40.0)		(40.0)
Change in unrecognized pension expense, net of tax				1.6	1.6
Balance as of December 31, 2018	10	1,276.9	84.7	(1.0)	1,360.6
Net income			**96.5**		**96.5**
Dividend declared on common stock			**(175.0)**		**(175.0)**
Change in unrecognized pension expense, net of tax				**(0.7)**	**(0.7)**
Balance as of December 31, 2019	**10**	**$ 1,276.9**	**$ 6.2**	**$ (1.7)**	**$ 1,281.4**

The accompanying Notes to Audited Consolidated Financial Statements are an integral part of these statements.

GLOSSARY OF TERMS

The following is a glossary of frequently used abbreviations or acronyms that are found throughout this report.

Abbreviation or Acronym	Definition
ACE	Affordable Clean Energy
AROs	Asset retirement obligations
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
BSER	Best system of emission reduction
CAA	Clean Air Act Amendments of 1990
CCRs	Coal combustion residuals
CO_2	Carbon dioxide
CPP	Clean Power Plan
CWA	Clean Water Act
D.C. Circuit	U.S. Court of Appeals for the D.C. Circuit
ELG	Effluent limitations guidelines
EPA	Environmental Protection Agency
Evergy	Evergy, Inc. and its consolidated subsidiaries
Evergy Kansas Central	Evergy Kansas Central, Inc., formerly known as Westar Energy, Inc., a wholly-owned subsidiary of Evergy, and its consolidated subsidiaries
Evergy Metro	Evergy Metro, Inc., formerly known as Kansas City Power & Light Company, a wholly-owned subsidiary of Evergy, and its consolidated subsidiaries
Evergy Missouri West	Evergy Missouri West, Inc., formerly known as KCP&L Greater Missouri Operations Company, a wholly-owned subsidiary of Evergy, and its consolidated subsidiaries
FASB	Financial Accounting Standards Board
GAAP	Generally accepted accounting principles
GHG	Greenhouse gas
JEC	Jeffrey Energy Center
MECG	Midwest Energy Consumers Group
MPSC	Public Service Commission of the State of Missouri
MWh	Megawatt hour
NAAQs	National Ambient Air Quality Standards
NAV	Net Asset Value
NSR	New source review
OPC	Office of the Public Counsel
SERP	Supplemental Executive Retirement Plan

EVERGY MISSOURI WEST, INC.
Notes to Consolidated Financial Statements

The term "Evergy Missouri West" is used throughout this report and refers to Evergy Missouri West, Inc. and its consolidated subsidiaries, unless otherwise indicated. Evergy Missouri West, formerly known as KCP&L Greater Missouri Operations Company, is a wholly-owned subsidiary of Evergy, Inc. (Evergy). Evergy also owns Evergy Metro, Inc. (Evergy Metro), formerly known as Kansas City Power & Light Company, and Evergy Kansas Central, Inc. (Evergy Kansas Central), formerly known as Westar Energy, Inc., both integrated, regulated electric utilities.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Evergy Missouri West is an integrated, regulated electric utility that provides electricity to customers in the state of Missouri. Since rebranding in September 2019, Evergy Missouri West has been conducting business in its service territory using the name Evergy.

Principles of Consolidation

Evergy Missouri West's consolidated financial statements include the accounts of its subsidiaries. Undivided interests in jointly-owned generation facilities are included on a proportionate basis. Intercompany transactions have been eliminated.

Subsequent events have been evaluated through March 13, 2020, the date the consolidated financial statements were available to be issued.

Evergy Missouri West elected not to apply "push-down accounting" related to the Great Plains Energy Incorporated (Great Plains Energy) and Evergy Kansas Central merger, whereby the adjustments of assets and liabilities to fair value and the resulting goodwill would be recorded on the financial statements of the acquired subsidiary. Evergy Missouri West's recorded goodwill of $351.6 million as of December 31, 2019 and 2018 is related to Great Plains Energy's acquisition of Evergy Missouri West in 2008, where "push-down accounting" was applied.

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles (GAAP) requires the use of estimates and assumptions that affect the reported amounts of certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Cash and Cash Equivalents

Cash equivalents consist of highly liquid investments with original maturities of three months or less at acquisition.

Fuel Inventory and Supplies

Evergy Missouri West records fuel inventory and supplies at average cost. The following table separately states the balances for fuel inventory and supplies.

	December 31 2019	December 31 2018
	(millions)	
Fuel inventory	$ 20.1	$ 23.3
Supplies	32.0	33.2
Fuel inventory and supplies	$ 52.1	$ 56.5

Property, Plant and Equipment

Evergy Missouri West records the value of property, plant and equipment at cost. For plant, cost includes contracted services, direct labor and materials, indirect charges for engineering and supervision and an allowance for funds used during construction (AFUDC). AFUDC represents the allowed cost of capital used to finance utility construction activity. AFUDC equity funds are included as a non-cash item in other income and AFUDC borrowed funds are a reduction of interest expense. AFUDC is computed by applying a composite rate to qualified construction work in progress. The rates used to compute gross AFUDC are compounded semi-annually and averaged 3.7% in 2019 and 2.9% in 2018.

The amounts of Evergy Missouri West's AFUDC for borrowed and equity funds are detailed in the following table.

	2019	2018
	(millions)	
AFUDC borrowed funds	$ 2.7	$ 2.2
AFUDC equity funds	-	-
Total	$ 2.7	$ 2.2

When property units are retired or otherwise disposed, the original cost net of salvage is charged to accumulated depreciation. Repair of property and replacement of items not considered to be units of property are expensed as incurred.

Depreciation and Amortization

Depreciation and amortization of utility plant is computed using the straight-line method over the estimated lives of depreciable property based on rates approved by state regulatory authorities. Annual depreciation rates average approximately 3%. See Note 7 for more details.

The depreciable lives of Evergy Missouri's property, plant and equipment are detailed in the following table.

		(years)	
Generating facilities	20	to	60
Transmission facilities	49	to	66
Distribution facilities	10	to	66
Other	5	to	55

Plant to be Retired, Net

When Evergy Missouri West retires utility plant, the original cost, net of salvage, is charged to accumulated depreciation. However, when it becomes probable an asset will be retired significantly in advance of its original expected useful life and in the near term, the cost of the asset and related accumulated depreciation is recognized as a separate asset and a probable abandonment. If the asset is still in service, the net amount is classified as plant to be retired, net on the consolidated balance sheets. If the asset is no longer in service, the net amount is classified as a regulatory asset on the consolidated balance sheets.

Evergy Missouri West must also assess the probability of full recovery of the remaining net book value of the abandonment. The net book value that may be retained as an asset on the balance sheet for the abandonment is dependent upon amounts that may be recovered through regulated rates, including any return. An impairment charge, if any, would equal the difference between the remaining net book value of the asset and the present value of the future revenues expected from the asset.

Evergy Missouri West has determined that its November 2018 retirement of Sibley No. 3 Unit meets the criteria to be considered an abandonment. As of December 31, 2019, Evergy Missouri West has classified the remaining Sibley No. 3 Unit net book value of $130.5 million as retired generation facilities within regulatory assets on its consolidated balance sheet. This regulatory asset is reduced by approximately $9 million of annual amortization expense which is an amount equal to the annual depreciation expense for the asset reflected in retail rates.

In October 2019, the Missouri Public Service Commission (MPSC) granted the request of certain intervenors for an Accounting Authority Order (AAO) that requires Evergy Missouri West to record a regulatory liability for all revenues collected from customers for return on investment, non-fuel operations and maintenance costs, taxes including accumulated deferred income taxes and all other costs associated with Sibley Station following the station's retirement in November 2018 for consideration in Evergy Missouri West's next rate case, which is expected to be completed no later than 2022. See Note 4 for additional information regarding the AAO.

Evergy Missouri West expects that the MPSC's decision in its next rate case regarding the AAO could impact the valuation of its regulatory asset for retired generation facilities but as of December 31, 2019, has concluded that no impairment is required based on the relevant facts and circumstances.

Regulatory Accounting

Accounting standards are applied that recognize the economic effects of rate regulation. Accordingly, regulatory assets and liabilities have been recorded when required by a regulatory order or based on regulatory precedent. See Note 4 for additional information concerning regulatory matters.

Revenue Recognition

Evergy Missouri West recognizes revenue on the sale of electricity to customers over time as the service is provided in the amount it has the right to invoice. Revenues recorded include electric services provided but not yet billed by Evergy Missouri West. Unbilled revenues are recorded for kWh usage in the period following the customers' billing cycle to the end of the month. This estimate is based on net system kWh usage less actual billed kWhs. Evergy Missouri West's estimated unbilled kWhs are allocated and priced by regulatory jurisdiction across the rate classes based on actual billing rates. Evergy Missouri West's unbilled revenue estimate is affected by factors including fluctuations in energy demand, weather, line losses and changes in the composition of customer classes. See Note 3 for the balance of unbilled receivables for Evergy Missouri West as of December 31, 2019 and 2018.

Evergy Missouri West also collects sales taxes and franchise fees from customers concurrent with revenue-producing activities that are levied by state and local governments. These items are excluded from revenue, and thus are not reflected on Evergy Missouri West's consolidated statements of comprehensive income.

See Note 2 for additional details regarding revenue recognition from sales of electricity by Evergy Missouri West.

Allowance for Doubtful Accounts

Evergy Missouri West determines its allowance for doubtful accounts based on the age of its receivables. Receivables are charged off when they are deemed uncollectible, which is based on a number of factors including specific facts surrounding an account and management's judgment.

Property Gains and Losses

Net gains and losses from the sale of assets and businesses and from asset impairments are recorded in operating expenses.

Asset Impairments

Long-lived assets and finite-lived intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the sum of the undiscounted expected future cash flows from an asset to be held and used is less than the carrying value of the asset, an asset impairment must be recognized in the financial statements. The amount of impairment recognized is the excess of the carrying value of the asset over its fair value.

Goodwill and indefinite lived intangible assets are tested for impairment annually and when an event occurs indicating the possibility that an impairment exists. The annual test must be performed at the same time each year. The goodwill impairment test consists of comparing the fair value of a reporting unit to its carrying amount, including goodwill, to identify potential impairment. In the event that the carrying amount exceeds the fair value of the reporting unit, an impairment loss is recognized for the difference between the carrying amount of the reporting unit and its fair value. See Note 5 for additional details on goodwill.

Income Taxes

Income taxes are accounted for using the asset/liability approach. Deferred tax assets and liabilities are determined based on the temporary differences between the financial reporting and tax bases of assets and liabilities, applying enacted statutory tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized.

Evergy Missouri West recognizes tax benefits based on a "more-likely-than-not" recognition threshold. In addition, Evergy Missouri West recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses.

Evergy and its subsidiaries, including Evergy Missouri West, file a consolidated federal income tax return as well as unitary and combined income tax returns in several state jurisdictions with Kansas and Missouri being the most significant. Income taxes for consolidated or combined subsidiaries are allocated to the subsidiaries based on separate company computations of income or loss. Evergy Missouri West's income tax provisions include taxes allocated based on its separate company income or loss.

Evergy Missouri West has established a net regulatory liability for future refunds to be made to customers for the over-collection of income taxes in rates. Tax credits are recognized in the year generated except for certain investment tax credits that have been deferred and amortized over the remaining service lives of the related properties.

Other Income (Expense), Net

The table below shows the detail of other expense for Evergy Missouri West.

	2019	2018
	(millions)	
Non-service cost component of net benefit cost	$ (15.2)	$ (15.3)
Other	(0.7)	(1.8)
Other expense	$ (15.9)	$ (17.1)

Supplemental Cash Flow Information

Year Ended December 31	2019	2018
Cash paid for (received from):	(millions)	
Interest, net of amounts capitalized	$ 55.9	$ 59.1
Income taxes, net of refunds	(87.7)	(102.1)
Non-cash investing transactions:		
Property, plant and equipment additions	13.2	5.5

Recently Adopted Accounting Standards

Leases

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases*, which requires an entity that is a lessee to record a right-of-use asset and a lease liability for lease payments on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. Lessor accounting remains largely unchanged. In January 2018, the FASB issued ASU No. 2018-01, *Leases: Land Easement Practical Expedient for Transition to Topic 842*, which permits entities to elect an optional transition practical expedient to not evaluate under Topic 842 land easements that exist or expired before the entity's adoption of Topic 842 and that were not previously accounted for as leases under Topic 840. In July 2018, the FASB issued ASU No. 2018-10, *Codification Improvements to Topic 842, Leases*, which updates narrow aspects of the guidance issued in ASU No. 2016-02. Also in July 2018, the FASB issued ASU No. 2018-11, *Leases: Targeted Improvements*, which provides an optional transition method that allows entities to initially apply Topic 842 at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption without restating prior periods. In December 2018, the FASB issued ASU No. 2018-20, *Leases: Narrow-Scope Improvements for Lessors*, which is expected to reduce a lessor's implementation and ongoing costs associated with applying ASU No. 2016-02. In March 2019, the FASB issued ASU No. 2019-01, *Leases: Codification Improvements*, which clarifies certain lessor accounting and interim reporting requirements. ASU No. 2016-02 and the subsequent amendments are effective for interim and annual periods beginning after December 15, 2018, with early adoption permitted, and requires a modified retrospective transition approach with an option to either adjust or not adjust comparative periods.

Evergy Missouri West adopted the new guidance on January 1, 2019 without adjusting comparative periods for all leases existing as of January 1, 2019, by electing the optional transition method permitted by ASU No. 2018-11. The adoption of Topic 842 did not have a material impact on Evergy Missouri West and there was no cumulative-effect adjustment recorded to the opening balance of retained earnings. Evergy Missouri West also elected a practical expedient to forgo reassessing existing or expired contracts as leases to determine whether each is in scope of Topic 842 and to forgo reassessing lease classification for existing and expired leases.

2. REVENUE

Evergy Missouri West's revenues disaggregated by customer class are summarized in the following table.

	2019	2018
Customer class	(millions)	
Residential	$ 401.8	$ 405.6
Commercial	286.4	282.7
Industrial	83.4	82.1
Other retail	9.8	7.6
Total electric retail	$ 781.4	$ 778.0
Wholesale	19.4	18.3
Transmission	18.4	18.2
Industrial steam and other	15.9	19.1
Total revenue from contracts with customers	$ 835.1	$ 833.6
Other	1.3	3.3
Operating revenues	$ 836.4	$ 836.9

Retail Revenues

Evergy Missouri West's retail revenues are generated by the regulated sale of electricity to Evergy Missouri West's residential, commercial and industrial customers within its franchised service territory. Evergy Missouri West recognizes revenue on the sale of electricity to its customers over time as the service is provided in the amount it has a right to invoice. Retail customers are billed on a monthly basis at the tariff rates approved by the MPSC based on customer kWh usage.

Revenues recorded include electric services provided but not yet billed by Evergy Missouri West. Unbilled revenues are recorded for kWh usage in the period following the customers' billing cycle to the end of the month. Evergy Missouri West's estimate is based on net system kWh usage less actual billed kWhs. Evergy Missouri West's estimated unbilled kWhs are allocated and priced by regulatory jurisdiction across the rate classes based on actual billing rates.

Evergy Missouri West also collects sales taxes and franchise fees from customers concurrent with revenue-producing activities that are levied by state and local governments. These items are excluded from revenue and thus not reflected on Evergy Missouri West's statements of comprehensive income.

Wholesale Revenues

Evergy Missouri West's wholesale revenues are generated by the sale of wholesale power and capacity in circumstances when the power that Evergy Missouri West generates is not required for customers in its service territory. These sales primarily occur within the Southwest Power Pool, Inc. (SPP) Integrated Marketplace. Evergy Missouri West also purchases power from the SPP Integrated Marketplace and records sale and purchase activity on a net basis in wholesale revenue or fuel and purchased power expense. In addition, Evergy Missouri West sells wholesale power and capacity through bilateral contracts to other counterparties, such as electric cooperatives, municipalities and other electric utilities.

For both wholesale sales to the SPP Integrated Marketplace and through bilateral contracts, Evergy Missouri West recognizes revenue on the sale of wholesale electricity to its customers over time as the service is provided in the amount it has a right to invoice.

Wholesale sales within the SPP Integrated Marketplace are billed weekly based on the fixed transaction price determined by the market at the time of the sale and the MWh quantity purchased. Wholesale sales from bilateral contracts are billed monthly based on the contractually determined transaction price and the kWh quantity purchased.

Transmission Revenues

Evergy Missouri West's transmission revenues are generated by the use of its transmission networks by the SPP. To enable optimal use of the diverse generating resources in the SPP region, Evergy Missouri West, as well as other transmission owners, allow the SPP to access and operate their transmission networks. As new transmission lines are constructed, they are included in the transmission network available to the SPP. In exchange for providing access, the SPP pays Evergy Missouri West consideration determined by formula rates approved by FERC, which include the cost to construct and maintain the transmission lines and a return on investment. The price for access to Evergy Missouri West's transmission network is updated annually based on projected costs. Projections are updated to actual costs and the difference is included in subsequent year's prices.

Evergy Missouri West recognizes revenue on the sale of transmission service to its customers over time as the service is provided in the amount it has a right to invoice. Transmission service to the SPP is billed monthly based on a fixed transaction price determined by FERC formula transmission rates along with other SPP-specific charges and the MW quantity purchased.

Industrial Steam and Other Revenues

Evergy Missouri West's industrial steam and other revenues are generated by the regulated sale of industrial steam to steam customers. Evergy Missouri West recognizes revenue on the sale of industrial steam to its customers over time as the service is provided in the amount that it has the right to invoice. Steam customers are billed on a monthly basis at the tariff rate approved by the MPSC based on customer MMBtu usage.

Optional Exemption

Evergy Missouri West does not disclose the value of unsatisfied performance obligations on certain bilateral wholesale contracts with an original expected duration of greater than one year for which Evergy Missouri West recognizes revenue in the amount it has the right to invoice.

3. RECEIVABLES

Evergy Missouri West's receivables are detailed in the following table.

	December 31	
	2019	2018
	(millions)	
Customer accounts receivable - billed	$ 4.1	$ 8.9
Customer accounts receivable - unbilled	27.8	31.7
Allowance for doubtful accounts	(2.2)	(1.4)
Other receivables	9.8	7.2
Total	$ 39.5	$ 46.4

As of December 31, 2019 and 2018, other receivables for Evergy Missouri West included receivables from contracts with customers of $3.1 million and $4.4 million, respectively. Evergy Missouri West's bad debt expense related to contracts with customers was $6.3 million and $2.6 million for 2019 and 2018, respectively.

Sale of Accounts Receivable

Evergy Missouri West sells an undivided percentage ownership interest in its retail and steam accounts receivable to an independent outside investor. This sale of the undivided percentage ownership interest in accounts receivable to the independent outside investor is accounted for as a secured borrowing with accounts receivable pledged as collateral and a corresponding short-term collateralized note payable recognized on the balance sheets. At December 31, 2019 and 2018, Evergy Missouri West's accounts receivable pledged as collateral and the corresponding short-term collateralized note payable were $50.0 million. Evergy Missouri West's receivable sale facility expires in September 2020 and allows for $50.0 million in aggregate outstanding principal amount of borrowings from mid-November through mid-June and then $65.0 million from mid-June through the expiration date of the facility.

4. RATE MATTERS AND REGULATION

Other Regulatory Proceedings

In December 2018, the Office of the Public Counsel (OPC) and the Midwest Energy Consumers Group (MECG) filed a petition with the MPSC requesting an AAO that would require Evergy Missouri West to record a regulatory liability for all revenues collected from customers for return on investment, non-fuel operations and maintenance costs, taxes including accumulated deferred income taxes, and all other costs associated with Sibley Station following the station's retirement in November 2018.

In October 2019, the MPSC granted OPC's and MECG's request for an AAO and required Evergy Missouri West to record to a regulatory liability the revenues discussed above for consideration in Evergy Missouri West's next rate case, which is expected to be completed no later than 2022. Depending on the MPSC's decision in this next rate case, Evergy Missouri West could be required to refund to customers all or a portion of amounts collected in revenue for Sibley Station since December 2018 or, alternatively, could be required to make no refunds.

As a result of the MPSC order, Evergy Missouri West has recorded a regulatory liability of $10.2 million as of December 31, 2019 for the estimated amount of revenues that Evergy Missouri West has collected from customers for Sibley Station since December 2018 that Evergy Missouri West has determined is probable of refund. Evergy Missouri West expects that it will continue to defer such amounts as collected from customers until new rates become effective in its next rate case.

The accrual for this estimated amount does not include certain revenues collected related to Sibley Station that Evergy Missouri West has determined to not be probable of refund in the next rate case based on the relevant facts and circumstances. While Evergy Missouri West has determined these additional revenues to not be probable of refund, the ultimate resolution of this matter in Evergy Missouri West's next rate case is uncertain and could result in an estimated loss of up to approximately $12 million in excess of the amount accrued per year until Evergy Missouri West's new rates become effective. Evergy Missouri West's regulatory liability for probable refunds as of December 31, 2019 and estimated loss in excess of the amount accrued represent estimates that could change significantly based on ongoing developments including as a result of an appeal of the MPSC order, decisions in other regulatory proceedings that establish precedent applicable to this matter and positions of parties on this issue in a future Evergy Missouri West rate case.

Regulatory Assets and Liabilities

Evergy Missouri West has recorded assets and liabilities on its consolidated balance sheets resulting from the effects of the ratemaking process, which would not otherwise be recorded if Evergy Missouri West was not regulated. Regulatory assets represent incurred costs that are probable of recovery from future revenues. Regulatory liabilities represent future reductions in revenues or refunds to customers.

Management regularly assesses whether regulatory assets and liabilities are probable of future recovery or refund by considering factors such as decisions by the MPSC or FERC in Evergy Missouri West's rate case filings;

decisions in other regulatory proceedings, including decisions related to other companies, including Evergy Metro and Evergy Kansas Central, that establish precedent on matters applicable to Evergy Missouri West; and changes in laws and regulations. If recovery or refund of regulatory assets or liabilities is not approved by regulators or is no longer deemed probable, these regulatory assets or liabilities are recognized in the current period results of operations. Evergy Missouri West's continued ability to meet the criteria for recording regulatory assets and liabilities may be affected in the future by restructuring and deregulation in the electric industry or changes in accounting rules. In the event that the criteria no longer applied to any or all of Evergy Missouri West's operations, the related regulatory assets and liabilities would be written off unless an appropriate regulatory recovery mechanism were provided. Additionally, these factors could result in an impairment on utility plant assets.

Evergy Missouri West's regulatory assets and liabilities are detailed in the following table.

	December 31	
	2019	**2018**
Regulatory Assets	(millions)	
Pension and post-retirement costs	$ 105.3	$ 103.0
Debt reacquisition costs	1.0	1.2
Asset retirement obligations	34.9	30.8
Iatan No. 1 and common facilities	4.3	4.5
Iatan No. 2 construction accounting costs	13.0	13.3
Deferred customer programs	3.5	4.9
Fuel recovery mechanism	18.1	42.4
Solar rebates	30.8	31.3
Pension and other post-retirement benefit non-service costs	8.8	3.6
Retired generation facility	130.5	159.9
Merger transition costs	6.4	7.1
Other regulatory assets	6.8	1.4
Total	363.4	403.4
Less: current portion	35.0	63.6
Total noncurrent regulatory assets	$ 328.4	$ 339.8
Regulatory Liabilities		
Taxes refundable through future rates	$ 231.2	$ 241.2
Pension and post-retirement costs	7.5	-
Cost of removal	49.1	48.1
Fuel recovery mechanism	3.9	-
Sibley AAO	10.2	-
Refund of tax reform benefits	-	27.4
Other regulatory liabilities	34.1	47.4
Total	336.0	364.1
Less: current portion	7.8	36.1
Total noncurrent regulatory liabilities	$ 328.2	$ 328.0

The following summarizes the nature and period of recovery for each of the regulatory assets listed in the table above.

Pension and post-retirement costs: Represents unrecognized gains and losses, prior service and transition costs that will be recognized in future net periodic pension and post-retirement costs, pension settlements amortized over various periods and financial and regulatory accounting method differences that will be eliminated over the life of pension and post-retirement plans maintained by Evergy and certain of its subsidiaries, of which Evergy Missouri West is allocated its respective share of the costs. Of these amounts, $62.6 million are not included in rate base and are amortized over various periods.

Debt reacquisition costs: Includes costs incurred to reacquire and refinance debt. These costs are amortized over the term of the new debt or the remaining lives of the old debt issuances if no new debt was issued and are not included in rate base.

Asset retirement obligations (AROs): Represents amounts associated with AROs as discussed further in Note 6. These amounts are recovered over the life of the related plant and are not included in rate base.

Iatan No. 1 and common facilities: Represents depreciation and carrying costs related to Iatan No. 1 and common facilities. These costs are included in rate base and amortized over various periods.

Iatan No. 2 construction accounting costs: Represents the construction accounting costs related to Iatan No. 2. These costs are included in rate base and amortized through 2059.

Deferred customer programs: Represents costs related to various energy efficiency programs that have been accumulated and deferred for future recovery. Of this amount, $1.9 million is not included in rates and is amortized through 2021.

Fuel recovery mechanism: Represents the actual cost of fuel consumed in producing electricity and the cost of purchased power in excess of the amounts collected from customers. This difference is expected to be recovered over a one-year period and is not included in rate base.

Solar rebates: Represents costs associated with solar rebates provided to retail electric customers. These amounts are not included in rate base and are amortized over various periods.

Pension and other post-retirement benefit non-service costs: Represents the non-service component of pension and post-retirement net benefit costs that are capitalized as authorized by regulators. The amounts are included in rate base and are recovered over the life of the related asset.

Retired generation facility: Represents amounts to be recovered for facilities that have been retired and are probable of recovery.

Merger transition costs: Represents recoverable transition costs related to the merger. The amounts are not included in rate base and are recovered from retail customers through 2028.

Other regulatory assets: Includes various regulatory assets that individually are small in relation to the total regulatory asset balance. These amounts have various recovery periods and are not included in rate base.

The following summarizes the nature and period of amortization for each of the regulatory liabilities listed in the table above.

Taxes refundable through future rates: Represents the obligation to return to customers income taxes recovered in earlier periods when corporate income tax rates were higher than current income tax rates. A large portion of this amount is related to depreciation and will be returned to customers over the life of the applicable property.

Pension and post-retirement costs: Includes pension and post-retirement benefit obligations and expense recognized in setting prices in excess of actual pension and post-retirement expense.

Cost of removal: Represents amount collected, but not yet spent, to dispose of plant assets. This liability will be discharged as removal costs are incurred.

Fuel recovery mechanism: Represents the amount collected from customers in excess of the actual cost of fuel consumed in producing electricity and the cost of purchased power. This difference is expected to be refunded over a one-year period and is not included in rate base.

Sibley AAO: Represents the estimated amount of revenues that Evergy Missouri West has collected from customers for Sibley Station and has determined is probable of refund. These amounts were recorded in connection with an AAO granted by the MPSC in October 2019 and deferred amounts will be considered by the MPSC in Evergy Missouri West's next rate case.

Refund of tax reform benefits: Represents amounts collected from customers in 2018 related to federal income tax in excess of the income tax owed by Evergy Missouri West as a result of the lower federal income tax rate enacted by the Tax Cuts and Jobs Act (TCJA) and were refunded to customers in 2019.

Other regulatory liabilities: Includes various regulatory liabilities that individually are relatively small in relation to the total regulatory liability balance. These amounts will be credited over various periods.

5. GOODWILL

Accounting rules require goodwill to be tested for impairment annually and when an event occurs indicating the possibility that an impairment exists. The annual impairment test for the $351.6 million of Evergy Missouri West acquisition goodwill was conducted as of September 1, 2019. The goodwill impairment test consists of comparing the fair value of a reporting unit to its carrying amount, including goodwill, to identify potential impairment. In the event that the carrying amount exceeds the fair value of the reporting unit, an impairment loss is recognized for the difference between the carrying amount of the reporting unit and its fair value. Evergy Missouri West's regulated electric utility operations are considered one reporting unit for assessment of impairment, as they have similar economic characteristics. The determination of fair value of the reporting unit consisted of two valuation techniques: an income approach consisting of a discounted cash flow analysis and a market approach consisting of a determination of reporting unit invested capital using a market multiple derived from the historical earnings before interest, income taxes, depreciation and amortization and market prices of the stock of peer companies. The results of the two techniques were evaluated and weighted to determine a point within the range that management considered representative of fair value for the reporting unit. The fair value of the reporting unit exceeded the carrying amount, including goodwill. As a result, there was no impairment of goodwill.

6. ASSET RETIREMENT OBLIGATIONS

AROs associated with tangible long-lived assets are legal obligations that exist under enacted laws, statutes and written or oral contracts, including obligations arising under the doctrine of promissory estoppel. These liabilities are recognized at estimated fair value as incurred with a corresponding amount capitalized as part of the cost of the related long-lived assets and depreciated over their useful lives. Accretion of the liabilities due to the passage of time is recorded to a regulatory asset and/or liability. Changes in the estimated fair values of the liabilities are recognized when known.

Evergy Missouri West has AROs related to asbestos abatement and closure and post-closure of ponds and landfills containing coal combustion residuals (CCRs).

The following table summarizes the change in Evergy Missouri West's AROs.

	2019	2018
	(millions)	
Beginning balance	$ 32.3	$ 34.8
Settlements	(0.5)	(3.8)
Accretion	1.3	1.3
Total	$ 33.1	$ 32.3
Less: current portion	(11.9)	(3.4)
Total noncurrent asset retirement obligation	$ 21.2	$ 28.9

7. PROPERTY, PLANT AND EQUIPMENT

The following table summarizes the property, plant and equipment of Evergy Missouri West.

	December 31	
	2019	2018
	(millions)	
Electric plant in service	$ 3,546.8	$ 3,396.1
Accumulated depreciation	(1,121.3)	(1,075.5)
Plant in service, net	2,425.5	2,320.6
Construction work in progress	96.5	104.1
Property, plant and equipment, net	$ 2,522.0	$ 2,424.7

Evergy Missouri West's depreciation expense was $102.5 million for 2019 and $106.6 million for 2018.

8. RETIREMENT BENEFITS

Evergy Missouri West maintains a non-contributory defined benefit Supplemental Executive Retirement Plan (SERP) for certain former executives. The SERP is unfunded; however, Evergy Missouri West has approximately $13.8 million of assets in a non-qualified trust for the SERP as of December 31, 2019, and expects to fund future benefit payments from these assets. Benefits paid by Evergy Missouri West in each of 2019 and 2018 were $1.3 million.

The following table reflects benefit obligation information regarding the Evergy Missouri West SERP.

	December 31	
	2019	2018
	(millions)	
Projected benefit obligation	$ 23.4	$ 22.1
Funded status	$ (23.4)	$ (22.1)
Accumulated benefit obligation	$ 23.4	$ 22.1
Amounts recognized in the consolidated balance sheets		
Current retirement benefits liability	$ (1.2)	$ (1.3)
Noncurrent retirement benefits liability	(22.2)	(20.8)
Net amount recognized before Other Comprehensive Income (OCI)	(23.4)	(22.1)
Accumulated OCI	2.3	1.4
Net amount recognized	$ (21.1)	$ (20.7)
Amounts in accumulated OCI not yet recognized as a component of net periodic benefit cost:		
Actuarial loss	$ 2.3	$ 1.4
Assumptions used for benefit obligations:		
Discount rate	3.51%	4.35%

The following table reflects information regarding the net periodic benefit costs of the Evergy Missouri West SERP.

Year Ended December 31	2019	2018
	(millions)	
Net periodic benefit costs	$ 1.6	$ 1.5
Other changes in plan assets and benefit obligations recognized in OCI		
Current year net (gain) loss	$ 1.5	$ (1.3)
Amortization of loss	(0.6)	(0.7)
Total recognized in OCI	0.9	(2.0)
Total recognized in net periodic benefit costs and OCI	$ 2.5	$ (0.5)
Expense assumptions:		
Discount rate	4.35%	3.60%

For 2020, the estimated net loss to be amortized from accumulated OCI is $0.5 million.

Evergy Missouri West's projected benefit payments related to the SERP are $1.3 million per year for 2020 through 2023, $1.4 million for 2024 and total $7.6 million for the years 2025 to 2029.

9. SHORT-TERM BORROWINGS AND SHORT-TERM BANK LINES OF CREDIT

Evergy's $2.5 billion master credit facility expires in 2023. Evergy Missouri West has borrowing capacity under the master credit facility with a sublimit of $450.0 million. This sublimit can be unilaterally adjusted by Evergy provided the sublimit remains within minimum and maximum sublimits as specified in the facility. A default by Evergy Missouri West or any of its significant subsidiaries on other indebtedness totaling more than $100.0 million constitutes a default by Evergy Missouri West under the facility. Under the terms of this facility, Evergy Missouri West is required to maintain a total indebtedness to total capitalization ratio, as defined in the facility, of not greater than 0.65 to 1.00 at all times. As of December 31, 2019, Evergy Missouri West was in compliance with this covenant.

At December 31, 2019, Evergy Missouri West had $93.4 million of commercial paper outstanding at a weighted-average interest rate of 2.02%, had issued letters of credit totaling $2.1 million and had no outstanding cash borrowings under the master credit facility. At December 31, 2018, Evergy Missouri West had $150.0 million of commercial paper outstanding at a weighted-average interest rate of 3.00%, had issued letters of credit totaling $2.1 million and had no outstanding cash borrowings under the master credit facility.

10. LONG-TERM DEBT

Evergy Missouri West's long-term debt is detailed in the following table.

	Year Due	December 31 2019	2018
		(millions)	
First Mortgage Bonds 9.44% Series	2020-2021	$ 2.3	$ 3.4
Senior Notes			
8.27% Series	2021	80.9	80.9
3.49% Series A	2025	36.0	36.0
4.06% Series B	2033	60.0	60.0
4.74% Series C	2043	150.0	150.0
3.74% Series	2022	100.0	-
Medium Term Notes			
7.33% Series	2023	3.0	3.0
7.17% Series	2023	7.0	7.0
Affiliated Notes Payable to Evergy			
4.97% Series	2021	347.4	347.4
5.15% Series	2022	287.5	287.5
Unamortized debt issuance cost		(1.6)	(1.6)
Current maturities		(1.1)	(1.1)
Total excluding current maturities		$ 1,071.4	$ 972.5

Mortgage Bonds

Evergy Missouri West has issued mortgage bonds under the General Mortgage Indenture and Deed of Trust dated April 1, 1946, as supplemented, which creates a mortgage lien on a portion of Evergy Missouri West's utility plant.

Senior Notes

Under the terms of the note purchase agreement for Evergy Missouri West's Series A, B and C Senior Notes, Evergy Missouri West is required to maintain a consolidated indebtedness to consolidated capitalization ratio, as defined in the agreement, not greater than 0.65 to 1.00. In addition, Evergy Missouri West's priority debt, as defined in the agreement, cannot exceed 15% of consolidated tangible net worth, as defined in the agreement. At December 31, 2019, Evergy Missouri West was in compliance with these covenants.

In March 2019, Evergy Missouri West issued $100.0 million of 3.74% Senior Notes, maturing in 2022, under a note purchase agreement.

Scheduled Maturities

Evergy Missouri West's long-term debt maturities for the next five years are $1.1 million in 2020, $429.4 million in 2021, $387.5 million in 2022, $10.0 million in 2023 and no maturities in 2024.

11. FAIR VALUE MEASUREMENTS

GAAP establishes a hierarchical framework for disclosing the transparency of the inputs utilized in measuring assets and liabilities at fair value. Management's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the classification of assets and liabilities within the fair value hierarchy levels. In addition, Evergy Missouri West measures certain investments that do not have a readily determinable fair value at net asset value (NAV), which are not included in the fair value hierarchy. Further explanation of these levels and NAV is summarized below.

Level 1 – Quoted prices are available in active markets for identical assets or liabilities. The types of assets and liabilities included in Level 1 are highly liquid and actively traded instruments with quoted prices, such as equities listed on public exchanges.

Level 2 – Pricing inputs are not quoted prices in active markets but are either directly or indirectly observable. The types of assets and liabilities included in Level 2 are certain marketable debt securities, financial instruments traded in less than active markets or other financial instruments priced with models using highly observable inputs.

Level 3 – Significant inputs to pricing have little or no transparency. The types of assets and liabilities included in Level 3 are those with inputs requiring significant management judgment or estimation.

NAV - Investments that do not have a readily determinable fair value are measured at NAV. These investments do not consider the observability of inputs and, therefore, they are not included within the fair value hierarchy. Evergy Missouri West includes in this category investments that do not have a readily determinable fair value.

Evergy Missouri West records cash and cash equivalents, accounts receivable and short-term borrowings on its balance sheet at cost, which approximates fair value due to the short-term nature of these instruments.

Evergy Missouri West measures the fair value of long-term debt using Level 2 measurements available as of the measurement date. At December 31, 2019, the book value and fair value of Evergy Missouri West's long-term debt, including current maturities, were $1,072.5 million and $1,138.1 million, respectively. At December 31, 2018, the book value and fair value of Evergy Missouri West's long-term debt, including current maturities, were $973.6 million and $1,007.0 million, respectively.

Supplemental Executive Retirement Plan

At December 31, 2019 and 2018, Evergy Missouri West's SERP rabbi trusts included $13.3 million and $13.2 million, respectively, of fixed income funds valued at NAV per share (or its equivalent) that are not categorized in the fair value hierarchy. The fixed income fund invests primarily in intermediate and long-term debt securities, can be redeemed immediately and is not subject to any restrictions on redemptions.

12. COMMITMENTS AND CONTINGENCIES

Environmental Matters

Set forth below are descriptions of contingencies related to environmental matters that may impact Evergy Missouri West's operations or its financial results. Management's assessment of these contingencies, which are based on federal and state statutes and regulations, and regulatory agency and judicial interpretations and actions, has evolved over time. These laws and regulations can also change, restrict or otherwise impact Evergy Missouri West's operations or financial results in many ways, including the handling or disposal of waste material and the planning for future construction activities. The failure to comply with these laws and regulations could result in the assessment of administrative, civil and criminal penalties and/or the imposition of remedial requirements. Evergy Missouri West believes that all of its operations are in substantial compliance with current federal, state and local environmental standards.

There are a variety of final and proposed laws and regulations that could have a material adverse effect on Evergy Missouri West's operations and consolidated financial results. Due in part to the complex nature of environmental laws and regulations, Evergy Missouri West is unable to assess the impact of potential changes that may develop with respect to the environmental contingencies described below.

Cross-State Air Pollution Update Rule

In September 2016, the Environmental Protection Agency (EPA) finalized the Cross-State Air Pollution (CSAPR) Update Rule. The final rule addresses interstate transport of nitrogen oxides emissions in 22 states including Kansas, Missouri and Oklahoma during the ozone season and the impact from the formation of ozone on downwind states with respect to the 2008 ozone National Ambient Air Quality Standards (NAAQS). In December 2018, EPA finalized a determination, known as the CSAPR Close-Out Rule, demonstrating the CSAPR Update Rule fully addressed certain upwind states' 2008 ozone NAAQS interstate transport obligations. Various states and others have challenged both the CSAPR Update Rule and the CSAPR Close-Out Rule in the U.S. Court of Appeals for the D.C. Circuit (D.C. Circuit). In the fourth quarter of 2019, the D.C. Circuit granted these petitions and remanded a portion of the CSAPR Update Rule back to EPA and vacated the CSAPR Close-Out Rule in its entirety. Due to the uncertainty in what the future CSAPR Update Rule will include, Evergy Missouri West cannot determine the impact on its operations or consolidated financial results, but it could be material.

Greenhouse Gases

Burning coal and other fossil fuels releases carbon dioxide (CO_2) and other gases referred to as greenhouse gases (GHG). Various regulations under the federal Clean Air Act Amendments of 1990 (CAA) limit CO_2 and other GHG emissions, and in addition, other measures are being imposed or offered by individual states, municipalities and regional agreements with the goal of reducing GHG emissions.

In August 2018, the EPA published in the Federal Register proposed regulations, which contained (1) emission guidelines for GHG emissions from existing electric utility generating units (EGUs), (2) revisions to emission guideline implementing regulations and (3) revisions to the new source review (NSR) program. These emission guidelines are better known as the Affordable Clean Energy (ACE) Rule. In July 2019, the EPA published in the Federal Register the final ACE Rule with one significant change from the proposal. The NSR program revisions were not included in the final version and are expected to be addressed in a future rulemaking. The ACE Rule establishes emission guidelines for states to use in the development of plans to reduce GHG emissions from existing coal-fired EGUs. This rule defines the "best system of emission reduction" (BSER) for GHG emissions from existing coal-fired EGUs as on-site, heat-rate efficiency improvements. The final rule also provides states with a list of candidate technologies that can be used to establish standards of performance and incorporate these performance standards into state plans. In order for the states to be able to effectively implement the emission guidelines contained in the ACE Rule, the EPA is finalizing new regulations under Section 111(d) of the CAA to help clarify this process. The ACE Rule became effective in September 2019. In conjunction with the finalization of the ACE Rule, the EPA repealed its previously adopted Clean Power Plan (CPP). Also in September 2019, the D.C. Circuit granted motions to dismiss challenges to the CPP and challenges to EPA's denial of reconsideration of the CPP.

Due to uncertainty regarding what future state implementation plans will require for compliance with the ACE Rule as well as legal challenges that have been filed, Evergy Missouri West cannot determine the impact on its operations or consolidated financial results, but the cost to comply with the ACE Rule, should it be upheld and implemented in its current or a substantially similar form, could be material.

Water

Evergy Missouri West discharges some of the water used in generation and other operations containing substances deemed to be pollutants. A November 2015 EPA rule establishes effluent limitations guidelines (ELG) and standards for wastewater discharges, including limits on the amount of toxic metals and other pollutants that can be discharged. Implementation timelines for this 2015 rule vary from 2018 to 2023. On November 22, 2019, the EPA published a proposed modification to the ELG rule. The proposed rule modifies numeric limits for flue gas desulfurization (FGD) wastewater and adds a 10% volumetric purge limit for bottom ash transport water. The timeline for final FGD wastewater compliance is also delayed by two years to December 31, 2025. Evergy Missouri West is in the process of reviewing the proposed rule and the costs to comply with these changes could be material.

In April 2019, the U.S. Court of Appeals for the 5th Circuit (5th Circuit) issued a ruling that vacates and remands portions of the original ELG rule. Due to this ruling, future ELG modifications for the best available technology economically achievable for legacy waste water and leachate are likely.

In October 2014, the EPA's final standards for cooling water intake structures at power plants to protect aquatic life took effect. The standards, based on Section 316(b) of the federal Clean Water Act (CWA), require subject facilities to choose among seven best available technology options to reduce fish impingement. In addition, some facilities must conduct studies to assist permitting authorities to determine whether and what site-specific controls, if any, would be required to reduce entrainment of aquatic organisms. Evergy Missouri West's current analysis indicates this rule will not have a significant impact on its coal plants that employ cooling towers or cooling lakes that can be classified as closed cycle cooling and do not expect the impact from this rule to be material. Plants without closed cycle cooling are under evaluation for compliance with these standards and may require additional controls that could be material.

Regulation of Coal Combustion Residuals

In the course of operating its coal generation plants, Evergy Missouri West produces CCRs, including fly ash, gypsum and bottom ash. The EPA published a rule to regulate CCRs in April 2015, that requires additional CCR handling, processing and storage equipment and closure of certain ash disposal units.

In March 2019, the D.C. Circuit issued a ruling to grant the EPA's request to remand the Phase I, Part I CCR rule. This was in response to a prior court ruling requiring the EPA to address un-lined surface impoundment closure requirements. On December 2, 2019, the EPA published a proposed rule called the Part A CCR Rule. This proposal reclassifies clay-lined surface impoundments from "lined" to "unlined" and establishes a deadline of August 31, 2020 to initiate closure. The prior rule included a deadline of October 31, 2020 for unlined impoundments to initiate closure. In February 2020, the EPA released a pre-publication version of a proposed rule called the Part B CCR Rule. This proposal includes a process to allow unlined impoundments to continue to operate if a demonstration is made to prove that they are not adversely impacting groundwater, human health or the environment. The proposal also includes clarification regarding ash used in the closure of landfills and surface impoundments. Evergy Missouri West is in the process of reviewing these proposed rules and the costs to comply with these changes could be material.

Evergy Missouri West has recorded AROs for its current estimates for the closure of ash disposal ponds, but the revision of these AROs may be required in the future due to changes in existing CCR regulations, the results of groundwater monitoring of CCR units or changes in interpretation of existing CCR regulations or changes in the timing or cost to close ash disposal ponds. If revisions to these AROs are necessary, the impact on Evergy Missouri West's operations or consolidated financial results could be material.

Contractual Commitments – *Fuel, Power and Other*

Evergy Missouri West's contractual commitments at December 31, 2019, excluding retirement benefits, long-term debt and leases, are detailed in the following table.

	2020	2021	2022	2023	2024	After 2024	Total
Purchase commitments				(millions)			
Fuel	$ 36.8	$ 11.5	$ -	$ -	$ -	$ -	$ 48.3
Power	12.5	12.5	12.5	12.5	12.5	99.8	162.3
Other	12.8	1.6	1.1	0.5	0.5	4.8	21.3
Total contractual commitments	$ 62.1	$ 25.6	$ 13.6	$ 13.0	$ 13.0	$ 104.6	$ 231.9

Fuel commitments consist of commitments for coal and coal transportation. Power commitments consist of certain commitments for renewable energy under power purchase agreements. Other represents individual commitments entered into in the ordinary course of business.

13. RELATED PARTY TRANSACTIONS AND RELATIONSHIPS

In the normal course of business, Evergy Missouri West engages in related party transactions with Evergy Kansas Central and Evergy Metro. A summary of these transactions and the amounts associated with them is provided below. Transactions between Evergy Missouri West and Evergy Kansas Central prior to June 4, 2018, the date of the merger, are not reflected below.

Jointly-Owned Plants and Shared Services

Evergy Missouri West has no employees of its own. Evergy Metro employees manage Evergy Missouri West's business and operate its facilities at cost, including Evergy Missouri West's 18% ownership interest in Evergy Metro's Iatan Nos. 1 and 2. The operating expenses and capital costs billed from Evergy Metro to Evergy Missouri West were $172.8 million for 2019 and $183.2 million for 2018.

Evergy Kansas Central employees manage Jeffrey Energy Center (JEC) and operate its facilities at cost, including Evergy Missouri West's 8% ownership interest in JEC. The operating expenses and capital costs billed from Evergy Kansas Central to Evergy Missouri West for JEC and other various business activities were $24.9 million for 2019 and $12.3 million for 2018.

Money Pool

Evergy Missouri West is also authorized to participate in the Evergy, Inc. money pool, an internal financing arrangement in which funds may be lent on a short-term basis to Evergy Missouri West from Evergy, Inc. and between Evergy Metro and Evergy Missouri West. At December 31, 2019 and 2018, Evergy Missouri West had no outstanding receivables or payables under the money pool.

Related Party Net Receivables and Payables

The following table summarizes Evergy Missouri West's related party net payables.

	December 31	
	2019	2018
	(millions)	
Net payable to Evergy Metro	$ 78.7	$ 72.6
Net payable to Evergy Kansas Central	3.1	2.6
Net payable to Evergy	15.8	31.9

Tax Allocation Agreement

Evergy files a consolidated federal income tax return as well as unitary and combined income tax returns in several state jurisdictions with Kansas and Missouri being the most significant. Income taxes for consolidated or combined subsidiaries are allocated to the subsidiaries based on separate company computations of income or loss. As of December 31, 2019 and 2018, Evergy Missouri West had income taxes receivable from Evergy of $53.9 million and $27.2 million, respectively.

14. SHAREHOLDER'S EQUITY

Evergy Missouri West has certain restrictions on its ability to pay dividends to Evergy stemming from statutory requirements, corporate organizational documents, covenants and other conditions that could affect dividend levels or the ability to pay dividends. Under the Federal Power Act, Evergy Missouri West generally can pay dividends only out of retained earnings.

Certain conditions in the MPSC order authorizing the merger transaction also require Evergy Missouri West to maintain a credit rating of at least investment grade. If Evergy Missouri West's credit rating is downgraded below the investment grade level as a result of its affiliation with Evergy or any of Evergy's affiliates, Evergy Missouri West shall not pay a dividend to Evergy without MPSC approval or until Evergy Missouri West's investment grade credit rating has been restored.

The master credit facility of Evergy, under which Evergy Missouri West has borrowing capacity, and the note purchase agreement for Evergy Missouri West's Series A, B and C Senior Notes contain covenants requiring Evergy Missouri West to maintain a consolidated indebtedness to consolidated total capitalization ratio of not more than 0.65 to 1.00 at all times.

15. TAXES

Components of income tax expense are detailed in the following table.

	2019	2018
Current income taxes	(millions)	
Federal	$ (94.7)	$ (122.2)
State	(4.4)	(11.8)
Total	(99.1)	(134.0)
Deferred income taxes		
Federal	105.1	117.5
State	8.7	64.9
Total	113.8	182.4
Investment tax credit amortization	(0.2)	(0.2)
Income tax expense	$ 14.5	$ 48.2

Effective Income Tax Rates

Effective income tax rates reflected in the financial statements and the reasons for their differences from the statutory federal rates are detailed in the following table.

	2019	2018
Federal statutory income tax	21.0 %	21.0 %
Effect of:		
State income taxes	3.0	4.0
Flow through depreciation for plant-related differences	(6.3)	(1.5)
Federal tax credits	(0.1)	(0.1)
Amortization of federal investment tax credits	(0.1)	(0.2)
Changes in uncertain tax positions, net	(0.1)	(0.1)
State tax rate change	-	39.6
Valuation allowance	(5.2)	(21.4)
Other	0.8	4.5
Effective income tax rate	13.0 %	45.8 %

Deferred Income Taxes

The tax effects of major temporary differences resulting in deferred income tax assets (liabilities) in the consolidated balance sheets is in the following table.

December 31	2019	2018
Deferred tax assets:	(millions)	
Tax credit carryforward	$ 6.1	$ 6.0
Income taxes refundable to customers, net	55.8	58.2
Deferred employee benefit costs	0.5	24.2
Net operating loss carryforward	64.9	181.2
Alternative minimum tax carryforward	24.6	46.7
Accrued liabilities	8.2	7.6
Other	15.4	19.5
Total deferred tax assets before valuation allowance	175.5	343.4
Valuation allowance	(14.8)	(23.0)
Total deferred tax assets, net	160.7	320.4
Deferred tax liabilities:		
Plant-related	(450.6)	(457.1)
Deferred employee benefit costs	(17.8)	(41.0)
Regulatory assets	(11.0)	(17.2)
Other	(10.3)	(10.7)
Total deferred tax liabilities	(489.7)	(526.0)
Net deferred income tax liabilities	$ (329.0)	$ (205.6)

Tax Credit Carryforwards

At December 31, 2019 and 2018, Evergy Missouri West had $6.1 million and $6.0 million, respectively, of federal general business income tax credit carryforwards. The carryforwards relate primarily to solar, research and development, and alternative refueling property tax credits and expire in the years 2020 to 2039. Due to federal limitations on the utilization of income tax attributes acquired in the Evergy Missouri West acquisition by Great Plains Energy, management expects a portion of these credits to expire unutilized and has provided a valuation allowance against $0.3 million of the federal income tax benefit.

Net Operating Loss Carryforwards

At December 31, 2019 and 2018, Evergy Missouri West had $55.1 million and $159.2 million, respectively, of tax benefits related to federal net operating loss (NOL) carryforwards. The federal NOL carryforwards expire in years 2023 to 2037. Due to federal limitations on the utilization of income tax attributes acquired in the Evergy Missouri West acquisition by Great Plains Energy, management does not expect to utilize $7.1 million of tax benefits related to federal NOLs. Therefore, a valuation allowance has been provided against $7.1 million of the federal income tax benefits.

The year of origin of Evergy Missouri West's related tax benefit amounts for federal NOL carryforwards as of December 31, 2019 are detailed in the following table.

Year of Origin	Amount of Benefit
	(millions)
2005	$ 19.1
2006	32.0
2014	2.7
2015	0.5
2016	0.7
2017	0.1
	$ 55.1

In addition, Evergy Missouri West also had deferred tax benefits of $9.8 million and $22.0 million related to state NOLs as of December 31, 2019 and 2018, respectively. Management does not expect to utilize $7.1 million of tax benefits related to NOLs in state tax jurisdictions where Evergy Missouri West does not expect to operate in the future, and $0.3 million of NOLs due to projected future taxable income in state tax jurisdictions where Evergy Missouri West has operations. Therefore, a valuation allowance has been provided against $7.4 million of state tax benefits.

Alternative Minimum Tax Carryforwards

At December 31, 2019 and 2018, Evergy Missouri West had $24.6 million and $46.7 million, respectively, of federal alternative minimum tax credit carryforwards. These credits do not expire and can be used to reduce taxes paid in the future or become refundable starting in 2018.

Valuation Allowances

Evergy Missouri West is required to assess the ultimate realization of deferred tax assets using a "more likely than not" assessment threshold. This assessment takes into consideration tax planning strategies within Evergy Missouri West's control and is computed using a separate return approach. This approach requires a valuation allowance for deferred tax benefits if Evergy Missouri West would not realize such benefits on a separate company return. As a result of this assessment, Evergy Missouri West has established a partial valuation allowance for tax benefits related to federal and state tax NOL carryforwards, and tax credit carryforwards.

During 2019 and 2018, $8.2 million and $27.4 million of tax benefit, respectively, was recorded in continuing operations primarily related to federal and state NOL carryforwards and federal alternative minimum tax credits.

Federal Tax Reform

In December 2017, the U.S. Congress passed and President Donald Trump signed Public Law No. 115-97, commonly referred to as the TCJA. The TCJA represents the first major reform in U.S. income tax law since 1986. Most notably, the TCJA reduces the current top corporate income tax rate from 35% to 21% beginning in 2018, repeals the corporate AMT, makes existing AMT tax credit carryforwards refundable, and changes the deductibility and taxability of certain items, among other things. Prior to the change in tax rates that has been reflected in its 2018 rate case, Evergy Missouri West recovered the cost of income taxes in rates from its customers based on the 35% federal corporate income tax rate. Evergy Missouri West recorded a regulatory liability in 2018 due to the probability that Evergy Missouri West would be required to make refunds to its customers related to the impacts of the TCJA. The final regulatory treatment of this regulatory liability was determined in Evergy Missouri West's rate case with the MPSC. See Note 4 for more information and the amount of the regulatory liability recorded by Evergy Missouri West.

Missouri Tax Reform

On June 1, 2018, the Missouri governor signed Senate Bill (S.B.) 884 into law. Most notably, S.B. 884 reduces the corporate income tax rate from 6.25% to 4.0% beginning in 2020, provides for the mandatory use of the single sales factor formula and eliminates intercompany transactions between corporations that file a consolidated Missouri income tax return.

As a result of the change in the Missouri corporate income tax rate, Evergy Missouri West revalued and restated its deferred income tax assets and liabilities as of June 1, 2018. Evergy Missouri West decreased its net deferred income tax liabilities by $13.4 million, primarily consisting of a $19.6 million adjustment for the revaluation and restatement of deferred income tax assets and liabilities included in Missouri jurisdictional rate base and a $6.1 million tax gross-up adjustment for ratemaking purposes. The decrease to Evergy Missouri West's net deferred income tax liabilities included in Missouri jurisdictional rate base were offset by a corresponding increase in regulatory liabilities. The net regulatory liabilities will be amortized to customers over a period to be determined in a future rate case.

Evergy Missouri West recognized $8.6 million of income tax expense in 2018 primarily related to the difference between Evergy Missouri West 's revaluation of its deferred income tax assets and liabilities for financial reporting purposes and the amount of the revaluation pertaining to Evergy Missouri West's Missouri jurisdictional rate base.

16. LEASES

Evergy Missouri West leases generating plant and other property and equipment. Under GAAP, a contract is or contains a lease if the contract conveys the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration. Evergy Missouri West assesses a contract as being or containing a lease if the contract identifies property, plant and equipment, provides the lessee the right to obtain substantially all of the economic benefits from use of the property, plant and equipment and provides the lessee the right to direct the use of the property, plant and equipment.

Evergy Missouri West has entered into several agreements to purchase energy through renewable purchase power agreements that are accounted for as leases that commenced prior to the application of Topic 842. Due to the intermittent nature of renewable generation, these leases have significant variable lease payments not included in the initial and subsequent measurement of the lease liability. Variable lease payments are expensed as incurred. In addition, certain other contracts contain payment for activity that transfers a separate good or service such as utilities or common area maintenance. Evergy Missouri West has elected a practical expedient permitted by GAAP to not separate such components of the lease from other lease components for all leases.

Evergy Missouri West's leases have remaining terms ranging from 5 to 9 years. Leases that have original lease terms of twelve months or less are not recognized on Evergy Missouri West's balance sheets. Some leases have options to renew the lease or terminate early at the election of Evergy Missouri West. Judgment is applied at lease commencement to determine the reasonably certain lease term based on then-current assumptions about use of the leased asset, market conditions and terms in the contract. The judgment applied to determine the lease term can significantly impact the measurement of the lease liability and right-of-use asset and lease classification.

Evergy Missouri West typically discounts lease payments over the term of the lease using its incremental borrowing rate at lease commencement to measure its initial and subsequent lease liability. For leases that existed at the initial application of Topic 842, Evergy Missouri West used the incremental borrowing rates that corresponded to the remaining lease term as of January 1, 2019.

Leases may be classified as either operating leases or finance leases. The lease classification is based on assumptions of the lease term and discount rate, as discussed above, and the fair market value and economic life of the leased asset. Operating leases recognize a consistent expense each period over the lease term, while finance leases will result in the separate presentation of interest expense on the lease liability and amortization of the right-of-use asset.

Evergy Missouri West's lease expense is detailed in the following table.

Year Ended December 31, 2019		
Finance lease costs		(millions)
Amortization of right-of-use assets	$	0.1
Interest on lease liabilities		0.1
Short-term lease costs		0.3
Variable lease costs for renewable purchase power agreements		52.9
Total lease costs	$	53.4

Evergy Missouri West had $1.9 million of right-of-use assets obtained in exchange for new operating lease liabilities in 2019.

Finance Leases

Right-of-use assets for finance leases are included in property, plant and equipment on Evergy Missouri West's balance sheets. Lease liabilities for finance leases are included in other current and other long-term liabilities. Payments and other supplemental information for finance leases as of December 31, 2019, are detailed in the following table.

	(millions)	
2020	$	0.2
2021		0.2
2022		0.2
2023		0.2
2024		0.2
After 2024		0.9
Total finance lease payments		1.9
Amounts representing imputed interest		(0.5)
Present value of lease payments		1.4
Less: current portion		(0.2)
Total long-term obligations under finance leases	$	1.2
Right-of-use assets under finance leases included in property, plant and equipment, net on the consolidated balance sheets	$	257.9
Weighted-average remaining lease term (years)		8.7
Weighted-average discount rate		7.6%

Operating Leases

Right-of-use assets for operating leases are included in other long-term assets on Evergy Missouri West's balance sheets. Lease liabilities for operating leases are included in other current and other long-term liabilities. Lease payments and other supplemental information for operating leases as of December 31, 2019, are detailed in the following table.

	(millions)
2020	$ 0.4
2021	0.4
2022	0.4
2023	0.4
2024	0.4
After 2024	-
Total operating lease payments	2.0
Amounts representing imputed interest	(0.1)
Present value of lease payments	1.9
Less: current portion	(0.4)
Total long-term obligations under operating leases	$ 1.5
Right-of-use assets under operating leases included in other assets on the consolidated balance sheets	$ 1.9
Weighted-average remaining lease term (years)	5.0
Weighted-average discount rate	2.2%

Deloitte.

Deloitte & Touche LLP
1100 Walnut Street
Suite 3300
Kansas City, MO 64106-2129
USA

Tel: +1 816 474 6180
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholder of Evergy Missouri West, Inc.

We have audited the accompanying consolidated financial statements of Evergy Missouri West, Inc. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of comprehensive income, changes in equity, and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Evergy Missouri West, Inc. and its subsidiaries as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

March 13, 2020