

**Evergy Missouri West, Inc.**

**Financial Statements as of December 31, 2021 and 2020 and for the Years Ended  
December 31, 2021 and 2020 and Independent Auditor's Report**

# EVERGY MISSOURI WEST, INC.

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## GLOSSARY OF TERMS

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

<u>Abbreviation or Acronym</u>	<u>Definition</u>
<b>AAO</b>	Accounting authority order
<b>ACE</b>	Affordable Clean Energy
<b>AFUDC</b>	Allowance for funds used during construction
<b>AROs</b>	Asset retirement obligations
<b>BSER</b>	Best system of emission reduction
<b>CAA</b>	Clean Air Act Amendments of 1990
<b>CCRs</b>	Coal combustion residuals
<b>CO<sub>2</sub></b>	Carbon dioxide
<b>COVID-19</b>	Coronavirus
<b>CPP</b>	Clean Power Plan
<b>CSAPR</b>	Cross-State Air Pollution
<b>ELG</b>	Effluent limitations guidelines
<b>EPA</b>	Environmental Protection Agency
<b>Evergy</b>	Evergy, Inc.
<b>Evergy Kansas Central</b>	Evergy Kansas Central, Inc., a wholly-owned subsidiary of Evergy
<b>Evergy Metro</b>	Evergy Metro, Inc., a wholly-owned subsidiary of Evergy
<b>Evergy Missouri West</b>	Evergy Missouri West, Inc., a wholly-owned subsidiary of Evergy
<b>February 2021 winter weather event</b>	Significant winter weather event in February 2021 that resulted in extremely cold temperatures over a multi-day period across much of the central and southern United States
<b>GAAP</b>	Generally Accepted Accounting Principles
<b>GHG</b>	Greenhouse gas
<b>KDHE</b>	Kansas Department of Health & Environment
<b>MECG</b>	Midwest Energy Consumers Group
<b>MDNR</b>	Missouri Department of Natural Resources
<b>MPSC</b>	Public Service Commission of the State of Missouri
<b>NAAQS</b>	National Ambient Air Quality Standards
<b>NAV</b>	Net asset value
<b>OCI</b>	Other comprehensive income
<b>OPC</b>	Office of the Public Counsel
<b>SERP</b>	Supplemental Executive Retirement Plan
<b>SIP</b>	State implementation plan
<b>SPP</b>	Southwest Power Pool, Inc.

**EVERGY MISSOURI WEST, INC.**  
**Consolidated Statements of Comprehensive Income**

<b>Year Ended December 31</b>	<b>2021</b>	<b>2020</b>
	(millions)	
<b>OPERATING REVENUES</b>	<b>\$ 833.3</b>	<b>\$ 795.1</b>
<b>OPERATING EXPENSES:</b>		
Fuel and purchased power	312.9	260.8
Operating and maintenance	195.2	199.8
Depreciation and amortization	112.9	105.6
Taxes other than income tax	50.2	49.1
<b>Total Operating Expenses</b>	<b>671.2</b>	<b>615.3</b>
<b>INCOME FROM OPERATIONS</b>	<b>162.1</b>	<b>179.8</b>
<b>OTHER INCOME (EXPENSE):</b>		
Investment earnings	3.4	3.2
Other income	3.2	0.7
Other expense	(15.4)	(14.5)
<b>Total Other Expense, Net</b>	<b>(8.8)</b>	<b>(10.6)</b>
Interest expense	52.0	55.9
<b>INCOME BEFORE INCOME TAXES</b>	<b>101.3</b>	<b>113.3</b>
Income tax expense (benefit)	14.2	(44.0)
<b>NET INCOME</b>	<b>\$ 87.1</b>	<b>\$ 157.3</b>
<b>COMPREHENSIVE INCOME</b>		
<b>NET INCOME</b>	<b>\$ 87.1</b>	<b>\$ 157.3</b>
<b>OTHER COMPREHENSIVE INCOME</b>		
<b>Defined benefit pension plans</b>		
Net gain (loss) arising during period	0.7	(2.1)
Income tax (expense) benefit	(0.2)	0.4
Net gain (loss) arising during period, net of tax	0.5	(1.7)
Amortization of net losses included in net periodic benefit costs	0.6	0.5
Income tax expense	(0.1)	(0.2)
Amortization of net losses included in net periodic benefit costs, net of tax	0.5	0.3
Change in unrecognized pension expense, net of tax	1.0	(1.4)
<b>Total other comprehensive income (loss)</b>	<b>1.0</b>	<b>(1.4)</b>
<b>COMPREHENSIVE INCOME</b>	<b>\$ 88.1</b>	<b>\$ 155.9</b>

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

**EVERGY MISSOURI WEST, INC.**  
**Consolidated Balance Sheets**

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
<b>ASSETS</b>	(millions, except share amounts)	
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 1.8	\$ 28.0
Receivables, net of allowance for credit losses of \$6.7 and \$3.7, respectively	32.7	36.8
Related party receivables	1.6	1.6
Accounts receivable pledged as collateral	50.0	50.0
Fuel inventory and supplies	72.4	57.5
Income taxes receivable	3.9	26.8
Regulatory assets	77.1	21.3
Prepaid expenses and other assets	8.2	5.8
Total Current Assets	247.7	227.8
<b>PROPERTY, PLANT AND EQUIPMENT, NET</b>	<b>3,009.4</b>	<b>2,652.9</b>
<b>OTHER ASSETS:</b>		
Regulatory assets	617.0	323.0
Goodwill	351.6	351.6
Other	26.7	27.9
Total Other Assets	995.3	702.5
<b>TOTAL ASSETS</b>	<b>\$ 4,252.4</b>	<b>\$ 3,583.2</b>

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

**EVERGY MISSOURI WEST, INC.**  
**Consolidated Balance Sheets**

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
<b>LIABILITIES AND EQUITY</b>	(millions, except share amounts)	
<b>CURRENT LIABILITIES:</b>		
Current maturities of long-term debt	\$ 387.5	\$ 429.4
Notes payable and commercial paper	395.3	65.0
Collateralized note payable	50.0	50.0
Accounts payable	142.2	115.6
Related party payables	306.0	236.1
Accrued taxes	8.2	7.4
Accrued interest	8.5	6.8
Regulatory liabilities	3.3	6.2
Asset retirement obligations	1.1	7.8
Other	4.2	6.6
Total Current Liabilities	1,306.3	930.9
<b>LONG-TERM LIABILITIES:</b>		
Long-term debt, net	752.5	642.3
Deferred income taxes	398.3	305.7
Unamortized investment tax credits	2.5	2.6
Regulatory liabilities	284.6	282.3
Retirement benefits	22.5	23.8
Asset retirement obligations	16.1	11.7
Other	19.2	21.6
Total Long-Term Liabilities	1,495.7	1,290.0
<b>Commitments and Contingencies (Note 12)</b>		
<b>EQUITY:</b>		
<b>Common shareholder's equity</b>		
Common stock-1,000 shares authorized, \$0.01 par value, 10 shares issued, stated value	1,257.7	1,257.7
Retained earnings	194.8	107.7
Accumulated other comprehensive loss	(2.1)	(3.1)
Total Shareholder's Equity	1,450.4	1,362.3
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 4,252.4</b>	<b>\$ 3,583.2</b>

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

**EVERGY MISSOURI WEST, INC.**  
**Consolidated Statements of Cash Flows**

<b>Year Ended December 31</b>	<b>2021</b>	<b>2020</b>
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</b>	(millions)	
Net income	\$ 87.1	\$ 157.3
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	112.9	105.6
Net deferred income taxes and credits	80.9	(33.4)
Allowance for equity funds used during construction	(2.0)	(0.1)
Payments for asset retirement obligations	(9.0)	(8.6)
Changes in working capital items:		
Accounts receivable	10.9	9.6
Fuel inventory and supplies	(14.9)	(5.4)
Prepaid expenses and other current assets	(59.2)	13.0
Accounts payable	(12.5)	39.3
Accrued taxes	23.7	11.3
Other current liabilities	(0.1)	(3.1)
Change in other assets	(257.2)	12.4
Changes in other liabilities	13.5	8.6
Cash Flows from (used in) Operating Activities	<u>(25.9)</u>	306.5
<b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:</b>		
Additions to property, plant and equipment	(452.6)	(276.0)
Other investing activities	—	1.0
Cash Flows used in Investing Activities	<u>(452.6)</u>	(275.0)
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:</b>		
Short term debt, net	329.4	(28.4)
Proceeds from long-term debt	497.3	—
Retirements of long-term debt	(429.4)	(1.1)
Net money pool borrowings	55.0	100.0
Cash dividends paid	—	(75.0)
Other financing activities	—	(0.2)
Cash flows from (used in) Financing Activities	<u>452.3</u>	(4.7)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(26.2)</b>	<b>26.8</b>
<b>CASH AND CASH EQUIVALENTS:</b>		
Beginning of period	28.0	1.2
End of period	<u>\$ 1.8</u>	<u>\$ 28.0</u>

The accompanying Notes to 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)					
<b>Balance as of December 31, 2019</b>	10	\$ 1,276.9	\$ 6.2	\$ (1.7)	\$ 1,281.4
Net income	—	—	157.3	—	157.3
Dividends declared on common stock	—	(19.2)	(55.8)	—	(75.0)
Change in unrecognized pension expense, net of tax	—	—	—	(1.4)	(1.4)
<b>Balance as of December 31, 2020</b>	10	1,257.7	107.7	(3.1)	1,362.3
Net income	—	—	87.1	—	87.1
Change in unrecognized pension expense, net of tax	—	—	—	1.0	1.0
<b>Balance as of December 31, 2021</b>	10	\$ 1,257.7	\$ 194.8	\$ (2.1)	\$ 1,450.4

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



**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 is a wholly-owned subsidiary of Evergy, Inc. (Evergy). Evergy also owns Evergy Metro, Inc. (Evergy Metro) and Evergy Kansas Central, Inc. (Evergy Kansas Central), 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 338,500 customers in the state of Missouri. Evergy Missouri West conducts 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 2, 2022, 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 in 2018, 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, 2021 and 2020 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	
	2021	2020
	(millions)	
Fuel inventory	\$ 24.7	\$ 20.8
Supplies	47.7	36.7
Fuel inventory and supplies	\$ 72.4	\$ 57.5

**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 2.6% in 2021 and 3.5% in 2020.

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

	2021	2020
	(millions)	
AFUDC borrowed funds	\$ 1.5	\$ 2.0
AFUDC equity funds	2.0	0.1
Total	\$ 3.5	\$ 2.1

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 West’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, 2021, Evergy Missouri West has classified the remaining Sibley No. 3 Unit net book value of \$123.4 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 current rate case, which was

filed in January 2022. See Note 4 for additional information regarding the AAO and Every Missouri West's current rate case.

Every Missouri West expects that the MPSC's decision in its current case regarding the AAO could impact the valuation of its regulatory asset for retired generation facilities but as of December 31, 2021, 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**

Every 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 Every 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. Every Missouri West's estimated unbilled kWhs are allocated and priced by regulatory jurisdiction across the rate classes based on actual billing rates. Every 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 Every Missouri West as of December 31, 2021 and 2020.

Every 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 Every Missouri West's consolidated statements of comprehensive income.

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

### **Allowance for Credit Losses**

Historical loss information generally provides the basis for Every Missouri West's assessment of expected credit losses. Every Missouri West uses an aging of accounts receivable method to assess historical loss information. When historical experience may not fully reflect Every Missouri West's expectations about the future, Every Missouri West will adjust historical loss information, as necessary, to reflect the current conditions and reasonable and supportable forecasts not already reflected in the historical loss information.

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.

### **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 amounts collected from customers in excess of income taxes in current 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.

	2021	2020
	(millions)	
Non-service cost component of net benefit cost	\$ (14.6)	\$ (13.7)
Other	(0.8)	(0.8)
Other expense	\$ (15.4)	\$ (14.5)

## Supplemental Cash Flow Information

Year Ended December 31	2021	2020
	(millions)	
Cash paid for (received from):		
Interest, net of amount capitalized	\$ 49.4	\$ 55.3
Income taxes, net of refunds	(89.6)	(21.9)
Non-cash investing transactions:		
Property, plant and equipment additions	65.2	35.4

## February 2021 Winter Weather Event

In February 2021, much of the central and southern United States, including the service territory of Evergy Missouri West, experienced a significant winter weather event that resulted in extremely cold temperatures over a multi-day period (February 2021 winter weather event). The February 2021 winter weather event resulted in an increase in the demand for natural gas used by Evergy Missouri West for generating electricity and also contributed to the limited availability of other generation resources, including coal and renewables, within the Southwest Power Pool, Inc. (SPP) Integrated Marketplace. Evergy Missouri West is a member of the SPP and, as a result, principally sells and purchases power for Evergy Missouri West's retail electric customers through the SPP Integrated Marketplace. These circumstances resulted in higher than normal market prices for both natural gas and power for the duration of the February 2021 winter weather event. These higher than normal market prices also included make-whole payments calculated by the SPP to compensate natural gas generators within the SPP Integrated Marketplace for costs incurred in excess of revenues. As part of the February 2021 winter weather event and inclusive of the aforementioned items, Evergy Missouri West incurred natural gas and purchased power costs, net of wholesale

revenues, of \$296.4 million. The amount of purchased power costs incurred by Evergy Missouri West during the February 2021 winter weather event is subject to resettlement activity and further review by the SPP. This review and any subsequent resettlement activity could result in increases or decreases to the final amount of purchased power costs incurred by Evergy Missouri West during the February 2021 winter weather event and these changes could be material.

Evergy Missouri West has a fuel recovery mechanism that allows it to defer substantially all of any increased fuel and purchased power costs, net of wholesale revenues, to a regulatory asset for future recovery from customers. In June 2021, Evergy Missouri West and Evergy Metro filed a joint request for an AAO with the MPSC that would allow for the extraordinary costs to provide service during the February 2021 winter weather event, including carrying costs, to be deferred to a regulatory asset for consideration in future proceedings. See Note 4 for additional information regarding the AAO.

As of December 31, 2021, Evergy Missouri West had deferred substantially all of its fuel and purchased power costs, net of wholesale revenues, related to the February 2021 winter weather event to a regulatory asset pursuant to the mechanisms discussed above. While Evergy Missouri West expects to recover substantially all of any increased fuel and purchased power costs related to the February 2021 winter weather event from customers, the timing of the cost recovery could be delayed or spread over a longer than typical recovery timeframe by the MPSC to help moderate monthly customer bill impacts given the extraordinary nature of the February 2021 winter weather event.

## 2. REVENUE

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

	2021	2020
Revenues	(millions)	
Residential	\$ 402.3	\$ 393.3
Commercial	273.9	259.0
Industrial	83.3	80.0
Other retail	6.8	9.1
Total electric retail	\$ 766.3	\$ 741.4
Wholesale	29.6	19.0
Transmission	16.8	17.3
Industrial steam and other	19.6	16.2
Total revenue from contracts with customers	\$ 832.3	\$ 793.9
Other	1.0	1.2
<b>Operating revenues</b>	<b>\$ 833.3</b>	<b>\$ 795.1</b>

### 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 monthly 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 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 network 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 the Federal Energy Regulatory Commission (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.



### 3. RECEIVABLES

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

	December 31	
	2021	2020
	(millions)	
Customer accounts receivable - billed	\$ 1.3	\$ 2.0
Customer accounts receivable - unbilled	27.8	31.4
Other receivables	10.3	7.1
Allowance for credit losses	(6.7)	(3.7)
<b>Total</b>	<b>\$ 32.7</b>	<b>\$ 36.8</b>

As of December 31, 2021 and 2020, other receivables for Evergy Missouri West included receivables from contracts with customers of \$0.6 million and \$0.8 million, respectively.

The change in Evergy Missouri West's allowance for credit losses is summarized in the following table.

	2021		2020	
	(millions)			
Beginning balance January 1	\$ 3.7	\$ 2.2		
Credit loss expense	5.6	4.8		
Write-offs	(4.8)	(6.3)		
Recoveries of prior write-offs	2.2	3.0		
<b>Ending balance December 31</b>	<b>\$ 6.7</b>	<b>\$ 3.7</b>		

#### Sale of Accounts Receivable

Evergy Missouri West sells an undivided percentage ownership interest in its retail electric accounts receivable to an independent outside investor. This sale 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, 2021 and 2020, 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 sales facility expires in 2024 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 mid-November.

### 4. RATE MATTERS AND REGULATION

#### MPSC Proceedings

##### *2022 Rate Case Proceeding*

In January 2022, Evergy Missouri West filed an application with the MPSC to request an increase to its retail revenues of \$27.7 million before rebasing fuel and purchased power expense, with a return on equity of 10% and a rate-making equity ratio of 51.81%. The request reflects increases related to higher property taxes and the recovery of infrastructure investments made to improve reliability and enhance customer service and were also partially offset by significant customers savings and cost reductions created since the Great Plains Energy and Evergy Kansas Central merger in 2018. Evergy Missouri West also requested an additional \$32.1 million increase associated with rebasing fuel and purchased power expense, the implementation of tracking mechanisms for both property tax expense and credit loss expense, the creation of a storm reserve, and the full return of and return on its unrecovered investment related to the 2018 retirement of Sibley Station as part of its application with the MPSC.

An evidentiary hearing in the case is expected to occur in September 2022 and new rates are expected to be effective in December 2022.

***Other 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 a regulatory liability for the revenues discussed above for consideration in Evergy Missouri West's current rate case. Depending on the MPSC's decision in the current 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 part of its current rate case, Evergy Missouri West is proposing to refund to customers the revenues collected from customers for non-fuel operations and maintenance costs and other costs associated with Sibley Station following the station's retirement but not the return on investment.

As a result of the MPSC order, Evergy Missouri West has recorded a regulatory liability of \$29.3 million as of December 31, 2021 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 current 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 current rate case based on the relevant facts and circumstances. Although 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 current rate case is uncertain and could result in an estimated loss of approximately \$50 million when new rates are expected to become effective in December 2022. Evergy Missouri West's regulatory liability for probable refunds as of December 31, 2021 and estimated loss in excess of the amount accrued represent estimates that could change significantly based on ongoing developments including decisions in other regulatory proceedings that establish precedent applicable to this matter and positions of parties on this issue in Evergy Missouri West's 2022 rate case.

***February 2021 Winter Weather Event AAO***

In June 2021, Evergy Missouri West and Evergy Metro filed a joint request for an AAO with the MPSC that would allow Evergy Missouri West to defer to a regulatory asset any extraordinary costs, including carrying costs, to provide electric service during the February 2021 winter weather event for consideration in future proceedings.

Evergy Missouri West has currently deferred substantially all of its fuel and purchased power costs, net of wholesale revenues, related to the February 2021 winter weather event to a regulatory asset pursuant to its ability to recover these amounts through its fuel recovery mechanism, which allows for the recovery of 95% of increases in fuel and purchased power costs, net of wholesale revenues, above the amount included in base rates to customers. This AAO request is intended to address the recovery of the February 2021 winter weather event amounts separate from the normal fuel recovery mechanism process given the extraordinary nature of the February 2021 winter weather event and to help moderate customer bill impacts. As of December 31, 2021, Evergy Missouri West had recognized a regulatory asset of \$281.6 million related to its costs incurred during the February 2021 winter weather event, primarily consisting of increased fuel and purchased power costs.

In the AAO filing, Evergy Missouri West requested to exclude its deferred February 2021 winter weather event amounts from recovery through its fuel recovery mechanism and indicated its intent to recover them through issuing securitized bonds pursuant to the securitization legislation signed into law in Missouri in July 2021. Evergy Missouri West also requested an approximately \$15 million increase to its February 2021 winter weather event recovery from Missouri customers, which is not currently reflected in its regulatory asset for the February 2021 winter weather event, for the portion of net fuel and purchased power costs not traditionally recoverable because of the 5% sharing provision of its fuel recovery mechanism.



In September 2021, MPSC staff filed their recommendation regarding the February 2021 winter weather event and the related costs and revenues deferred by Evergy Missouri West. The MPSC staff recommended that the MPSC approve Evergy Missouri West’s AAO request, including the approximately \$15 million of additional recovery requested related to the 5% sharing provision of its fuel recovery mechanism, but that the AAO deferral should not include carrying costs as they should be determined in a future ratemaking proceeding.

A decision by the MPSC regarding Evergy Missouri West’s request is expected in the first half of 2022.

**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.

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
<b>Regulatory Assets</b>	(millions)	
Pension and post-retirement costs	\$ 88.3	\$ 95.0
Debt reacquisition costs	1.0	0.8
Depreciation	21.4	7.9
Cost of removal	26.3	—
Asset retirement obligations	17.9	31.8
Iatan No. 1 and common facilities	3.8	4.1
Iatan No. 2 construction accounting costs	12.3	12.7
Deferred customer programs	4.5	2.0
Fuel recovery mechanism	61.9	7.3
February 2021 winter weather event	281.6	—
Solar rebates	21.3	26.4
Pension and other post-retirement benefit non-service costs	13.0	13.6
Retired generation facility	123.4	128.4
Merger transition costs	5.0	5.7
Other regulatory assets	12.4	8.6
<b>Total</b>	<b>694.1</b>	<b>344.3</b>
Less: current portion	(77.1)	(21.3)
<b>Total noncurrent regulatory assets</b>	<b>\$ 617.0</b>	<b>\$ 323.0</b>

	December 31	
	2021	2020
<b>Regulatory Liabilities</b>	(millions)	
Taxes refundable through future rates	\$ 209.7	\$ 221.0
Pension and post-retirement costs	5.3	6.3
Cost of removal	—	4.4
Fuel recovery mechanism	—	1.3
Sibley AAO	29.3	18.4
Other regulatory liabilities	43.6	37.1
<b>Total</b>	<b>287.9</b>	<b>288.5</b>
Less: current portion	(3.3)	(6.2)
<b>Total noncurrent regulatory liabilities</b>	<b>\$ 284.6</b>	<b>\$ 282.3</b>

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, \$50.0 million is not included in rate base and is 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.

**Depreciation:** Represents the difference between regulatory depreciation expense and depreciation expense recorded for financial reporting purposes. These assets are included in rate base and the difference is amortized over the life of the related plant.

**Cost of removal:** Represents amounts spent, but not yet collected, to dispose of plant assets. This asset will decrease as removal costs are collected in rates and is 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, \$4.5 million is not included in rate base and is amortized over various periods.

**Fuel recovery mechanism:** Represents the actual cost of fuel consumed in producing electricity or industrial steam 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.

**February 2021 winter weather event:** Represents deferred extraordinary fuel and purchased power costs incurred to provide electric service as a result of the February 2021 winter weather event. These amounts are 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 or industrial steam 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 2022 rate case.

**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, 2021. 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. 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 changes in Evergy Missouri West's AROs for the periods ending December 31, 2021 and 2020.

	2021	2020
	(millions)	
Beginning balance, January 1	\$ 19.5	\$ 33.1
Revision in timing and/or estimates	0.2	(6.0)
Settlements	(3.7)	(8.6)
Accretion	1.2	1.0
Ending balance	\$ 17.2	\$ 19.5
Less: current portion	(1.1)	(7.8)
Total non-current asset retirement obligation	\$ 16.1	\$ 11.7

## 7. PROPERTY, PLANT AND EQUIPMENT

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

	December 31	
	2021	2020
	(millions)	
Electric plant in service	\$ 4,038.9	\$ 3,750.5
Accumulated depreciation	(1,251.6)	(1,228.1)
Plant in service	2,787.3	2,522.4
Construction work in progress	222.1	130.5
Net property, plant and equipment	\$ 3,009.4	\$ 2,652.9

Evergy Missouri West recorded depreciation expense on property, plant and equipment of \$112.1 million in 2021 and \$104.8 million in 2020.

## 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 \$12.5 million of assets in a non-qualified trust for the SERP as of December 31, 2021, and expects to fund future

benefit payments from these assets. Benefits paid by Evergy Missouri West in each of 2021 and 2020 were \$1.3 million.

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

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
	(millions)	
Projected benefit obligation	\$ 23.8	\$ 25.1
Funded status	\$ (23.8)	\$ (25.1)
Accumulated benefit obligation	\$ 23.8	\$ 25.1
Amounts recognized in the consolidated balance sheets		
Current retirement benefits liability	\$ (1.3)	\$ (1.3)
Noncurrent retirement benefits liability	(22.5)	(23.8)
Net amount recognized before Other Comprehensive Income (OCI)	(23.8)	(25.1)
Accumulated OCI	2.7	4.0
Net amount recognized	\$ (21.1)	\$ (21.1)
Amounts in accumulated OCI not yet recognized as a component of net periodic benefit cost:		
Actuarial loss	\$ 2.7	\$ 4.0
Assumptions used for benefit obligations:		
Discount rate	3.07 %	2.74 %

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

<b>Year Ended December 31</b>	<b>2021</b>	<b>2020</b>
	(millions)	
Net periodic benefit costs	\$ 1.3	\$ 1.3
Other changes in plan assets and benefit obligations recognized in OCI		
Current year net (gain) loss	\$ (0.7)	\$ 2.2
Amortization of loss	(0.6)	(0.5)
Total recognized in OCI	(1.3)	1.7
Total recognized in net periodic benefit costs and OCI	\$ —	\$ 3.0
Expense assumptions:		
Discount rate	2.74 %	3.51 %

Evergy Missouri West's projected benefit payments related to the SERP are \$1.3 million per year for 2022 through 2023, \$1.4 million for 2024, \$1.6 million for 2025 through 2026 and total \$7.5 million for the years 2027 to 2031.

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

In August 2021, Evergy amended its \$2.5 billion master credit facility and extended the maturity until 2026. Evergy Missouri West has borrowing capacity under the master credit facility with a current sublimit of \$700.0 million. This sublimit can be unilaterally adjusted by Evergy provided the sublimit remains within minimum and maximum sublimits as specified in the facility. Evergy adjusted Evergy Missouri West's sublimit to \$700.0 million from \$450.0 million in the first quarter of 2021. The applicable interest rates and commitment fees of the facility are subject to upward or downward adjustments, within certain limitations, if Evergy achieves, or fails to achieve, certain sustainability-linked targets based on two key performance indicator metrics: (i) Non-Emitting Generation Capacity and (ii) Diverse Supplier Spend (as defined in the facility).

A default by Evergy Missouri West or one 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, 2021, Evergy Missouri West was in compliance with this covenant.

At December 31, 2021, Evergy Missouri West had \$395.3 million of commercial paper outstanding at a weighted-average interest rate of 0.40%, had not issued letters of credit and had no outstanding cash borrowings under the master credit facility. At December 31, 2020, Evergy Missouri West had \$65.0 million of commercial paper outstanding at a weighted-average interest rate of 0.36%, had issued letters of credit totaling \$2.0 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	
		2021	2020
		(millions)	
First Mortgage Bonds 9.44% Series <sup>(a)</sup>		\$ —	\$ 1.1
Senior Notes			
8.27% Series <sup>(a)</sup>		—	80.9
3.49% Series A <sup>(a)</sup>	2025	36.0	36.0
4.06% Series B <sup>(a)</sup>	2033	60.0	60.0
4.74% Series C <sup>(a)</sup>	2043	150.0	150.0
3.74% Series <sup>(a)</sup>	2022	100.0	100.0
2.86% Series A <sup>(a)</sup>	2031	350.0	—
3.01% Series B <sup>(a)</sup>	2033	75.0	—
3.21% Series C <sup>(a)</sup>	2036	75.0	—
Medium Term Notes			
7.33% Series <sup>(a)</sup>	2023	3.0	3.0
7.17% Series <sup>(a)</sup>	2023	7.0	7.0
Affiliated Notes Payable to Evergy			
4.97% Series		—	347.4
5.15% Series	2022	287.5	287.5
Current maturities		(387.5)	(429.4)
Unamortized debt discount and debt issuance costs		(3.5)	(1.2)
<b>Total excluding current maturities</b>		<b>\$ 752.5</b>	<b>\$ 642.3</b>

<sup>(a)</sup> Unconditionally guaranteed by Evergy, Inc.

### Senior Notes

Under the terms of the note purchase agreements for certain senior notes, Evergy Missouri West is required to maintain a consolidated indebtedness to consolidated capitalization ratio, as defined in the agreements, not greater than 0.65 to 1.00. In addition, Evergy Missouri West's priority debt, as defined in the agreements, cannot exceed 15% of consolidated tangible net worth, as defined in the agreements. At December 31, 2021, Evergy Missouri West was in compliance with these covenants.

In April 2021, Evergy Missouri West issued in a private placement \$350.0 million of 2.86% Series A Senior Notes, maturing in 2031, \$75.0 million of 3.01% Series B Senior Notes, maturing in 2033, and \$75.0 million of 3.21% Series C Senior Notes, maturing in 2036, pursuant to a note purchase agreement. In connection with the issuance, Evergy entered into an agreement to provide an unconditional guaranty of the Series A, B and C Senior Notes, and

as required by certain existing note purchase agreements, also agreed to provide unconditional guaranty of the following series of outstanding Evergy Missouri West unsecured senior notes:

- \$36.0 million of 3.49% Series A, maturing in 2025;
- \$60.0 million of 4.06% Series B, maturing in 2033;
- \$150.0 million of 4.74% Series C, maturing in 2043; and
- \$100.0 million of 3.74% Series, maturing in 2022.

In April 2021, Evergy Missouri West redeemed its \$347.4 million of 4.97% Affiliated Notes Payable to Evergy, which had a maturity date of June 2021.

In November 2021, Evergy Missouri West repaid its \$80.9 million of 8.27% Senior Notes at maturity.

In March 2022, Evergy Missouri West repaid its \$100.0 million of 3.74% Senior Notes at maturity.

### Scheduled Maturities

Evergy Missouri West's long-term debt maturities for the next five years are detailed in the following table.

	2022	2023	2024	2025	2026
	(millions)				
Evergy Missouri West	\$ 387.5	\$ 10.0	\$ —	\$ 36.0	\$ —

## 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 sheets at cost, which approximates fair value due to the short-term nature of these instruments.



**Fair Value of Long-Term Debt**

Evergy Missouri West measures the fair value of long-term debt using Level 2 measurements available as of the measurement date. The book value and fair value of Evergy Missouri West's long-term debt is summarized in the following table.

	December 31			
	2021		2020	
	Book Value	Fair Value	Book Value	Fair Value
	(millions)			
Long-term debt <sup>(a)</sup>	\$ 1,140.0	\$ 1,195.4	\$ 1,071.7	\$ 1,156.6

<sup>(a)</sup>Includes current maturities.

**Supplemental Executive Retirement Plan**

At December 31, 2021 and 2020, Evergy Missouri West's SERP rabbi trusts included \$12.5 million of core bond funds and \$13.1 million of fixed income funds, respectively. The core bond funds are Level 1 investments and the fixed income funds are valued at NAV per share (or its equivalent) and are not categorized in the fair value hierarchy.

**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, regulations, interpretations and actions can also change, restrict or otherwise impact Evergy Missouri West's operations or financial results. The failure to comply with these laws, regulations, interpretations and actions could result in the assessment of administrative, civil and criminal penalties and the imposition of remedial requirements. Evergy Missouri West believes that all 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.

***Clean Air Act - Startup, Shutdown and Malfunction (SSM) Regulation***

In 2015, the Environmental Protection Agency (EPA) issued a final rule addressing how state implementation plans (SIPs) can treat excess emissions during SSM events. This rule was referred to as the 2015 SIP Call Rule. The rule required 36 states to submit SIP revisions by November 2016 to remove certain exemptions and other discretionary enforcement provisions that apply to excess emissions during SSM events. Legal challenges ensued and the case was eventually placed in abeyance. In December 2021, the U.S. Court of Appeals for the D.C. Circuit (D.C. Circuit) restarted the 2015 SIP Call Rule litigation. The outcome of this case could result in required SIP revisions in Oklahoma, Kansas and Missouri which could have a material impact on Evergy Missouri West.

***Ozone Interstate Transport State Implementation Plans***

In 2015, the EPA lowered the Ozone National Ambient Air Quality Standards (NAAQS) from 75 ppb to 70 ppb. Impacted states were required to submit Interstate Transport State Implementation Plans (ITSIPs) in 2018 to comply with the good neighbor provisions of the Clean Air Act. The EPA did not act on these ITSIP submissions and was challenged in a court filing in May 2021 to address them. In January 2022, the U.S. District Court for the Northern District of California entered a final consent decree between the EPA and various environmental groups requiring the EPA to approve or disapprove, in whole or in part, by February 28, 2022, the ITSIPs for the 2015 Ozone NAAQS, for twenty-one states including Kansas, Missouri and Oklahoma. For any ITSIP fully or partially disapproved by the EPA along with a corresponding federal implementation plan (FIP) proposed by February 28,



2022, the consent decree requires the EPA to sign a final action on the ITSIP for the affected state by December 15, 2022. On January 25, 2022, the EPA transmitted a proposed FIP to the Office of Management and Budget for review. On February 8, 2022, the EPA published a proposed approval of the Kansas ITSIP in the Federal Register. On February 22, 2022, the EPA published proposed disapprovals of ITSIPs for nineteen states including Missouri and Oklahoma. The EPA is also in the process of reconsidering the 2020 Ozone NAAQS and the 2020 PM<sub>2.5</sub> NAAQS. Due to uncertainty regarding the disposition of these 2015 Ozone NAAQS ITSIPs for Kansas, Missouri and Oklahoma, along with potential lowering of the 2020 NAAQS, Evergy Missouri West cannot determine the impacts on its operations or consolidated financial results, but the cost to comply with a FIP or a lower future NAAQS could be material.

### ***Regional Haze Rule***

In 1999, the EPA finalized the Regional Haze Rule which aims to restore national parks and wilderness areas to pristine conditions. The rule requires states in coordination with the EPA, the National Park Service, the U.S. Fish and Wildlife Service, the U.S. Forest Service, and other interested parties to develop and implement air quality protection plans to reduce the pollution that causes visibility impairment. There are 156 "Class I" areas across the U.S. that must be restored to pristine conditions by the year 2064. There are no Class I areas in Kansas, whereas Missouri has two: the Hercules-Glades Wilderness Area and the Mingo Wilderness Area. States must submit revisions to their Regional Haze Rule SIPs every ten years and the first round was due in 2007. For the second ten-year implementation period, the EPA issued a final rule revision in 2017 that allowed states to submit their SIP revisions by July 31, 2021. Evergy Missouri West's has been in contact with the Kansas Department of Health and Environment (KDHE) and the Missouri Department of Natural Resources (MDNR) as they worked to draft their SIP revisions. The Missouri SIP revision is still being drafted. MDNR has indicated they intend to submit the Missouri SIP revision in early 2022 and that it will not require any additional reductions from Evergy Missouri West's generating units in the state. The Kansas SIP revision was placed on public notice in June 2021 and requested no additional emission reductions by electric utilities based on the significant reductions that were achieved during the first implementation period. The EPA provided comments on the Kansas SIP revision in June 2021 that each state is statutorily required to conduct a "four-factor analysis" on at least two sources within the state to help determine if further emission reductions are necessary. The EPA also stated it would be difficult to approve the Kansas SIP revision if at least two four-factor analyses are not conducted on Kansas emission sources. KDHE submitted the Kansas SIP revision in July 2021. If a generating unit of Evergy Missouri West is selected for analysis, the possibility exists that the state or EPA, through a FIP, could determine that additional operational or physical modifications are required on the generating unit to further reduce emissions. The overall cost of those modifications could be material to Evergy Missouri West.

### ***Greenhouse Gases***

Burning coal and other fossil fuels releases carbon dioxide (CO<sub>2</sub>) and other gases referred to as greenhouse gases (GHG). Various regulations under the federal Clean Air Act Amendments of 1990 (CAA) limit CO<sub>2</sub> 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 July 2019, the EPA published the final Affordable Clean Energy (ACE) rule in the Federal Register. This rule contained emission guidelines for GHG emissions from existing electric utility generating units (EGUs) and revisions to emission guideline implementing regulations. The rule defined the "best system of emission reduction" (BSER) for GHG emissions from existing coal-fired EGUs as on-site, heat-rate efficiency improvements. In conjunction with the finalization of the ACE rule, the EPA repealed its previously adopted Clean Power Plan (CPP). In January 2021, the D.C. Circuit vacated and remanded the ACE rule back to the EPA. In October 2021, the Supreme Court granted petitions for certiorari to review the D.C. Circuit decision to vacate and remand the ACE rule. A ruling from the Supreme Court is expected in mid-2022.

Due to uncertainty regarding the future of the ACE rule or other potential GHG regulations, Evergy Missouri West cannot determine the impacts on its operations or consolidated financial results, but the cost to comply with the ACE rule or other potential GHG rules 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 applicable to steam-electric power generating plants 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. In April 2019, the U.S. Court of Appeals for the 5th Circuit (5th Circuit) issued a ruling that vacated and remanded portions of the original ELG rule. Due to this ruling, the EPA announced a plan in July 2021 to release a proposed rulemaking in September 2022 to address the vacated limitations for legacy wastewater and landfill leachate. Future ELG modifications for the best available technology economically achievable for the discharge of legacy wastewater and landfill leachate are likely and could be material to Evergy Missouri West.

In October 2020, the EPA published the final ELG reconsideration rule. This rule adjusts 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 as soon as possible on or after one year following publication of the final rule in the Federal Register but no later than December 31, 2025. In August 2021, the EPA published notice in the Federal Register that it is initiating a supplemental rulemaking to revise the ELG regulations after completing review of the reconsideration rule as a result of an executive order from President Biden. As part of the rulemaking process, the EPA will determine if more stringent limitations and standards are appropriate. The 2020 ELG reconsideration rule will remain in effect while the EPA undertakes this new rulemaking.

Evergy Missouri West has reviewed the 2020 ELG reconsideration regulation, and the costs to comply with these changes are not expected to be material. However, Evergy Missouri West cannot predict what revisions the EPA may make under its supplemental rulemaking to revise the ELG regulations and compliance costs associated with any revisions could be material.

After reviewing the Navigable Waters Protection Rule as directed by President Biden's administration, the EPA and Department of the Army determined a need to revise the definition to prevent environmental degradation. In December 2021, the EPA and the Department of the Army published a proposed rule that repeals the Navigable Waters Protection Rule and revises the definition of "Waters of the United States." This proposed rule restores definitions of Waters of the United States that were in place prior to 2015. Evergy Missouri West is reviewing the proposed rule and the impact on its operations or consolidated financial results could be material. A second rulemaking is expected in the future which will replace the Navigable Waters Protection Rule. The costs to comply with any future rulemaking that replaces the Navigable Waters Protection Rule could be material to Evergy Missouri West.

### ***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.

Evergy Missouri West has recorded AROs for current estimates for the closure of ash disposal ponds and landfills, 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 and landfills. If revisions to these AROs are necessary, the impact on Evergy Missouri West operations or consolidated financial results could be material.

**Contractual Commitments - Fuel and Power**

Evergy Missouri West's contractual commitments for fuel and power at December 31, 2021, are detailed in the following table.

	2022	2023	2024	2025	2026	After 2026	Total
Purchase commitments	(millions)						
Fuel	\$ 25.4	\$ 7.2	\$ 3.6	\$ 2.6	\$ 2.7	\$ —	\$ 41.5
Power	39.1	38.2	32.4	28.3	28.3	123.7	290.0
<b>Total fuel and power commitments</b>	<b>\$ 64.5</b>	<b>\$ 45.4</b>	<b>\$ 36.0</b>	<b>\$ 30.9</b>	<b>\$ 31.0</b>	<b>\$ 123.7</b>	<b>\$ 331.5</b>

Fuel commitments consist of commitments for coal and coal transportation. Power commitments consist of certain commitments for renewable energy under power purchase agreements, capacity purchases and firm transmission service.

**13. RELATED PARTY TRANSACTIONS AND RELATIONSHIPS**

In the normal course of business, Evergy Missouri West, Evergy Kansas Central and Evergy Metro engage in related party transactions with one another. A summary of these transactions and the amounts associated with them is provided below.

**Jointly-Owned Plants and Shared Services**

Evergy Missouri West has no employees of its own. Employees of Evergy Kansas Central and Evergy Metro manage Evergy Missouri West's business and operate its facilities at cost, including Evergy Missouri West's 8% ownership interest in Evergy Kansas Central's Jeffrey Energy Center (JEC) and an 18% ownership interest in Evergy Metro's Iatan Nos. 1 and 2. Employees of Evergy Kansas Central and Evergy Metro provide Evergy Missouri West with shared service support, including costs related to human resources, information technology, accounting and legal services.

The operating expenses and capital costs billed for jointly-owned plants and shared services are detailed in the following table.

	2021	2020
	(millions)	
Evergy Kansas Central billings to Evergy Missouri West	\$ 32.5	\$ 37.6
Evergy Metro billings to Evergy Missouri West	142.1	168.7

**Affiliated Financing**

Evergy Missouri West is authorized to participate in the Evergy, Inc. money pool, which is an internal financing arrangement in which funds may be lent on a short-term basis between Evergy Missouri West, Evergy Metro, Evergy Kansas Central and Evergy, Inc. Evergy, Inc. can lend but not borrow under the money pool. As of December 31, 2021 and 2020, Evergy Missouri West had no outstanding receivables and \$155.0 million and \$100.0 million of outstanding payables to Evergy Metro, respectively, under the money pool.

See Note 10 for information regarding Evergy Missouri West's affiliated notes payable to Evergy. In each of 2021 and 2020, Evergy Missouri West recognized interest expense on these affiliated notes payable of \$19.2 million and \$32.1 million, respectively.

Evergy Missouri West also has access to certain equity financing support from its parent company, Evergy, Inc. in the circumstance that such support would be needed.

In February 2022, Evergy, Inc. provided Evergy Missouri West with an equity contribution of \$200.0 million.

**Related Party Net Receivables and Payables**

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

	December 31	
	2021	2020
	(millions)	
Net payable to Evergy	\$ 39.5	\$ 39.8
Net payable to Evergy Kansas Central	10.4	6.6
Net payable to Evergy Metro	254.5	188.1

**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, 2021 and 2020, Evergy Missouri West had income taxes receivable from Evergy of \$3.9 million and \$26.8 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 agreements for certain Evergy Missouri West 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.

As of December 31, 2021, all of Evergy Missouri West's retained earnings and net income were free of restrictions.

## 15. TAXES

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

	2021	2020
Current income taxes	(millions)	
Federal	\$ (63.7)	\$ (14.2)
State	(3.0)	3.6
Total	(66.7)	(10.6)
Deferred income taxes		
Federal	70.9	47.9
State	10.0	(81.2)
Total	80.9	(33.3)
Investment tax credit amortization	—	(0.1)
Income tax expense (benefit)	\$ 14.2	\$ (44.0)

### Effective Income Tax Rates

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

	2021	2020
Federal statutory income tax rate	21.0 %	21.0 %
Effect of:		
State income taxes	5.5	4.3
Flow through depreciation for plant-related differences	(9.2)	(6.7)
Federal tax credits	(0.1)	(0.1)
AFUDC equity	(0.4)	—
Amortization of federal investment tax credits	—	(0.1)
State tax rate change	—	(57.0)
Valuation allowance	—	(1.4)
Other	(2.8)	1.2
Effective income tax rate	14.0 %	(38.8)%

## 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	
	2021	2020
Deferred tax assets:	(millions)	
Tax credit carryforward	\$ 6.0	\$ 6.1
Income taxes refundable to customers, net	44.2	47.9
Deferred employee benefit costs	—	4.0
Net operating loss carryforward	38.9	48.9
Accrued liabilities	—	4.4
Regulatory liabilities	23.6	18.1
Other	22.9	9.7
Total deferred tax assets before valuation allowance	135.6	139.1
Valuation allowance	(10.5)	(11.9)
Total deferred tax assets, net	125.1	127.2
Deferred tax liabilities:		
Plant-related	(402.9)	(388.6)
Deferred employee benefit costs	(14.9)	(19.5)
Regulatory assets	(16.3)	(15.8)
Fuel recovery mechanism adjustments	(81.9)	(1.1)
Other	(7.4)	(7.9)
Total deferred tax liabilities	(523.4)	(432.9)
Net deferred income tax liabilities	\$ (398.3)	\$ (305.7)

### Tax Credit Carryforwards

At December 31, 2021 and 2020, Evergy Missouri West had \$6.0 million and \$6.1 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 2022 to 2041. 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 \$0.1 million of the federal income tax benefit.

### Net Operating Loss Carryforwards

At December 31, 2021 and 2020, Evergy Missouri West had \$34.5 million and \$42.8 million, respectively, of tax benefits related to federal net operating loss (NOL) carryforwards. The federal NOL carryforwards expire in years 2023 to 2034. 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, 2021 are detailed in the following table.

<b>Year of Origin</b>	<b>Amount of Benefit</b>
	(millions)
2005	2.4
2006	32.1
	<u>\$ 34.5</u>

In addition, Evergy Missouri West also had deferred tax benefits of \$4.4 million and \$6.1 million related to state NOLs as of December 31, 2021 and 2020, respectively. Management does not expect to utilize \$2.9 million of tax benefits related to NOLs in state tax jurisdictions where Evergy Missouri West does not expect to operate in the future and \$0.4 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 \$3.3 million of state tax benefits.

### **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 2021 and 2020, \$1.4 million and \$2.9 million of tax benefit, respectively, was recorded in continuing operations primarily related to federal and state NOL carryforwards and federal alternative minimum tax credits.

### **Uncertain Tax Positions**

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. Evergy is considered open to U.S. federal examination for years after 2009 due to the carryforward of net operating losses and general business income tax credits. With few exceptions, Evergy is no longer subject to state and local tax examinations by tax authorities for years before 2016. As of December 31, 2021, Evergy Missouri West does not have any significant income tax issues under examination.

### **Kansas Tax Reform**

In May 2020, the state of Kansas exempted certain public utilities, including Evergy Kansas Central and Evergy Metro, from Kansas corporate income tax beginning in 2021 and authorized the KCC to approve changes in rates related to increases or decreases in federal or state income tax rates. Evergy Missouri West is a member of Evergy's consolidated tax group and files consolidated tax returns with Evergy. Evergy allocates to Evergy Missouri West its pro rata portion of consolidated income taxes based on Evergy Missouri West's contribution to consolidated taxable income.

As a result of the exemption from Kansas corporate income tax of certain members of the Evergy consolidated tax group, Evergy Missouri West revalued its deferred income tax assets and liabilities in May 2020. Evergy Missouri West decreased its net deferred income tax liabilities by \$64.6 million offset by an income tax benefit in May 2020 primarily related to the revaluation of deferred income taxes that will not be refunded to customers in future rates.

The amount of income tax benefit related to the revaluation of deferred income taxes that will not be refunded to customers in future rates primarily pertains to deferred tax adjustments related to the difference between Evergy's consolidated tax rate and the statutory tax rates used for setting rates at Evergy Missouri West as well as deferred income tax adjustments related to non-regulated operations.



## 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-Leases*. 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 3 to 7 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.

	2021	2020
Finance lease costs		(millions)
Amortization of right-of-use assets	\$ 0.1	\$ 0.1
Interest on lease liabilities	0.1	0.1
Operating lease costs	0.4	0.4
Short-term lease costs	1.1	0.1
Variable lease costs for renewable purchase power agreements	33.5	48.9
Total lease costs	\$ 35.2	\$ 49.6



**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, 2021, are detailed in the following table.

	(millions)
2022	\$ 0.2
2023	0.2
2024	0.2
2025	0.2
2026	0.2
After 2026	0.4
Total finance lease payments	1.4
Amounts representing imputed interest	(0.3)
Present value of lease payments	1.1
Less: current portion	(0.1)
Total long-term obligations under finance leases	\$ 1.0
Right-of-use assets under finance leases included in property, plant and equipment, net on the consolidated balance sheets	\$ 257.5
Weighted-average remaining lease term (years)	6.7
Weighted-average discount rate	8.7 %

**Operating Leases**

Right-of-use assets for operating leases are included in other long-term assets on Everygy 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, 2021, are detailed in the following table.

	(millions)
2022	\$ 0.4
2023	0.4
2024	0.4
2025	—
2026	—
After 2026	—
Total operating lease payments	1.2
Amounts representing imputed interest	—
Present value of lease payments	1.2
Less: current portion	(0.4)
Total long-term obligations under operating leases	\$ 0.8
Right-of-use assets under operating leases included in other assets on the consolidated balance sheets	\$ 1.2
Weighted-average remaining lease term (years)	3.0
Weighted-average discount rate	2.2 %



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## **INDEPENDENT AUDITOR'S REPORT**

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

### **Opinion**

We have audited the consolidated financial statements of Evergy Missouri West, Inc. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Financial Statements**

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are issued.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional

omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Deloitte Touche LLP

March 2, 2022