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Evergy, Inc. (EVRG) CEO Terry Bassham on Q3 2019 Results - Earnings Call Transcript

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Q3: 11-06-19 Earnings Summary

Press Release *Slides*

EPS of $1.57 beats by $0.01 | Revenue of $1.58B (-0.31% Y/Y) misses by $-30.14M

Earning Call Audio

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Evergy, Inc. (NYSE:EVRG) Q3 2019 Earnings Conference Call November 7, 2019 10:00 AM ET

Company Participants

Lori Wright - VP, Corporate Planning, IR & Treasurer

Terry Bassham - President, CEO & Director

Anthony Somma - EVP & CFO

Conference Call Participants

Gregory Gordon - Evercore ISI

Shar Pourreza - Guggenheim Securities

Steve Fleishman - Wolfe Research

Michael Lapides - Goldman Sachs

Ali Agha - SunTrust Robinson Humphrey

Andrew Levi - ExodusPoint

Paul Patterson - Glenrock Associates

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Third Quarter 2019 Evergy Incorporated Earnings Conference Call. [Operator Instructions].

I would now like to hand the call over to your speaker today, Lori Wright. Thank you. And please go ahead, ma'am.

Lori Wright

Thank you, Lauren. Good morning, everyone, and welcome to Evergy's third quarter call. Thank you for joining us this morning. Today's discussion will include forward-looking information. Slide 2 and the disclosure in our SEC filings contain a list of some of the factors that could cause future results to differ materially from our expectations and include additional information on non-GAAP financial measures. We issued our third quarter 2019 earnings release and 10-Q after market close yesterday. These items are available along with today's webcast slides and supplemental financial information for the quarter on the main page of our website at evergyinc.com.

On the call today we have Terry Bassham, President and Chief Executive Officer and Tony Somma, Executive Vice President and Chief Financial Officer. Other members of management are with us and will be available during the question-and-answer portion of the call. As summarized on slide 3, Terry will recap the quarter and provide a business update. Tony will update you on the details of our latest financial results.

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

Terry Bassham

Thanks, Lori, and good morning, everybody. I will begin on Slide 5.

So, last night we reported third quarter GAAP earnings of $1.56 per share compared to $1.32 per share earned in the third quarter of 2018. Adjusted earnings per share were $1.57 in third quarter 2019 compared to $1.38 per share in the same period a year ago. Third quarter results were driven by favorable weather, fewer shares outstanding and rate case outcomes, partially offset by higher depreciation. Year-to-date, GAAP earnings per share were $2.49 compared to $2.61 in the same period last year.

Adjusted EPS were $2.55 this year compared to $2.36 a year ago, largely driven by significant cost reduction efforts and fewer shares outstanding, partially offset by unfavorable weather. It's important to recognize that within results year-to-date, we've been able to manage cost impacts of two unfavorable regulatory outcomes and still remain on pace for the year. Our ability to overcome these headwinds and deliver another solid quarter enables us to confirm our 2019 adjusted EPS guidance of $2.80 to $3. Consistent with our call in August, we're making good progress executing our strategic priorities and continue to be confident with our plan. Last night, we increased our dividend to an indicated annualized rate of $2.02 per share. This represents a 6.3% increase from our previous dividend rate and reflects the Board's confidence in our business plan as well as our commitment to deliver on it.

Today, I'd like to provide two additional updates on key parts of our plan. First on merger savings. As of the end of the third quarter, our merger savings continue to track above our initial targets. As you recall, we've been targeting cumulative $110 million of annual merger savings for 2019, which equates to an incremental $80 million above the 2018 savings target. Our success in the merger savings front is a testament to our teams' solid execution. For example, we're realizing additional savings in supply chain and support service as we leverage the scale of our larger company.

In the third quarter, we also retired over 7.5 million shares, dollar-cost averaging consistent with our plan. As of the end of September, we were roughly 73% complete with the share repurchase program, which we previously established to rebalance the company's capital structure and effectively deploy cash in connection with our merger announcement in July of 2017. Tony will further discuss our latest financial activity including share repurchases.

Before I move on to slide 6, let me update you on a couple of other recent events. First, we spent the summer advertising our new Evergy brand to customers. We officially rebranded our operating utilities in October. It was exciting that the communities we serve now know us all as Evergy. There is an appendix slide that details the name changes for each of our utility subsidiaries.

Lastly, our nuclear facility Wolf Creek is wrapping up its planned refueling outage. From the breaker opened in September, it marked Wolf Creek's second consecutive record breaker run. This is the first time in plant history to have back to back record breaker operating runs. During this most recent stretch, the unit ran for 491 straight days, the third longest cycle since operations began in the mid-1980s. I'm extremely proud of the team and their accomplishments. This is only achieved through a long-term vision that includes a keen focus on human performance and equipment reliability.

Now moving on to Slide 6; I'll provide the latest on regulatory and legislative proceedings. In October, the Missouri PSC issued an Accounting Authority Order requiring Evergy Missouri West, previously known as GMO to defer revenues associated with its retired Sibley plant to a regulatory liability. This was contrary to pass regulatory precedent and settled law. We are extremely disappointed with the outcome of this case. From the beginning, we and the Commission staff opposed AAO request as a cherry picking of our 2018 rate case settlement and undermining the utility framework in Missouri. The Commission has denied our request for rehearing and now we expect to appeal the order. The annual impact of this order will be approximately $9 million or $0.03 a share. However, as I mentioned earlier, we are continuing to execute our plan and we'll work to offset the impacts of the order in the future.

Now moving to Kansas; in September, the KCC denied our request which was supported by KCC staff to place into rates the 8% of Jeffrey Energy Center we negotiated and purchased upon our lease expiration earlier this year. We view this purchase and request as part of wrapping up a long-term position associated with this 8% of the plant, which delivered millions of dollars of value to customers over more than a decade. The Commission ruled the purchase was not prudent and denied our request. We recorded the year-to-date impact of this decision in our third quarter results, which includes the cost of operating the plant and the lease extension totaling around $9 million of operating expense or $0.03 of EPS. The ongoing annual impact of the Jeffrey order will be about $0.03 a share unless offset by off-system sales.

Staying in Kansas, Senate Bill 69, which calls for a two part study of electric rates is moving along as planned. About a month ago, initial meetings kicked off with stakeholders and the vendor selected for part one of the study, which is focused on the effectiveness of rate-making practices and options to maintain competitive rates going forward. We expect for part one to be delivered in early January 2020 and the RFP finalist for part two, which is due in July 2020 was selected earlier this week.

Moving now to Slide 7; let me update you on the outlook of our strategic priorities. As mentioned on our last call, we've been evaluating the flexibility in our capital deployment plans to ensure that our capital is directed to the greatest return opportunities and to identify additional investments that may be available. As we state the scenarios to further optimize our long-term spending plan primarily through Missouri Plant and Service Accounting or PISA, we identified the maximum of an estimated $1 billion cap opportunity within that framework. The first steps toward executing against that cap was announced on our second quarter call when we shared plans to shift $150 million of investment from Kansas to Missouri over the 2020 to 2022 timeframe. This shift in spending did not increase our previously announced five year CapEx spending target, but moved CapEx to the state which provides the best earning opportunity.

During the third quarter, we continued our focus toward identifying opportunities within the piece of framework that would be incremental to our current spending plan. The process we used for that evaluation included three primary criteria. First, identify projects that qualify for PISA that can be executed prior to our expected rate case true-up period and benefit customers about lowering future cost are increasing reliability. Second, while operating within the allowed PISA rate caps, also consider the potential total impact on customers of the multi-year period spend. And lastly, find the right balance of additional infrastructure, investment, financial and credit support in long-term earnings growth.

We are focused on delivering on our merger commitment to rebalance the holding company capital structure to deliver on our EPS targets and to enhance the long-term earnings profile of the company. Our potential incremental PISA opportunity is not an either or scenario with respect to the share repurchases. We plan to balance the two, continuing the share repurchase program and spending additional capital in Missouri. To that end, we've identified an additional $150 million of PISA investment on top of the $150 million we shifted from Kansas to Missouri. This infrastructure investment will add $150 million of additional CapEx , totaling $300 million increase in Missouri PISA investment embedded in our plan laid out in February of this year. For perspective, this $300 million would be added to a Missouri rate base, which was about $4.5 billion at the end of last year. In addition to this near-term PISA spend, we continue to work on our long-term plan through 2024, which we will be discussing on our year-end call.

We studied a range of opportunities and are confident in our ability to execute on our buyback plan and additional PISA investment. While we see the opportunity for significant additional infrastructure investment in Missouri, it's unlikely however that we'll invest at the top end of the identified PISA cap given the need to deliver on our EPS targets, balance our credit metrics and the size of our next rate request. Nevertheless, we have high confidence in the incremental investment that we've identified so far and expect to provide guidance around additional incremental investment opportunities when we outline our 2020 earnings guidance and capital spend plans in February.

Now before I turn things over to Tony, let me update you on our plan for achieving carbon reductions over the next 30 years. Looking at slide 8, since 2005, Evergy has added over 3,500 megawatts of renewables, while retiring more than 2,400 megawatts of fossil generation. The transition of our generation fleet has allowed us to reach almost 40% of carbon emission reductions since 2005. Today, we're looking further into the future and announce our new 2050 carbon reduction target of 80% from 2005 levels. The trajectory and timing of reaching our goal could be impacted by local and federal clean energy policies, but we continue to work with policymakers at all levels to ensure we can minimize our impact on the environment in a cost effective way. As we complete our next integrated resource plan, we'll be able to provide more details around our long-term energy plan and the path toward reaching our carbon reduction goals.

With that, I'll now turn the call over to Tony.

Anthony Somma

Thanks, Terry, and good morning, everyone. I'll start with results on Slide 10 of the presentation.

Last night we reported third quarter 2019 GAAP earnings of $367 million or $1.56 per share compared to $355 million or $1.32 per share in the third quarter of 2018. The increase in earnings was primarily due to higher gross margin and lower O&M, partially offset by higher depreciation expense. Adjusted non-GAAP earnings were $370 million or $1.57 per share compared to $371 million or $1.38 per share in the same period a year ago. As shown in the chart on Slide 10, adjusted EPS were driven primarily by fewer shares outstanding, new retail rates, favorable weather and partially offset by higher depreciation and impacts from unfavorable regulatory outcomes in both the Jeffrey 8% and Sibley dockets.

O&M net of merger-related costs were slightly higher which includes around $9 million of costs from the negative KCC order of Jeffrey lease and was partially offset by cost reduction efforts across our utilities. Depreciation expense was $22 million higher, primarily from new depreciation rates that are reflected in our retail prices and higher plant balances. For the quarter, residential sales were up 2% while commercial and industrial sales were flat. We had favorable weather for the quarter, which we estimate helped by roughly $0.03 compared to last year and about $0.09 when compared to normal. Overall customer count growth continued marking the 34th straight quarter of growth for our company.

On Slide 11, I'll touch on year-to-date results. For the year, GAAP earnings were $606 million or $2.49 per share compared to $517 million or $2.61 per share for the same period last year. Year-to-date 2018 GAAP results do not include Evergy Metro, formerly KCP&L and Evergy Missouri West results prior to June of 2018, which is a primary driver of the earnings variance for the period. Adjusted earnings were $621 million or $2.55 per share compared to year-to-date 2018 adjusted earnings of $642 million or $2.36 per share.

As detailed on the slide, primary drivers compared to last year include an $86 million reduction in O&M, which includes around $9 million of expense related to the Jeffrey 8% lease, new retail rates and fewer shares outstanding. Gross margin declined $37 million reflecting the impact of less favorable weather and depreciation increased around $75 million. Due largely to the weather swing, pro forma year-to-date residential and commercial sales were down 4.6% and 1.9% respectively. We estimate weather cost us $0.18 when compared to last year and was a benefit of about $0.11 when compared to normal. Pro forma industrial sales were down 80 basis points compared to the same period last year due primarily to a large customer in the chemical sector that saw decreased demand at their plant earlier this year.

Moving on to Slide 12, let me touch on our latest financing activities. In August, Kansas Central, which was formerly Westar, issued $300 million of 30 year first mortgage bonds at 3.25% replacing $300 million maturity at Kansas South, formerly KG&E. In September, we issued $1.6 billion of long-term holding company debt through two tranches; $800 million of five year notes at 2.45% and $800 million of 10 year notes at 2.9%. The financing plan paid off our $1 billion term loan that expired in early September and allowed us to continue our share repurchase program.

Since closing the merger, Evergy has returned nearly $3.3 billion of capital to our shareholders comprised of about $600 million in the form of dividends and $2.7 billion through share repurchases. We're now 73% complete on our targeted share repurchases. We have an open $500 million ASR that was entered into early September and will be closed out by the end of December. Recall with our regulatory stay-outs, it makes financial sense to return capital to our shareholders in the form of share repurchases, which helped increase EPS during the stay-out period until we can put capital work for us at the conclusion of the stay-out period in the form of infrastructure investment. The ultimate number and timing of our share repurchases depends on market factors and the financial outlook of the company.

Now wrapping up on Slide 13; as Terry said, we've studied our capital allocation opportunities over the last few months and we're announcing another $150 million of PISA spend today and we expect more to come when we announce our year-end results in February of 2020. We remain committed to our share repurchase program and we'll continue to look to layer in incremental capital investment on top of it. I want to emphasize that our priority is to balance both continuing the share repurchase program and spending additional capital in Missouri. Leading up to our year-end call in February, we'll provide a more holistic view across all our jurisdictions to ensure that we are investing adequate amounts to ensure continued liability for our customers and support additional shareholder returns.

As mentioned, we expect this review yield incremental spending opportunities. Increased infrastructure investment will enhance reliability and provide rate base growth to supplement the back-end of our EPS forecast period and long-term earnings outlook. The results so far this year are proving the merits of our merger and the business plan that we laid out. As Terry stated previously, despite the recent negative regulatory orders, which we think will cost us about $0.06 per share for the year as well as numerous storms and flooding from earlier this year, we reaffirm 2019 guidance and our 5% to 7% EPS CAGR from 2019 to 2023. We're pleased with our results and prospects for the future.

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

Terry Bassham

All right. With that, we will take questions.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Our first question comes from Julien Dumoulin Smith with Bank of America. Your line is open.

Unidentified Analyst

Hi, this is Darius [ph] on for Julian. I just wanted to briefly ask about your capital allocation in terms of the remaining repurchase and incremental PISA spend, I know you said there may be more on top of the 150 that you announced today. Can you just talk about your thought process there and the commitment toward completing the additional toward the $60 million goal of share repurchase?

Terry Bassham

Yes. I think we said that in our prepared remarks. We've always had share repurchase as part of the central part of our plan over the time period, but we also see opportunity under PISA to make additional investments that we discussed today with the three particular criteria we talked about, but obviously we're also committed to our interim EPS goals, which stock buyback is part of. So we're committed to all those and we think we see a clear path toward delivering on those -- that plan.

Unidentified Analyst

Okay. And just to be clear, the incremental CapEx potentially would not require additional equity?

Terry Bassham

Yes. It's what we were talking about when we said we didn't think we would be able to invest at the top end of that range because of just those factors, credit metrics, those kind of issues.

Unidentified Analyst

Okay, great. Thank you very much.

Anthony Somma

Thank you.

Operator

Thank you. Our next question comes from Greg Gordon with Evercore. Your line is open.

Gregory Gordon

Thanks. Good morning. Couple of questions for you guys. The first is on Sibley, you said that the impact of that decision is going to annualize at $9 million a year, is that correct? And can you talk us through how you've come up with that's the amount that you have to reserve under the ALL?

Anthony Somma

That's correct, Greg. It's about $9 million bucks.

Gregory Gordon

Can you walk us through how you came up with that number and that will be what you're booking going forward. Can you just talk us through how you came up with that number, it's obviously lower than what the consumer advocate opined you were saving when you shut down the plant?

Anthony Somma

Yes. The $9 million represents the O&M cost for Sibley. And there is a note in our 10-Q states, we estimate that's what's probable that we'll have to be booked and we booked in accordance with accounting rules which is probable and that differs from what obviously the interveners think.

Gregory Gordon

Right. And that will all gets dealt within the next rate case, right?

Anthony Somma

Yes, that's correct.

Gregory Gordon

Right. And what about the return portion of the plant, how has that being dealt with?

Anthony Somma

So that is not being booked and that will be handled with in the next rate case.

Gregory Gordon

Got you. Moving on to the next question, Terry, I apologize I was multi-tasking when you mentioned this. But can you talk through again how you're doing relative to the base case on synergies and overall cost cuts relative to the merger base case?

Terry Bassham

Yes. We're over-performing. We've talked before about us being as much as maybe 20%, 25% above our current estimates and we continue to find additional synergy opportunities certainly last year or this year and next year with two of the big years. We continue to look for additional opportunities on the merger itself and look for additional O&M opportunities overall as we continue to work to offset the regulatory effects of these two orders.

Gregory Gordon

Right. What was the second, the second one that contributed to the $0.06 total this year, sorry I missed that?

Terry Bassham

Well, we've got both Jeffrey and Sibley.

Gregory Gordon

Got you. Jeffrey.

Terry Bassham

We were reporting on this morning, that's right.

Gregory Gordon

Okay. So you're doing well enough on the overall cost profile of the business to overcome those and stay on track to hit your earnings targets?

Terry Bassham

Both, currently and as we work for our future estimates, our future plans.

Gregory Gordon

Got you. Okay, as regard -- with regard to the IRP, you talked about how you're going to give us a little bit more of a sense how you get to your 80% carbon reduction by 2050. It would seem not an insurmountable task, but a pretty significant lift given that you do have a lot of older coal plants [indiscernible] is obviously new, but most of your other plants are relatively old, but you did put emissions controls equipment recently on many of them. So when does that IRP going to come out and how do we think about what that means in terms of sort of post -- sort of early to mid to late 2020 capital spending?

Terry Bassham

Yes. So our rhythm for an IRP planning process would be a spring reporting time period. But what I would tell you at a very high level is, we've retired almost all of our fossil generation, which is not where we have retired, I mean it's not compliant. And so, what we've got is either a new union like [indiscernible] or we have other units, as you mentioned, which have been retrofitted in some way or had expenses for making them compliant. And what I would say at a very high level you're going to see is our ability to work through the normal depreciable lives of those assets over this time period so that we've minimized if you will, the risk of recovery on the back end of those plants and can still hit the 80% reduction by the 2050 time period.

Gregory Gordon

Okay. So there wouldn't be a presumed early retirement/credit cost recovery scenario here you would amortize down the remaining value of the pollution control equipment and then transition?

Terry Bassham

That be the current plan, obviously laws can change, things can change to require differently, but that's the basis for that 80% we've talked about. Obviously with what we just experienced in Missouri, it's an important thing for us to be very careful about. And I think that drives in large -- a large part of what we were planning to talk about, but certainly helps support that conservative nature of that plan as we'll describe.

Gregory Gordon

Okay. Thank you, guys. Take care.

Operator

Thank you. Our next question comes from Shar Pourreza with Guggenheim Partners. Your line is open.

Shar Pourreza

Good morning, guys. Just real quick on; just to follow-up on Greg's question on Sibley and the $9 million annualized. Terry, on your prepared remarks you talked about mitigation measures, it doesn't seem like it's a very large number to mitigate. But maybe you could just talk a little bit on sort of the drivers we should think about that you could use in the mitigation, i.e., is it on the merger savings, fuel, purchase power, on the O&M side? And then I'm curious like if you were to refile, when is the earliest you can refile just given the limits around the PISA legislation?

Terry Bassham

Yes. Let me hit those one at a time. What we see is about $0.03 on Sibley and about $0.03 on Jeffrey that are kind of an ongoing numbers we're going to need to manage and we are going to manage them. Certainly as we continue to see merger opportunities, we think we have some help there. We also will see some operating efficiency through some of the CapEx that we're spending that we've talked about. But to be honest with you, we're going to need to be aggressive and we'll be aggressive on O&M expense. One of the things that we're going to go after was headcount, things like that. We always want to avoid a layoff, but we certainly can manage hiring practices and one of the side effects of something like the orders we've gotten is, we're going to have to be very careful about any hiring we do as we go forward. So that would be all of those O&M kinds of things that we look at every year, but are committed to our targets going forward and we're going to probably be a little more aggressive this year.

Shar Pourreza

And then, just one question on the PISA and the incremental 150. It's obvious you highlighted that there is going to be incremental to that and you're still formulating your plan. But maybe you could just highlight as we think about sort of zero to 850 where we can kind of potentially land, especially given that you do have a little bit of a tight timeframe to find spending and try to make it before sort of that test period in the next sort of GRC here. So I'm kind of curious as we think about the top-end, the midpoint, kind of where you kind of see everything kind of shaking out. Especially given the tight timeframe that you guys have before the next rate case.

Terry Bassham

Well, I don't really have a target for you. One of the reasons we gave you the additional 150 is that we thought it would be important to reflect what we're very comfortable with, which would be 300 on the PISA cap. And then we thought it was also important to reflect that at the top end, that's probably pretty tough from a metric perspective within, like you said, from an execution perspective. So it is in between there somewhere, but really would be unfair for me to target a shot at a number of while we're finishing our work. We want to be cautious about not giving guidance that later turns out to be off. We want to be very specific about that and we've got some additional work to do before our final presentation at the end of the year.

Shar Pourreza

Got it. But -- so I guess as you guys are formulating your plan, we shouldn't have any kind of direct lead with some of the negative impacts, I guess from a regulatory construct standpoint, we're seeing in Missouri versus how much capital you actually want to deploy in Missouri? So I guess -- I guess I'm asking is...

Terry Bassham

Yes. No, what I would tell you is it's extremely disappointing. What happened in the Sibley order given precedent and what is pretty clear, we think regulatory law on the issue, but we'll manage around it. What's probably affected a little bit more as a result of that is how we deal with these plant shutdowns going forward because of what happened as opposed to necessarily concerns around current investment if that makes sense.

Shar Pourreza

No, it does, it does. That's helpful. Thanks guys. I'll jump back.

Terry Bassham

You bet.

Operator

Thank you. Your next question comes from Steve Fleishman with Wolfe Research. Your line is open.

Steve Fleishman

Yes, hi. Good morning. So I guess I think I understand the messaging is that you're kind of committed to completing your buyback, balancing that with the additional capital opportunities, so I thought that was pretty clear. Maybe just, you did I guess change a little wording on the buyback in terms of being kind of opportunistic share repurchases were so far I think you've been mainly kind of just doing it almost like dollar-cost averaging. Is that -- was that to suggest anything or is that just statement, the obvious?

Terry Bassham

No. Yes, that's I think we're always trying to be optimistic -- opportunistic based on pricing and other opportunities, but that was not intended to change the color on what we've been doing, executing on the plan now for over a year.

Steve Fleishman

Okay, great. And then the other, I think you also mentioned you're focused on meeting your interim targets in the Q&A. So I know the group 5% to 7% growth was a little bit weighted more toward the front end than the back end. Is that still -- is that what you meant there?

Terry Bassham

Yes.

Steve Fleishman

Great. And then -- I think that was it. Great, thank you.

Operator

Thank you. Our next question comes from Michael Lapides with Goldman Sachs. Your line is open.

Michael Lapides

Thanks for taking my questions and for hosting the call. These may be more Tony-oriented because they're a little bit of housekeeping. I want to make sure I understand something. Can you -- I've read it in the Q, the pre-tax amounts taken this quarter, so third quarter for both Jeffrey and Sibley and then whether that should be backed out of future periods or whether -- like I'm trying to think about what actually happened in this quarter pre-tax versus what you're kind of guiding to what will be the run rate for future periods?

Anthony Somma

Okay. So let's see if I can handle this. I think Sibley through the quarter was roughly $7 million, $8 million pre-tax and that will continue. Jeffrey was a little more complicated as we had leased cost that was written off and that leased cost will not continue. I think the total Jeffrey costs were around $9 million for the quarter and that leased cost was about $4.5 million, $4.7 million something like that. So Jeffrey ongoing will hurt us probably to the tune of $7 million or so.

Michael Lapides

Okay. And so, I want to make sure I think about this. When I look at fourth quarter 2019, are you saying that there is the Sibley $7.5 million will be a headwind to fourth quarter of 2019 O&M just like it was for third quarter 2019 O&M?

Anthony Somma

No. Sibley is a deferral revenues, Jeffrey is O&M. And as Terry said, we're going to look at -- we're looking at ways to offset that.

Michael Lapides

Okay. But the Sibley deferral will -- meaning it will -- when I do the bridge year-over-year fourth quarter 2018 to fourth quarter 2019, it will also be a $7.5 million deferral in the fourth quarter 2019. So the annualized amount would be closer to $30 million. Am I thinking about that right?

Anthony Somma

No. The annual number is closer to $7.5 million, $8 million not $30 million. We just had to do a catch-up in this quarter because we had part of it deferred in 2018.

Michael Lapides

Got it. So you've recognized the annualized amount in this quarter. So in next year, I'll back it out of this quarter, but I'll smooth it out for the other quarters?

Anthony Somma

So, we recognized on Sibley all of this year-to-date through the third quarter. And I believe there was a piece of it that went back into 2018 and we recognized that. Ongoing, the Sibley O&M will be probably about $8.5 million, $8 million or so going forward, the deferral of the revenue annually.

Michael Lapides

Well, I thought Sibley was an O&M and Jeffrey was deferral of revenue?

Anthony Somma

Other way around.

Michael Lapides

Okay, got it. Fine. Okay, very cool. I'll follow-up offline. Just one other thing totally unrelated to this. Terry, given the order at Missouri, given the docket open in for the preceding the legislature mandated in Kansas, given the order out of Kansas, is there a thought that maybe this isn't the right time to do any increases in any capital spend at all, use the capital entirely for the balance sheet and wait till kind of the jurisdictions turn a little bit before starting to invest incremental capital there in either one?

Terry Bassham

Well, I think what we've said is it's a balance. We have said that the entire strategy around the merger and the time period for our stay-out where we harvest the synergies from the merger and we continue to become more efficient that we are not increasing cost to our customers. And our pace of growth is a little less than maybe it would be otherwise because at the end of this time period, we're trying to address the fact that our current rates are little lower the national average because of a 10-year spend by both companies. So, it certainly fits with the theory of our merger, which is we want to use this time to continue to strengthen and be prepared, but at the same time, we do want to continue to modernize our grid and continue to be in a position to provide high reliability at all times. And so, we will continue to spend. And PISA, which is a little different because PISA provides a very clear statutory process for spending infrastructure in Missouri that says they want additional and we want to spend additional in Missouri with a mechanism to do that in a better way than historically has been available.

So there is a balance there, but certainly one of the whole strategies around the merger was to provide a period here of rate relief for customers as we harvest the benefits of the synergies.

Michael Lapides

Got it. Thank you, Terry. And Tony one follow up, just want to make sure. So versus normal weather for the third quarter was $0.09 better, but for the year-to-date if I use the consolidated company for the year-to-date was significantly worse versus normal?

Anthony Somma

No. It was worse versus last year. Last year was better weather for us through the first nine months.

Michael Lapides

Right. But versus normal if I were to think about a consolidated company year-over-year, quarter was $0.09 better versus normal, but the year-to-date, do you have that number?

Anthony Somma

So weather cost this year-to-date, $0.18 compared to last year was a benefit of about $0.11 compared to normal.

Michael Lapides

Got it. On a year-to-date and with most of that coming in the third quarter. Okay. Very cool, guys. See you at EEI. And thank you for the help today.

Terry Bassham

Thank you.

Operator

Thank you. Our next question comes from Ali Agha with SunTrust. Your line is open.

Ali Agha

Thank you. And I apologize, I was jumping between calls. When you all initiated the 5% to 7% growth rate guidance for 2019 through 2023, I recall at that time you had also given us an update on your previous guidance which was 2016 through 2021 and I think the message was you were trending in the 6% to 7% kind of the lower half of that growth rate. Is that still the case as we sit here today?

Terry Bassham

Yes. That was our message, it's a little front-end loaded, but at the beginning of the year, we had reported that we're trending in the 6% to 7% versus the top-end of that original range.

Ali Agha

And secondly, Terry, as you mentioned, you are still forming up the full amount of incremental CapEx you could spend $150 million, obviously you've announced right now. As you look at this future growth rate, the 5% to 7%, how much of that is predicated on your ability to spend that $850 million, which is I think the maximum you could spend? And let's say timing or otherwise, you don't get there, how does that impact that 5% to 7% growth rate for you guys?

Terry Bassham

Well, again, the $150 million that we announced earlier was not a total increase to the overall CapEx , so that wouldn't affect it. But the additional $150 million is an addition to what we've provided previously and would provide some additional opportunity from a growth rate perspective, but it is a small amount compared to the overall rate base of the company. So that's why we continue to work on it. But again, the connectivity to what we're talking about is how it would affect and when it would affect that growth rate. And remember that we were talking in the shorter piece of term currently, we'll be updating you on our full long-term plan through 2024 in the spring, which will also have additional capital dollars throughout the territory for this potential.

Ali Agha

Yes. So just to clarify. That's what I was talking about, not the original $150 million. I think in the last call you had mentioned that the PISA limits potentially could result in about $850 million of incremental CapEx excluding the $150 million that's a transfer. And I guess my question was if you end up for a variety of reasons not planning to spend or increase overall spending to $850 million, $150 million you've done, so $700 million theoretically to go, let's say you don't do that extra $700 million, what does that mean as far as that 5% to 7% growth target you've laid out for us?

Terry Bassham

It would mean we wouldn't have anything additive from a PISA perspective to that amount. It wouldn't be a reduction to that amount. And again, we're talking only about Missouri PISA as opposed to longer term other investments maybe in Kansas as well. So you are asking would it reduce the overall path we've already given, the answer is no, this is all incremental possibility.

Ali Agha

Right. So I guess -- I guess what I'm asking is if not for higher CapEx, how else do you get your growth rate up to the targets?

Terry Bassham

Above what we've already provided? We've provided the -- so maybe I'm not understanding, I apologize. But we've already provided the numbers that reflect the 5% to 7% we talked about and we're looking for additional opportunity within that range. So

Ali Agha

Okay, I mean -- I guess, I'll keep it simple. So based on the CapEx you've provided us and you've given us long-term CapEx which equates to about I think the 3% to 4% rate base growth from the original numbers that you laid out for us going out 2023. That CapEx and that plan with the 3% to 4% rate base growth you believe still translates into a 5% to 7% EPS growth rate over that time period. Was that the message?

Terry Bassham

Over the time period, yes.

Ali Agha

Okay. And I guess my question was, if rate base growth is 4%, what's driving the overall growth to be 5% to 7%?

Terry Bassham

It was additional O&M savings that were driving through the merger synergies. That's kind of our EPS growth as well as the stock buyback and the other pieces that we've laid out both in our short-term and long-term plan. And then what we talked about is that was the interim path for earnings growth in the front-end of the plan and we would look forward and be able to talk to you about opportunities for additional CapEx growth on the back-end of the plan, some of which we hope to give you on the end of year call.

Ali Agha

I got that. Okay, thank you.

Operator

Thank you. Our next question comes from Andrew Levi with ExodusPoint. Your line is open.

Andrew Levi

I just want to make sure I understand what you're saying as far as the stock buyback versus CapEx . So if I'm not mistaken, originally when you decided to do the stock buyback, stock was about $54 and you had budgeted to buy back 60 million shares at that point. Obviously, which is a good thing, the stock has gone up, you've been fairly aggressive in buying back stock. But to buyback the entire 60 million shares will cost you a little over $500 million more than you had budgeted, at least I think you budgeted. And that would get you -- get to the number that you were going to be at as far as what you may have budgeted that would be about $51 million -- 51 million shares, I'm sorry. So could you just kind of talk about the CapEx versus the stock buyback and that $500 million delta and how you financed out or how you deal with that relative to the incremental CapEx ? And then I have a follow up.

Terry Bassham

Well, if I understand what you're asking, how do we look at the fact that our stock buyback is more expensive given current pricing than originally anticipated and it's a balance. Obviously, I think we've talked about our ability to finance the actual buyback itself and it is more expensive. But on a relative basis, in terms of meeting both our near-term and long-term earnings growth and our ability to spend capital over the long-term, we balance that from an overall perspective to allow shareholders to see a smoother EPS growth during this period of freeze through our regulatory processes. It allows us to return dollars to shareholders without raising cost to our customers in that near-term. And we're driving savings through the merger to help support that along the way as well as what I just mentioned in terms of our look at O&M for the upcoming year because of what's happened in Jeffrey. And I think our plan has provided enough flexibility to manage both the increase in the stock prices and headwinds we've seen to the regulatory process. It allowed us to stay on plan thus far and we think we're -- we'll stay on plan moving going forward.

Andrew Levi

But Terry, I'm sorry to interrupt you, but that's not my question. My question is fairly simple and I had discussed this with Tony at a conference recently. So basically the stock buybacks is going to cost you if you finish it, and I don't know, maybe you're not going to finish it. That's really what I'm trying to get at is that it's going to cost you over $500 million to finish it, to go to the full 60, OK. At the same time you're saying you're going to spend more CapEx . But looking at your kind of metrics and your cash flows, are you able to do the incremental $500 million of stock buyback and you've got this $150 million, so an incremental $850 million of CapEx . So $1.350 billion of incremental cash that you need to kind of do everything. Is that possible or is that or -- I mean that's why I just don't understand?

Terry Bassham

So, I said in my initial remarks that we are comfortable with completing the stock buyback in $300 million, only $150 of which is incremental so far. There is not an additional $850 million. $300 would be relative to the $1 billion original. And in my prepared comments I said, we don't expect to be able to execute at the top-end of that remaining $850 million range or just the things that you mentioned. So we are comfortable what we've disclosed today in that regard, but not on the top-end of that range you're talking about.

Andrew Levi

Okay, that's fair. That's what I wanted to get at because I thought there was a little bit of confusion that you were able to do both and it's just the numbers didn't add up. And then I have one more question just relating to Sibley and I appreciate you answering the other question clearly. So I guess you're complying with the order, but I guess what type of -- how can I say this, what part of the order you're complying with I guess because the order says that all units and common plan and all revenues need to be kind of return to deferred I should say. So what part of the order you're complying with?

Terry Bassham

I'm going to let Tony finish this answer, but I'll be clear that we're complying with all parts of the order, to start with. You take that kind of order and then you have accounting adjustments that would result from that and that's what we reported out today. If you have a more detailed accounting question, I'll let Tony or Lori answer it. From managing the business perspective what we've said is we have shown currently and we plan in the future to be able to offset kind of the ongoing drag, which would be the three steps we've talked about. Does that make sense?

Andrew Levi

Yes, it does. And are you deferring the return as well?

Anthony Somma

This is Tony. No, we're not deferring the return. We are deferring what we think is probable, which is really the O&M of the plant.

Andrew Levi

Didn't the order say that you have to defer return?

Anthony Somma

No. The order actually said that we would make that determination based upon the FERC and GAAP rules of accounting and that we would revisit it at the future rate case and that their intent was not to harm the company. That was what the order said.

Andrew Levi

Okay. So you're not deferring the return. And is there a hearing that you need to go through because -- so this is what -- because I had thought that you determine the amount that's what the Commission had ordered you to do? And then do they review what you've decided to defer or not?

Anthony Somma

In the rate case. What they said in the order is they would not have a follow up hearing of some sort to review what we defer, we should defer according to GAAP accounting and then we would have a hearing in the next rate case where they would look at everything.

Andrew Levi

Okay. And again, just to be clear, the order did not say that you had to defer the return?

Anthony Somma

It did not say specifically for GAAP purposes.

Andrew Levi

Okay. Got it. Okay. Thank you very much. I'll see you guys in a couple of days. I'll buy you a drink. How's that? Thank you.

Anthony Somma

You bet.

Operator

Thank you. Our next question comes from Paul Patterson with Glenrock Associates. Your line is open.

Paul Patterson

Good morning. So just to go over Greg's and I guess Ali's question as well, and I think you guys have clarified a lot of it. Currently the numbers around $8.5 million on an annual run rate that the Sibley AAO accounting authority is, that's correct, right?

Terry Bassham

Correct.

Paul Patterson

Okay. And then on Page 34 of the 10-Q you mentioned that there is another $15 million that might be at risk on an annual basis above that number if I read that correctly. What does that represent?

Terry Bassham

That represent the return on.

Paul Patterson

Okay. And then in the hearing request that you guys made, you guys referred to being unjust and unreasonable because of a $30 million to $39 million reduction in earnings that was associated with I guess with the complainant's estimate was, if I understood the rehearing order correctly. What's the difference between the $24 million if I was to add roughly speaking $8.5 million with the $15 million and the $30 million to $39 million, what's the delta between those two things, do you know?

Terry Bassham

Well, the intervenors have different numbers than what we have and that's maybe part of the difference there. We have a different rate base number than what they have and all that's going to have to get sorted out in the next rate case.

Paul Patterson

Okay. And then, I think Commissioner Haul [ph] had a concurrence and he talked a lot about securitization and I also think during sort of the process with the discussion at the -- during the discussions regarding the order that the commissioners themselves discussed the issue of securitization as a way of sort of dealing with this issue in their opinion that would allow you guys the ability to get your plant back, get the cash back, deal with the return issue and everything else and deal with this issue of aging plants and sort of where they spoke favorably about it, if you follow what I'm saying. And I was wondering how securitization, A, might in theory impact this Sibley situation and specifically if it does? And just in general, what you guys think about securitization as a means of dealing with other coal plant retirements or other plant retirements that might be coming up in a way of sort of dealing with this issue? Do you follow what I'm saying from a policy perspective?

Terry Bassham

Yes. I mean, I think we shouldn't expect the discussion around possible securitization sometime in the future to have any impact on the Sibley order. So that's first. In terms of what do we think of about securitization, it's like everything else. I mean what does it mean in terms of the detail that it would imply. I think some of the things we've seen around securitization are not acceptable because they don't provide full recovery for shareholders. And so, we're not in favor a lot of the things we've heard.

Now, I would say this was a concurring opinion by one commissioner and some other folks made comment, but there wasn't any, in my view and I was in the room, there was not in my view any policy discussion by the Commission as a whole. And in the end that would really be legislative in some way as opposed to I think a commission order of some sort in either state.

Paul Patterson

Okay. I appreciate that. What I meant with respect to the Sibley question would be if Sibley were to be securitized, just hypothetically speaking, how would that change the impact, this $8.5 million that's what you're currently deferring and I guess the earnings impact is about $0.03. How would securitization impact the Sibley plant have been securitized as opposed to this deferral thing. If you guys have a rough idea, I know this is asking you right on a call, so I apologize, but do you guys have an idea about how that would impact directionally the income impact to you guys would have been a positive step at it, a negative or a neutral compared to how the Sibley situation is working out for you now with your current deferral?

Terry Bassham

So first of all, let me again be clear that we believe this order and any impact that we've suffered is contrary to law and precedent of any sort across the country. So it shouldn't be different because it shouldn't have happened in our view. Now if that became the law of the land and there is a securitization discussion to address it, it would all depend on what the structure of the securitization law is. So I don't mean to be flippant about it, but some recovery is better than none, but I don't want to leave this call with anybody misunderstanding we think this order was wrong.

Paul Patterson

Okay.

Terry Bassham

And that we're hopeful that on appeal we get a finding to that degree and it was -- violates our regulatory compact to be honest. And so, securitization would be better than nothing, but what ultimately securitization could provide will depend on the nature of the legislation related to it.

Paul Patterson

Okay. I don't want to belabor the issue anymore. Just finally on the merger savings that you guys are doing very well it looks like. How much of that is sustainable. I mean is all the sustainable or is there any element of it that you're saving that you may not be able to -- do you follow what I'm saying? In other words, is this sort of the run rate we should think about that you guys have accomplished here or is there anything unusual about sort of the savings that wouldn't necessarily be repeating?

Terry Bassham

No. The numbers that we've provided are all sustainable savings that build over time and stay consistent. If there is one-time cost or events, we've excluded those from that discussion and we would expect to continue to maintain the level of cost created by the savings that we've [indiscernible].

Paul Patterson

Okay. Thanks so much guys.

Operator

Thank you. Our next question comes from Kevin [ph] with Citadel. Your line is open.

Unidentified Analyst

Just wanted to make sure I heard you right on the O&M savings. Sid you say that they were running 20% to 25% above what you had originally forecast over the time period?

Terry Bassham

Yes. That's what they've -- I think that's what we talked in the last quarter as well.

Unidentified Analyst

Okay, that's helpful. And then the Jeffrey's is a $9 million pre-tax hit going forward and the Sibley is a $9 million pre-tax hit going forward, those are the two incremental ongoing items?

Terry Bassham

So Jeffery, the $7 million or $8 million and Sibley is around $8 million, $9 million or so.

Unidentified Analyst

Okay. And just in terms of the Sibley process, you guys are going to file in the courts for rehearing I guess or whatever you'd call, is that the next step for you?

Terry Bassham

Yes. We filed a motion for rehearing which is required at the Commission before we can appeal and we would then start the appellate process.

Unidentified Analyst

Okay. And in terms of -- it's the company's position if the interveners don't agree with the level of your reserve that they are basically -- their hands are tied until the rate case, that's the venue that they can or do you think that they have the option to come back to the Commission?

Terry Bassham

Well, I wouldn't tell you that the interveners couldn't file something if they wanted to, but in the end, we're collecting these dollars in accounting order. And the real intention is to true-up the accounting order, amounts we've collected or accounted for in the next rate case. So I think that's the likely place they would oppose whatever we concluded was the right amount.

Unidentified Analyst

Okay. And just the last thing for me is when we're trying to project how much incremental CapEx you could possibly do in Missouri, so we assume you complete the buyback. What's the controlling metric that we should be looking at. Is it like consolidated equity ratio or is FFO to debt or what is it that ultimately determines how much CapEx you can do beyond the buyback?

Anthony Somma

So, this is Tony. As we said earlier, it's kind of a combination of factors. The overall rate impact on the customers from a credit metric we would look at FFO to debt and those sort of things.

Unidentified Analyst

And is there an FFO to debt target that you guys have to kind of meet?

Anthony Somma

It depends whether it's at the utility or the holding company, they're different. I think utility is probably mid-teens, upper-mid-teens, holding companies like 14%, 15% something like that.

Unidentified Analyst

Okay, that's very helpful. Thank you very much.

Operator

Thank you. And this concludes today's question-and-answer session. I would now like to turn the conference back to Terry Bassham for any closing remarks.

Terry Bassham

All right. Well, thank you everybody. I appreciate you joining the call. Thanks for your questions. And obviously, many of you we will see next week at EEI. So have a good one. Thank you.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.