

Exhibit No.:
Issue: Income Taxes
Witness: Melissa K. Hardesty
Type of Exhibit: Rebuttal Testimony
Sponsoring Party: KCP&L Greater Missouri Operations Company
Case No.: ER-2016-0156
Date Testimony Prepared: August 15, 2016

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2016-0156

REBUTTAL TESTIMONY

OF

MELISSA K. HARDESTY

ON BEHALF OF

KCP&L GREATER MISSOURI OPERATIONS COMPANY

**Kansas City, Missouri
August 2016**

“** [REDACTED] **” Designates “Highly Confidential” Information.
All Such Information Should Be Treated Confidentially
Pursuant To 4 CSR 240-2.135.

REBUTTAL TESTIMONY

OF

MELISSA K. HARDESTY

Case No. ER-2016-0156

1 **Q: Please state your name and business address.**

2 A: My name is Melissa K. Hardesty. My business address is 1200 Main Street, Kansas City,
3 Missouri, 64105.

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

5 A: I am employed by Kansas City Power & Light Company (“KCP&L”) and serve as Senior
6 Director of Taxes for KCP&L and KCP&L Greater Missouri Operations Company
7 (“GMO” or the “Company”).

8 **Q: On whose behalf are you testifying?**

9 A: I am testifying on behalf of GMO.

10 **Q: What are your responsibilities?**

11 A: My responsibilities include management of GMO’s taxes, including income, property,
12 sales and use, and transactional taxes.

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

14 A: I graduated from the University of Kansas in 1996 with a Bachelor of Science in
15 Accounting. After completion of my degree, I worked at the public accounting firm
16 Marks, Stallings & Campbell, P.A. as a staff accountant from 1996 to 1999. In 1999, I
17 went to work for Sprint Corporation as a Tax Specialist in the company’s federal income
18 tax department. I held various positions at Sprint from 1999 to 2006. When I left Sprint
19 to join KCP&L in December 2006, I was Manager of Income Taxes for Sprint’s Wireless

1 Division. I joined GMO as the Director of Taxes and was subsequently promoted to my
2 current position of Senior Director of Taxes for KCP&L in May of 2009.

3 **Q: Have you previously testified in a proceeding at the Missouri Public Service**
4 **Commission (“MPSC” or the “Commission”) or before any other utility regulatory**
5 **agency?**

6 A: Yes. I have testified before the MPSC.

7 **Q: What is the purpose of your testimony?**

8 A: The purpose of my testimony is to respond to the proposed tax related adjustments
9 included in the Direct Testimony of Charles R. Hyneman on behalf of the Office of
10 Public Counsel (“OPC”).

11 **Q: What are the tax related adjustments proposed by Mr. Hyneman?**

12 A: Mr. Hyneman has proposed adjustments to how income tax expense is computed in cost
13 of service.

14 **Q: What are the proposed adjustments to how income tax expense is computed in cost**
15 **of service?**

16 A: Mr. Hyneman has proposed remove the current income tax expense component from the
17 cost of service computations.

18 **Q: Do you agree with Mr. Hyneman that the computation of income tax expense should**
19 **ignore the current income tax expense component?**

20 A: No. I do not.

21 **Q: Please explain why.**

22 A: The current income tax component of the income tax expense computation replicates the
23 amount of tax that would be needed for a GMO tax return using the rate case amount of

1 revenue and expenses. This current amount of income tax affects the amount of cash
2 GMO needs to pay its tax liabilities for the current period. If we did not compute this
3 amount, the amount of cash taxes included in the working capital computations would not
4 accurately show the amount of cash taxes needed to pay for GMO's tax liabilities. The
5 deferred income tax component of this computation is then added to get total income tax
6 expense in order to normalize the amount of overall income tax expense needed in this
7 case under long-standing ratemaking principles.

8 **Q: Why does Mr. Hyneman believe that a current income tax expense calculation is not**
9 **needed?**

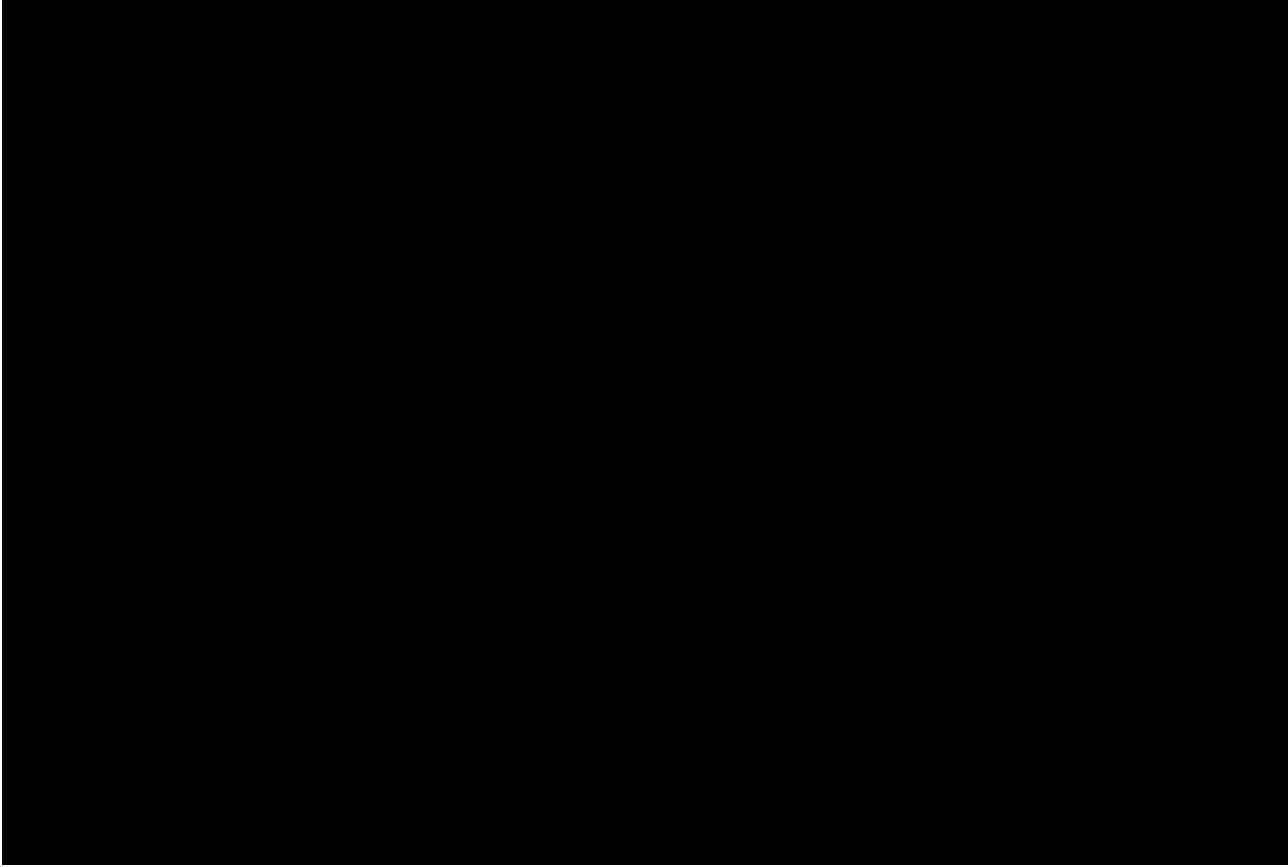
10 A: Mr. Hyneman states that GPE and KCP&L did not pay current income taxes in 2013,
11 2014 and 2015 (per GPE and KCP&L's 2015 10K) and that (per GMO's 2015 FERC
12 Form 1), GMO paid no federal income taxes and a relatively small amount of Missouri
13 Income Taxes. This is his basis that current income tax expense should not be a separate
14 component of income tax expense in this case. He contends that since GMO is in a net
15 operating loss (NOL) position, it does not need to include any cash taxes in cash working
16 capital or cash flows.

17 **Q: Do you agree with Mr. Hyneman?**

18 A: No. GMO's FERC Form 1, as filed, represents the legal entity KCP&L Greater Missouri
19 Operations Company. This legal entity includes the divisions for Missouri Public Service
20 (MOPUB), St Joseph Light & Power (SJLP), GMO's ownership in Iatan 2 (ECORP) and
21 Parent (PRNT). MOPUB, SJLP & ECORP are divisions containing regulated operations
22 as presented in this case. PRNT contains all of the nonregulated activity for GMO. From
23 2011-2015, the GMO legal entity, and the combined regulated divisions have had or is

1 estimated to have federal taxable income before NOLs in three of the five years. A
2 summary of the federal taxable income for the legal entity GMO and the regulated
3 divisions is included in the table below. GMO's NOLs were only used in two of those
4 years and the GMO NOLs used were related to nonregulated operations created in 2003.
5 A breakout of GMO's NOLs used is also in the table below.

6 **



7 **
8 As can be seen clearly from the table above, GMO would have federal tax liabilities for
9 some of the tax years during 2011 – 2015.

10 **Q: Why is GMO's regulated and nonregulated taxable income information important?**

11 A: As you can see by the table, the FERC Form 1 contains more than just regulated
12 operations. Only the regulated amount of taxable income and NOLs used for GMO

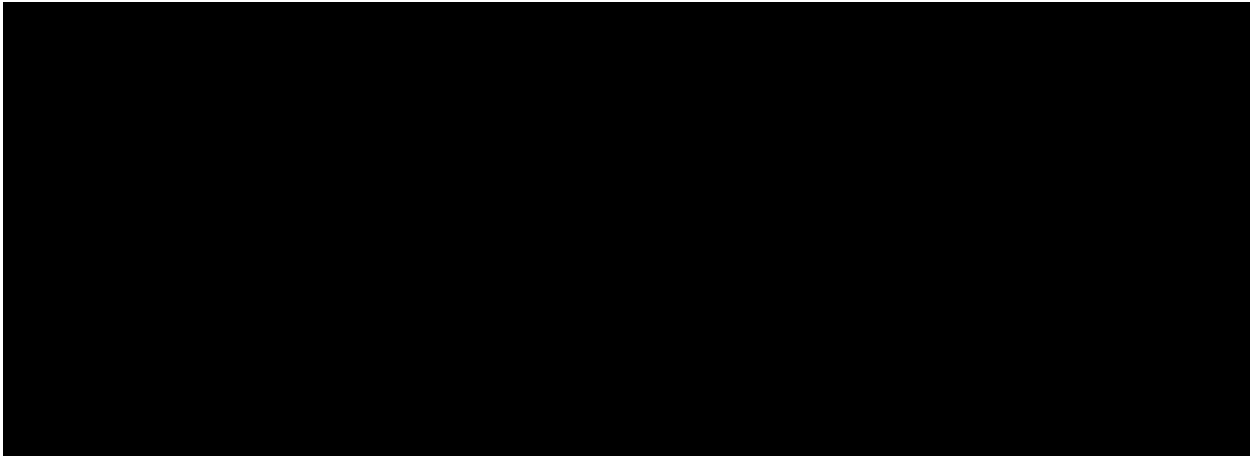
1 should impact the amount of tax liabilities that will have to be paid in cash by GMO
2 regulated operations in this case.

3 **Q: Do you agree that GMO did not pay any federal cash taxes and minimal cash taxes**
4 **for the years 2011-2015?**

5 A: No. Although Mr. Hyneman correctly notes that GMO's FERC Form 1 does not have
6 much in cash taxes paid for those years in the taxes paid column on Page 262, he fails to
7 recognize that the amount included in the taxes paid column does not include the
8 intercompany cash taxes paid to or received from GPE for those years under the tax
9 sharing agreement. The taxes paid column on page 262 of GMO's 2015 FERC Form 1
10 only includes the payments made to outside taxing authorities. The intercompany
11 payments are included in GMO's FERC Form 1 in the adjustments column and are
12 detailed out in the footnote data related to the adjustments column. The table below
13 identifies how much cash taxes were paid for the regulated and non-regulated divisions of
14 GMO for each tax year. The intercompany payments below represent the tax payments
15 for each "tax year". There may be timing differences between when the intercompany
16 payments are reflected in the FERC Form 1 (based on a calendar year) and the "tax year"
17 they relate to.

18

1 **



2 **

3 **Q: Why does GMO pay cash taxes to or from GPE through intercompany tax**
4 **payments?**

5 A: GMO is included in GPE's consolidated federal tax return and combined Kansas and
6 Missouri tax returns. Therefore, GPE as the holding company would pay any necessary
7 tax payments for these consolidated or combined returns to outside tax authorities. Under
8 the tax sharing agreement, each subsidiary, including GMO, then pays its portion of the
9 tax up to GPE based on its taxable income or receives cash for any NOLs or tax credits
10 used by the consolidated or combined group.

11 **Q: Do you expect GMO's regulated divisions to pay intercompany tax payments in**
12 **2016?**

13 A: Yes. Therefore, current tax expense should be computed as a separate component of
14 income tax expense in cost of service in this case to ensure an appropriate amount of cash
15 taxes are included in the working capital computations.

1 **Q: Are the amounts included in income tax expense subject to change based on the true**
2 **up phase in this proceeding.**

3 A: Yes. All amounts used to compute income taxes will be updated in the true up phase in
4 this proceeding.

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

6 A: Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of KCP&L Greater Missouri Operations)
Company's Request for Authority to Implement) Case No. ER-2016-0156
A General Rate Increase for Electric Service)

AFFIDAVIT OF MELISSA K. HARDESTY

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

Melissa K. Hardesty, being first duly sworn on his 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 Senior Director of Taxes.

2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of KCP&L Greater Missouri Operations Company consisting of seven (7) pages, 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 K. Hardesty
Melissa K. Hardesty

Subscribed and sworn before me this 15th day of August, 2016.

Nicole A. Wehry
Notary Public

My commission expires: Feb. 4, 2019

