Exhibit No.:	
Issues:	Current Income Tax Expense; Property Tax Expense; and Prepaid Gross Receipts Taxes
Witness:	Melissa K. Hardesty
Type of Exhibit:	Rebuttal Testimony
Sponsoring Party:	Kansas City Power & Light Company
Case No.:	ER-2009-0089
Date Testimony Prepared:	March 11, 2009

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. ER-2009-0089

REBUTTAL TESTIMONY

OF

MELISSA K. HARDESTY

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
March 2009

REBUTTAL TESTIMONY

OF

MELISSA K. HARDESTY

CASE NO. ER-2009-0089

Q: Please state your name and business address.

A: My name is Melissa K. Hardesty. My business address is 1201 Walnut, Kansas City, Missouri 64106.

Q: By whom and in what capacity are you employed?

A: I am employed by Kansas City Power & Light Company ("KCP&L" or the "Company") as Director of Taxes.

Q: What are your responsibilities?

A: My responsibilities include management of KCP&L's taxes, including income, property, sales and use, and transactional taxes.

Q: Please describe your education, experience and employment history.

A: I graduated from the University of Kansas in 1996 with a Bachelor of Science in Accounting. I am a Certified Public Accountant with a permit to practice in the State of Kansas. After completion of my degree, I worked at the public accounting firm Marks, Stallings & Campbell, P.A. as a staff accountant from 1996 to 1999. In 1999, I went to work for Sprint Corporation as a Tax Specialist in the company's federal income tax department. I held various positions from 1999 to 2006. When I left Sprint to join KCP&L in December 2006, I was Manager of Income Taxes for Sprint's Wireless Division. Since December of 2006, I have been Director of Taxes for KCP&L.

Q: Have you previously testified in a proceeding at the Missouri Public Service Commission ("MPSC" or the "Commission") or before any other utility regulatory agency?

A: Yes. I provided testimony in Case No. ER-2007-0291 for KCP&L.

Q: What is the purpose of your testimony?

A: The purpose of my testimony is to respond to testimony provided by the United States Department of Energy, the National Nuclear Security Administration and the Federal Executive Agencies (Collectively "DOE/NNSA") witness Jatinder Kumar concerning his assertion that KCP&L overstates its current income tax expense and his recommendation of an alternative approach. I will also respond to MPSC Staff ("Staff") witness Karen Herrington regarding Staff's adjustment to property tax expense and to Staff witness Bret G. Prenger regarding the classification of gross receipts taxes as prepayments.

Current Income Tax Expense

Q: How did the Company compute its current income tax expense for purposes of its Missouri jurisdictional revenue requirement?

A: The computation begins by taking the Missouri jurisdictional adjusted net income and applying various adjustments which are either added to or subtracted from net income to obtain the Missouri jurisdictional net taxable income for ratemaking. The adjustments are the result of various book versus tax timing differences and their implementation under separate tax methods: flow-through and normalization. The resulting net taxable income for ratemaking is then multiplied by the appropriate federal, state and local tax rates to obtain the current provision for income taxes before income tax credits. A Federal tax rate of 35%, a Missouri statutory state income tax rate of 6.25%, and a statutory Kansas City, Missouri tax rate of 1% were used in this calculation. The computed current tax expense is then reduced by Wind Production and Research and Development income tax credits earned by the Company. The result is net current income tax expense used in computing the Missouri jurisdictional revenue requirement.

Q: Is current income tax expense computed on a stand alone or a consolidated basis?

A: The Company has computed current income tax expense on a stand alone basis. Each income and expense item is allocated on a Missouri jurisdictional basis and then the Federal, Missouri, and Kansas City, Missouri tax rates are applied to the resulting taxable income to calculate the current tax expense before income tax credits.

Q: Does this approach result in a reasonable income tax expense for ratemaking purposes?

A: Yes. The result of the computation of the current income tax expense on a stand alone basis is reasonable. The current income tax expense computed is only the Federal, Missouri, and Kansas City, Missouri income tax that would be due on the Missouri jurisdictional taxable income

Q: What tax rates would be used if current income taxes were prepared on a consolidated basis, the method recommended by Mr. Kumar?

A: Great Plains Energy has significant operations in Kansas and Missouri and files consolidated or combined income tax returns in both states. These two states are the primary components of its consolidated composite tax rate before income tax credits. Kansas has a statutory tax rate of 7.10% for 2008 and a statutory rate of 7.05% for 2009. Missouri has a statutory tax rate of 6.35%. KCP&L files a separate stand alone return for Kansas City, Missouri (KCE) with a statutory rate of 1%. Using these rates, the consolidated apportionment factors for Kansas and Missouri, and the separate stand alone rate for Kansas City, Missouri, the consolidated composite tax rate before income tax credits would be 39.08%. This consolidated composite tax rate is higher than the approximately 38.79% separate stand alone rate that is used in the current rate case.

Q: Is the computation of current income taxes on a stand alone basis contrary to reality?

A: No. Although, the Company does not file a separate stand alone tax return in Missouri, the resulting current income tax expense is a fair and reasonable amount of tax included in the Missouri jurisdictional revenue requirement. If the consolidated composite tax rate is used, the result would be likely be an increase to the current income tax expense included in the computation of the Missouri jurisdictional revenue requirement.

Q: Since most of KCP&L's operating expenses reflect consolidated amounts that are allocated to the Company's Missouri and Kansas jurisdictions, is there a reason for treating income taxes on a stand alone basis?

A: Yes. If the Company did not calculate income tax expense on a stand alone basis, the Missouri jurisdictional revenue requirement would likely be higher. A consolidated method would also represent a change from prior rate cases and, to the best of my knowledge, a change from the method routinely used in other Missouri rate cases.

Q: Does the Company prepare its income tax return on a stand alone basis?

A: Great Plains Energy, KCP&L's parent company prepares its Federal, Missouri and Kansas income tax returns on a consolidated or combined basis and these returns include KCP&L. The Company prepares its Kansas City, Missouri income tax return on a stand alone basis. Great Plains Energy then allocates consolidated or combine tax benefits or expenses according to a tax sharing agreement among KCP&L and its various affiliates. A copy of the relevant page of the agreement was reproduced as Schedule 46 of Exhibit JK-1 included in testimony by Mr. Kumar. However, as I mentioned previously, the use of the consolidated basis in Missouri rate proceedings would likely increase the Missouri jurisdictional revenue requirement, at least given the facts in this rate proceeding.

Q: Does Mr. Kumar provide any testimony as to why he believes the consolidated basis would result in a lower income tax expense than the stand alone basis?

A: Yes, Mr. Kumar gives an example, but his interpretation of KCP&L's 2007 FERC Form 1 data is flawed. He refers to page 117 of the Form 1 where he states the 2006 and 2007 income tax expenses are $3,621,375 and ($12,012,444), respectively, as compared to the $28.3 million he states the Company has included in its direct filing in this case. He infers that the increase in the tax expense is because the Form 1 is prepared on a consolidated basis in contrast to the Company's filing which is prepared on a Missouri stand alone basis. This example is what he uses to support his conclusion that the stand alone basis is improper.

Q: Is Mr. Kumar's Form 1 example relevant?

A: No, it is not. First, Mr. Kumar has cited some incorrect data. The 2007 Form 1, page 117, non-operating current federal income tax expense is a negative $3,621,375, not a positive $3,621,375. More importantly, Mr. Kumar has only selected the non-operating current federal income tax for his analysis. Page 117 only includes various non-operating income and losses ("below-the-line" activity). A more appropriate Form 1 page to make a comparison is page 114, where operating income is included. Mr. Kumer also stated that the company was requesting $28.3 million of current federal income tax expense in its direct filing. The amount Mr. Kumar refers to is the additional current federal tax expense on the Missouri proforma adjustments included in the Company's direct filing. It is not appropriate to compare this amount to the total company current federal income tax expense of KCP&L in the Form 1.

Q: What total company current federal income tax expense is shown on Page 114 of the 2007 Form 1.

A: The 2007 and 2006 amounts are $49,814,150 and $55,108,009, respectively.

Q: Is a comparison of absolute dollar amounts, Form 1 vs the Company's filing, a valid comparison?

A: No. It is difficult to compare the amounts from the Form 1 to the Company's filing since various adjustments and allocations are made to calculate income and current income tax expense in the filing. Even though this is not valid comparison, Mr. Kumar refers to this comparison and I wanted to correct his numbers and his conclusion.

Q: What is the Company's recommendation?

A: The Company recommends that we continue to compute current income tax expense on a stand alone basis, a method consistently used in Missouri rate case proceedings to the best of my knowledge and a method that results in a lower current income tax expense in this rate proceeding than does the consolidated method.

<u>Property Tax Expense</u>

Q: Is KCP&L in agreement with Staff's property tax expense calculation as documented by Ms. Herrington?

A: No, the Company does not agree with her calculation.

Q: Please explain your concerns with this adjustment.

A: While KCP&L agrees with Staff that annualized property tax expense in this rate proceeding should be based on 2008 actual costs, Staff has excluded from these costs an important component of 2008 property tax cost, specifically, property taxes in the amount of $1,043,890 (total company amount) assessed on the new Air Quality Control System (“AQCS”) at the Company’s Iatan I generating station.

Q: Was this cost an Operations & Maintenance (“O&M”) expense in 2008?

A: No, the cost was capitalized as part of the Iatan 1 AQCS project because the project was classified as Construction Work in Progress throughout 2008.

Q: If the 2008 Iatan 1 AQCS property tax cost was not a 2008 O&M expense, then why should this cost be included in property tax expense in this rate proceeding?

A: Beginning with the in-service of the Iatan 1 AQCS project in early 2009 the associated property tax will be classified as O&M property tax expense. In actuality, the amount paid and charged to O&M in 2009 will be based on valuations at January 1, 2009 and will be substantially higher than the taxes paid and capitalized for 2008, which were based on the valuation as of January 1, 2008. It is for this reason that the Company considers inclusion of the actual 2008 Iatan 1 AQCS property tax cost as a component of property tax expense in this rate proceeding to be fair, reasonable and appropriate.

Q: Please summarize the differences between Ms. Herrington’s property tax expense and that of the Company.

A: KCP&L believes that the capitalized property taxes related to the Iatan 1 AQCS in the amount of $1,043,890 (total company amount) should be included in property tax expense in this rate proceeding. This is the only issue that KCP&L has with the Staff’s recommendations concerning property taxes, as set forth in the Staff Cost of Service report.

<u>**Prepaid Gross Receipts Taxes**</u>

Q: Is KCP&L in agreement with Staff's exclusion of prepaid gross receipts taxes ("GRT") as a Prepaid Expense?

A: No, the Company does not agree with this exclusion.

Q: Please explain your concerns with this exclusion.

A: Per Staff's Accounting Schedule 2, the thirteen-month ended September, 2008 average of Kansas City, Missouri GRT of $1,485,538 and other city GRT of $356,511 are excluded from Prepayments. GRT are levied by various cities and are an expense of doing business. These taxes are similar to a sales tax which is levied upon KCP&L customers based on the State of Missouri's tax laws rules and regulations. GRT is imposed based on the franchise ordinances enacted by each city that KCP&L serves. This is an important distinction when determining the time period that each payment covers and the due dates for GRT payments. As indicated above, the majority of KCP&L's GRT are paid to Kansas City, Missouri. KCP&L has continuously treated the 6% GRT as a prepayment based on the language contained in the Kansas City Missouri License and Miscellaneous Business Regulations Sec. 40-344. Electric Light or Power Business-Generally

(b) Reports by licensee. The Licensee shall and he is hereby required to make true and faithful reports under oath to the director of finance and to the commissioner of revenue for the city, in such form as may be prescribed by the director of finance, and containing such information as may be necessary to

determine the amounts to which the license tax shall apply on or before January 30, April 30, July 30, and October 30 of each year, for all gross receipts for the three calendar months ending, respectively on December 31, March 31, June 30 and September 30.

(c) Payment of license fee. ***Each fee shall constitute payment for the three months beginning on January 1, April 1, July 1 and October 1, respectively****, during which months such payment shall be due and payable as prescribed in this section: provided, however that the acceptance of such fee shall not prejudice the right of the city to collect any additional fee thereafter to be due.*

Based on the above language in the regulations KCP&L has classified the 6% KCMO GRT as a prepayment that is based on the prior quarter's usage. This practice has been in effect since 1942 when Kansas City, Missouri first enacted a franchise fee. Specifically the payment made on or before January 30th is based on the prior quarter's usage (October – December) but is the license fee for the three months beginning January 1.

Q: Are all GRT payments considered prepayments?

A: No, KCP&L also pays a 4% GRT tax to the city of Kansas City, Missouri that is classified as a payment in arrears. There is also a similar payment made to the city of Grain Valley, Missouri. Other than these two exceptions, all GRT should be classified as Prepaid Expense.

Q: How should GRT be handled for rate making purposes, including those classified as Prepayments and those paid in arrears?

A: Company witness John Weisensee discusses the ratemaking treatment in his rebuttal testimony.

Q: **Does that conclude your testimony?**

A: Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power & Light Company to Modify Its Tariff to Continue the Implementation of Its Regulatory Plan	)))	Case No. ER-2009-0089

AFFIDAVIT OF MELISSA K. HARDESTY

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

Melissa K. Hardesty, being first duly sworn on her oath, states:

1. My name is Melissa K. Hardesty. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Director, Taxes.

2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of Kansas City Power & Light Company consisting of ten (10) pages and ~~Schedule(s) ____-___ through ____-___~~, all of which having been prepared in written form for introduction into evidence in the above-captioned docket.

3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.

Melissa Hardesty
Melissa K. Hardesty

Subscribed and sworn before me this 10th day of March 2009.

Nicole A. Wehry
Notary Public

My commission expires: Feb. 4 2011

" NOTARY SEAL "
Nicole A. Wehry, Notary Public
Jackson County, State of Missouri
My Commission Expires 2/4/2011
Commission Number 07391200