

Exhibit No.:
Issue: Lack of Income Tax Savings
Witness: Melissa K. Hardesty
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: Evergy Missouri West
Case Nos.: EF-2022-0155
Date Testimony Prepared: July 22, 2022

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: EF-2022-0155

SURREBUTTAL TESTIMONY

OF

MELISSA K. HARDESTY

ON BEHALF OF

EVERGY MISSOURI WEST

**Kansas City, Missouri
July 2022**

SURREBUTTAL TESTIMONY

OF

MELISSA K. HARDESTY

Case No. EF-2022-0155

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

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

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

5 A: I am employed by Evergy Metro, Inc. as Senior Director of Taxes for Evergy Metro, Inc.
6 d/b/a as Evergy Missouri Metro (“Evergy Missouri Metro”), Evergy Missouri West, Inc.
7 d/b/a Evergy Missouri West (“Evergy Missouri West”), Evergy Metro, Inc. d/b/a Evergy
8 Kansas Metro (“Evergy Kansas Metro”), and Evergy Kansas Central, Inc. and Evergy
9 South, Inc., collectively d/b/a as Evergy Kansas Central (“Evergy Kansas Central”) the
10 operating utilities of Evergy, Inc.

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

12 A: I am testifying on behalf of Evergy Missouri West (“EMW” or the “Company”).

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

14 A: My responsibilities include management of taxes for Evergy Missouri West, including
15 income, property, sales and use, and transactional taxes.

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

17 A: I graduated from the University of Kansas in 1996 with a Bachelor of Science in
18 Accounting. After completion of my degree, I worked at the public accounting firm Marks,
19 Stallings & Campbell, P.A. as a staff accountant from 1996 to 1999. In 1999, I went to

1 work for Sprint Corporation as a Tax Specialist in the company's federal income tax
2 department. I held various positions at Sprint from 1999 to 2006. When I left Sprint to
3 join Evergy in December 2006, I was Manager of Income Taxes for Sprint's Wireless
4 Division. I joined Evergy Missouri Metro as the Director of Taxes and was subsequently
5 promoted to my current position of Senior Director of Taxes for Evergy Missouri West in
6 May of 2009.

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

10 A: Yes.

11 **Q: What is the purpose of your surrebuttal testimony?**

12 A: The purpose of my testimony is to respond to the rebuttal testimony of John S Riley, on
13 behalf of the Office of the Public Counsel ("OPC"), regarding the inclusion of the tax
14 savings from Winter Storm Uri costs in computing the amount of the securitized utility
15 tariff bonds.

16 **Q: Do you agree that the tax savings should be included in the computation of the**
17 **securitized utility tariff bonds?**

18 A: No. Mr. Riley appears to ignore the tax consequences at the special purpose entity
19 ("SPE") created for the bond financing. If the amount of the bond proceeds for the
20 securitization is reduced by the tax savings at EMW, then there will not be sufficient funds
21 to recover all of the costs associated with Winter Storm Uri and the income tax expense
22 related to it at the SPE.

1 **Q: Please explain how the bond proceeds will be taxed at Evergy Missouri West and how**
2 **the recovery of the costs at the special purpose entity will be treated for tax purposes.**

3 A: Mr. Riley is correct that the bond proceeds are treated as financing at Evergy Missouri
4 West, and EMW is not taxed when the bonds are issued. It is also true that EMW was
5 entitled to a tax deduction when the costs were incurred. However, the revenue collected
6 from customers to repay the bonds will also be taxable and the SPE will have to pay tax on
7 those revenues. The SPE will not get a tax deduction for the Winter Storm Uri costs since
8 they were already deducted at Evergy Missouri West.

9 **Q: What adjustments are needed to Mr. Riley's testimony to reflect the taxation of the**
10 **revenue at the SPE?**

11 A: I have recreated Mr. Riley's table below in Figure 1 and added the taxation of the revenue
12 at the SPE. Once you include the taxes on the SPE, the result is that there is no difference
13 between recovering the Winter Storm Uri costs through the fuel clause or recovering those
14 costs through the securitization financing. Since there is no difference to the tax amounts
15 under both situations, there is no benefit to the Company and there should not be a
16 reduction to the bond proceeds.

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FIGURE 1

	Traditional Recovery FAC	Securitization			
	Evergy Missouri West	Evergy Missouri West	SPE	Total	
Operating Income	500,000	500,000	-	500,000	
Winter Storm Uri Costs	(296,000)	(296,000)	-	(296,000)	
Recovered through FAC	296,000				-
Recovered through Securitization	-		296,000	296,000	
Taxable Revenues	500,000	204,000	296,000	500,000	
Tax at 23.844%	119,220	48,642	70,578	119,220	Company Tax
Bond Proceeds	-	296,000	-	296,000	Reduction
Total Revenues after Tax	619,220	548,642	70,578	619,220	-

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3 **Q: Do you agree with Mr. Riley’s assertion that the securitization is a separate**
4 **transaction?**

5 A: Yes. The securitization is a separate transaction. However, the revenue collected at the
6 SPE is still taxable and the tax consequences at the SPE should be included. If the
7 calculation does not include the taxes incurred at the SPE, the Company will not recover
8 all of the Winter Storm Uri costs and the taxes associated with the recovery.

9 **Q: Do you agree that there is a permanent benefit to the Company from the deduction**
10 **of Winter Storm Uri costs by Evergy Missouri West?**

11 A: No. By excluding the taxes that will be due at the SPE, Mr. Riley created this permanent
12 benefit. If you include the taxes due at the SPE, there is no permanent benefit.

1 **Q: Do you agree that there are no deferred taxes related to Winter Storm Uri at Evergy**
2 **Missouri West?**

3 A: No. When the Winter Storm Uri expenses were deducted for tax purposes at Evergy
4 Missouri West, a tax timing difference was created. The tax timing difference is because
5 the costs are either included in the fuel clause or securitized as bond proceeds, but not
6 deducted for book purposes. At this time, the Company recorded deferred taxes on the tax
7 timing difference. The deferred taxes will remain in rate base until collected from
8 customers through the fuel adjustment clause or until the securitized bond proceeds are
9 paid back. The Company fully expects to continue to include these deferred taxes in rate
10 base until all the Winter Storm Uri costs are collected, whether it is through the fuel
11 adjustment clause or through the securitization financing.

12 **Q: Please summarize your position on Mr. Riley's income tax adjustment to the**
13 **securitized bond amount.**

14 A: The Company does not receive any extra tax benefit by securitizing the Winter Storm Uri
15 costs. All costs recovered from customers as revenue, either through the fuel adjustment
16 clause or as a securitization charge by Evergy Missouri West or the SPE will be taxed, and
17 those taxes will need to be paid to the government.

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

19 A: Yes, it does.

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

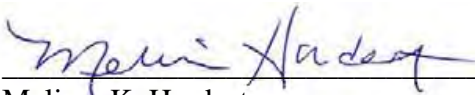
In the Matter of the Application of Evergy)
Missouri West, Inc. d/b/a Evergy Missouri)
West for a Financing Order Authorizing the) Case No. EF-2022-0155
Financing of Extraordinary Storm Costs)
Through an Issuance of Securitized Utility)
Tariff Bonds.)

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 Evergy Metro, Inc. and serve as Senior Director of Taxes.
2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of Evergy Missouri West consisting of five (5) 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

Subscribed and sworn before me this 22nd day of July 2022.



Notary Public

My commission expires: 4/26/2025

