

Exhibit No.:
Issue: Income Taxes
Witness: Melissa K. Hardesty
Type of Exhibit: Direct Testimony
Sponsoring Party: KCP&L Greater Missouri Operations Company
Case No.: ER-2012-0175
Date Testimony Prepared: February 27, 2012

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2012-0175

DIRECT TESTIMONY

OF

MELISSA K. HARDESTY

ON BEHALF OF

KCP&L GREATER MISSOURI OPERATIONS COMPANY

**Kansas City, Missouri
February 2012**

DIRECT TESTIMONY
OF
MELISSA K. HARDESTY
Case No. ER-2012-0175

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”) as Senior Director
6 of Taxes.

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

8 A: I am testifying on behalf of KCP&L Greater Missouri Operations Company (“GMO” or
9 the “Company”) for the territories served by St. Joseph Light & Power (“L&P”) and
10 Missouri Public Service (“MPS”).

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

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

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

15 A: I graduated from the University of Kansas in 1996 with a Bachelor of Science in
16 Accounting. I am a Certified Public Accountant with a permit to practice in the State of
17 Kansas. After completion of my degree, I worked at the public accounting firm Marks,
18 Stallings & Campbell, P.A. as a staff accountant from 1996 to 1999. In 1999, I went to
19 work for Sprint Corporation as a Tax Specialist in the company’s federal income tax

1 department. I held various positions at Sprint from 1999 to 2006. When I left Sprint to
2 join KCP&L in December 2006, I was Manager of Income Taxes for Sprint's Wireless
3 Division. I joined KCP&L as the Director of Taxes and was subsequently promoted to
4 my current position of Senior Director of Taxes for KCP&L in May of 2009.

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

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

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

10 A: The purpose of this testimony is to support the income tax related accounting adjustments
11 RB-125 and CS-125, included in Schedules JPW-2 and JPW-4, respectively, attached to
12 the Direct Testimony of Company witness John P. Weisensee.

13 **Q: Please explain adjustment RB-125.**

14 A: We adjusted September 30, 2011 Accumulated Deferred Income Taxes ("ADIT") in
15 adjustment RB-125. Deferred income taxes represent the tax on timing differences for
16 deductions and income reported on GMO's income tax returns compared to what is
17 recorded for book purposes. ADIT represents the accumulated balance of these income
18 tax timing differences at a point in time.

19 **Q: What are the ADIT adjustments to GMO's rate base?**

20 A: Schedule MKH-1 itemizes ADIT and the RB-125 ADIT adjustments related to items
21 included in GMO's rate base or net operating income. This schedule reflects the deferred
22 tax liabilities relating to depreciation and other expenses deducted for the tax return in
23 excess of book deductions (including bonus depreciation), resulting in a rate base

1 decrease. Schedule MKH-1 also reflects deferred tax assets that serve to increase rate
2 base. The most significant of the deferred tax assets is the net operating loss. For tax
3 purposes, the deductions for accelerated depreciation (including 100% bonus
4 depreciation) created a net operating loss for GMO for 2011. Under the Internal Revenue
5 Service (“IRS”) normalization rules, deferred tax liabilities that have not been used to
6 reduce the tax liability of the company should not be included as a rate base reduction.
7 The inclusion of the deferred tax assets related to net operating losses created by
8 accelerated depreciation deductions partially offsets the deferred tax liabilities for
9 accelerated depreciation deduction in order to reflect the proper amount of deferred taxes
10 in rate base for the Company.

11 **Q: Why does ADIT affect rate base?**

12 A: ADIT liabilities such as accelerated depreciation are considered a cost-free source of
13 financing for ratemaking purposes. Ratepayers should not be required to provide for a
14 return on plant in service that has been funded by the government in the form of reduced
15 (albeit temporarily) taxes. As a result, ADIT liabilities are reflected as a rate base offset
16 (reduction in rate base). Conversely, ADIT assets such as net operating losses increase
17 rate base. GMO has paid taxes to the government in advance of the time when such taxes
18 are included in cost of service and collected from ratepayers. To the extent taxes are
19 paid, the Company must borrow money and/or use shareholder funds. The increase to
20 rate base for deferred income tax assets allows shareholders to earn a return on
21 shareholder-provided funds until recovered from ratepayers through ratemaking.

1 **Q: What time period was used for ADIT in this case?**

2 A: AIDT is based on September 30, 2011 general ledger balances, with the plant-related
3 ADIT balances adjusted for projected plant activity through August 31, 2012.

4 **Q: How much ADIT is included in this case for Crossroads?**

5 A: The projected amount of ADIT at August 31, 2012 for Crossroads included as reduction
6 of rate base in this direct filing is \$8,355,048, based on the actual plant balances that are
7 on the jurisdictional books.

8 **Q: How is the amount of Crossroads ADIT included in rate base computed?**

9 A: The Company has computed the amount of Crossroads ADIT in rate base to be consistent
10 with the projected cumulative Crossroads ADIT to be recorded to its books and records at
11 August 31, 2012. This amount includes all Crossroads ADIT generated after the
12 Crossroads facility was transferred to GMO in 2007 at net book value.

13 **Q: Please explain adjustment CS-125.**

14 A: We adjusted test period income tax expense based on various adjustments to test year
15 taxable income. The adjusted income tax calculation is shown on Schedule MKH-2. The
16 income tax adjustment includes current income taxes, deferred income taxes, and the
17 amortization of investment tax credits.

18 **Q: Please explain the current income tax component in cost of service as calculated in
19 Schedule MKH-2.**

20 A: Jurisdictional operations and maintenance deductions and other adjustments are applied
21 against jurisdictional revenues to derive net jurisdictional taxable income, which is then
22 used to compute the jurisdictional current income tax expense component (current
23 provision) for cost of service. For book purposes, these adjustments are the result of

1 book versus tax differences and their implementation under normalization or flow-
2 through tax methods. Each adjustment is either added to or subtracted from net income
3 to derive net taxable income for ratemaking. For Schedule MKH-2, however, a
4 simplified methodology is used that eliminates the need to specifically identify all book
5 and tax differences. Most significantly, all basis differences between the book basis and
6 tax basis of assets are ignored in the current tax provision. The reversal of deferred
7 income taxes resulting from prior basis differences is considered in the deferred tax
8 section of this schedule and is discussed below.

9 Accelerated tax depreciation is used in the currently payable calculation based on
10 the tax basis of projected Plant in Service as identified in adjustment RB-20 (discussed by
11 Company witness John P. Weisensee in his Direct Testimony). The difference between
12 the accelerated depreciation deduction for tax depreciation on tax basis assets and the
13 depreciation deduction calculated on a straight-line basis generates offsetting deferred
14 income tax. The resulting income tax expense, considering both the current and deferred
15 income tax components, reflects a level of total income taxes as if the depreciation
16 deduction to arrive at taxable income was based solely on depreciation of projected tax
17 basis assets calculated on a straight-line basis. This modified approach normalizes
18 depreciation relating to the method differences (*e.g.*, accelerated versus straight-line) and
19 life differences. The Company and the MPSC Staff have used this modified approach in
20 previous rate cases.

21 **Q: Please describe these adjustments to net operating income before income taxes.**

22 A: The following adjustments were made:

- 1 ○ Book depreciation and amortization expense (adjustments CS-120 through CS-
2 121, discussed by Mr. Weisensee in his Direct Testimony), have been excluded
3 from the deductions listed on Schedule MKH-2. As previously discussed,
4 accelerated tax depreciation on both projected depreciable plant and projected
5 amortizable plant is subtracted to derive taxable income.
- 6 ○ A portion of Meals and Entertainment expense is added back in deriving net
7 taxable income, since a portion of certain meals and entertainment expense is not
8 tax deductible. This adjustment increases taxable income and ultimately increases
9 the current income tax provision.
- 10 ○ Interest expense is subtracted to derive net taxable income. It is calculated by
11 multiplying the adjusted rate base by the weighted average cost of debt as
12 recommended in this proceeding. This is referred to as “interest synchronization”
13 because this calculation ensures that the interest expense deducted for deriving
14 current taxable income equals the interest expense provided for in rates.
- 15 ○ The Manufacturer’s Deduction amount is deducted from net income in deriving
16 taxable income. This special deduction is allowable under Internal Revenue Code
17 (“IRC”), Section 199. The deduction is based upon taxable income derived from
18 the production of electricity. For 2011 and 2012, the deduction was 9% of
19 electricity production taxable income. The deduction has not been adjusted to
20 conform to Missouri jurisdictional taxable income. This deduction is not an
21 expense for book purposes; therefore, no deferred income taxes are created. The
22 amount of the projected deduction on Schedule MKH-2 is based upon amount
23 deducted under IRC Section 199 for the 2010 federal income tax return. Bonus

1 depreciation legislation has significantly lowered the electricity production
2 taxable income for tax years 2010, 2011 and 2012. Therefore, the Company does
3 not expect to have electricity production taxable income or a Sec 199 deduction
4 for 2010, 2011, or 2012.

5 **Q: Once the deductions and adjustments have been applied to net income to derive**
6 **taxable income for ratemaking, what further deductions from taxable income are**
7 **applied before calculating the components of current income tax expense: federal**
8 **current income tax expense and Missouri state current income tax expense?**

9 A: Before calculating federal income taxes, Missouri state income taxes are deducted.
10 Before calculating Missouri state income taxes, one-half of federal income taxes are
11 deducted.

12 **Q: How are the current income tax components calculated?**

13 A: The current provision calculation utilizes a 35% federal tax rate and a 6.25% Missouri
14 state tax rate, each of which is applied independently to the appropriate level of taxable
15 income as discussed above. Because of their mutual deductibility, federal and state
16 income taxes are then calculated using a simultaneous equation. The federal and state
17 income tax rates are used to compute the composite tax rate of 38.39% which is used to
18 calculate deferred income taxes, discussed below. The composite tax rate reflects the
19 federal benefit relating to deductible Missouri state income tax and the Missouri benefit
20 of deducting 50% of federal income taxes when computing the current Missouri tax
21 provision.

1 **Q: Please explain why the City Taxes are \$0 on Schedule MKH-2 for GMO?**

2 A: For GMO, City Tax expense recorded during the test year has been included as part of
3 the general tax expense included in computing jurisdictional net taxable income.
4 Therefore, we have not included them here as an income tax expense.

5 **Q: Please explain the deferred income tax component of cost of service as calculated in**
6 **Schedule MKH-2.**

7 A: The deferred income tax component of cost of service is primarily the result of applying
8 the composite income tax rate (38.39%) to the difference between projected accelerated
9 tax depreciation used to compute current income tax, as discussed earlier in this
10 testimony, and projected tax basis straight-line depreciation. Tax basis straight-line
11 depreciation is computed by multiplying tax depreciation by the ratio of the tax basis of
12 depreciable plant to the book basis of depreciable plant.

13 The other main deferred tax item is the average rate assumption method of
14 deferred tax amortization. This adjustment represents the amortization of excess deferred
15 income taxes over the remaining book lives. It reduces the income tax component of cost
16 of service. During the 1980s, the federal tax rate was higher than today's 35% rate.
17 Since deferred taxes were provided at the rate in effect when the originating timing
18 differences were generated, the deferred income taxes were provided at a rate higher than
19 the tax rate that is expected to be in existence when the timing differences reverse and the
20 taxes are due to the government. This difference in rates is being amortized into cost of
21 service over the remaining book lives of the assets that generated the timing differences.

1 **Q: Please explain the investment tax credit (“ITC”) amortization component in cost of**
2 **service as calculated in Schedule MKH-2.**

3 A: ITC amortization reduces the income tax component of cost of service. ITC is amortized
4 ratably over the remaining book lives of the underlying assets.

5 **Q: Does the ITC amortization include an adjustment to reallocate a portion of Iatan**
6 **Unit 2 ITC to GMO?**

7 A: No. Company witness Salvatore P. Montalbano, tax partner with Pricewaterhouse
8 Coopers, discusses Iatan Unit 2 ITC in his Direct Testimony.

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

10 A: Yes, it does.

KCP&L Greater Missouri Operations Company
For All Territories Served As L&P Electric
TY 9/30/11; Update TBD; K&M 8/31/12
2012 RATE CASE - Direct Filing

Accumulated Deferred Income Taxes (ADIT)

Line			Allocated	
No.	Schedule M-1 Description	L&P ADIT	ECORP ADIT	Total L&P ADIT
		Aug 2012	Aug 2012	Aug 2012
1	Accrued Maintenance	(1,453,195)	0	(1,453,195)
2	Accrued Sales Tax	(17,386)	(6,685)	(24,071)
3	Amortization of CIAC	(93,534)	0	(93,534)
4	Amortization of Debt Retirement Premium	0	659,813	659,813
5	Amortization of Easements	(67,286)	0	(67,286)
6	Amortization of Gain on Boiler#6	(28,441)	0	(28,441)
7	Amortization of Loss on Reacq Debt	0	273,749	273,749
8	Bad Debts	(97,378)	0	(97,378)
9	Capital Lease Obligations	(535,030)	0	(535,030)
10	CIAC	(1,479,818)	0	(1,479,818)
11	DSM Advertising Costs Deferrals	16,611	0	16,611
12	Customer Advances	(99,878)	0	(99,878)
13	Customer Demand Programs	1,119,119	0	1,119,119
14	CWIP-Elec-Adjustments	0	(6,311)	(6,311)
15	Deferred Ice Storm Costs	(2,288,417)	0	(2,288,417)
16	Deferred Rate Case Expenses	527,411	0	527,411
17	Depreciation	58,363,163	6,484,540	64,847,703
18	Economic Relief Pilot Program	38,265	0	38,265
19	Embedded Costs	297,592	0	297,592
20	Emission Allowance Proceeds	(12,068)	0	(12,068)
21	Emission Allowance s Amortization	490,120	0	490,120
22	FASB 106	193,576	0	193,576
23	Injuries and Damages Reserve	(634,918)	0	(634,918)
24	latan 2 Deferrals	2,060,226	0	2,060,226
25	MO Jurisdiction Difference latan 1 & Common	1,129,443	0	1,129,443
26	Net Plant Basis Transfer	(29,930)	0	(29,930)
27	Other Accruals	(100,891)	0	(100,891)
28	Pensions	4,660,521	0	4,660,521
29	Plant Equipment Relocation Expense	110,685	0	110,685
30	R&D Sec. 174 Deduction	459,595	268,742	728,337
31	Removal Costs	8,649,080	1,227	8,650,307
32	Repair Allowance	265,719	0	265,719
33	Transition Costs	1,712,284	0	1,712,284
34	UNICAP Adjustments	1,461,497	0	1,461,497
35	Unrealized Gain/Loss	11,584	0	11,584
36	Post Acq NOLs	(11,268,512)	(26,478,960)	(37,747,472)
37	Total L&P Accumulated Deferred Income Taxes	63,359,809	(18,803,886)	44,555,924

KCP&L Greater Missouri Operations Company
For All Territories Served As MPS
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2012 RATE CASE - Direct Filing

Accumulated Deferred Income Taxes (ADIT)

Line			Allocated	
No.	Schedule M-1 Description	MPS ADIT	ECORP ADIT	Total MPS
		Aug 2012	Aug 2012	ADIT Aug 2012
1	Accrued Maintenance	(4,620,519)	0	(4,620,519)
2	Accrued Property Taxes	473	0	473
3	Accrued Sales Tax	(137,934)	(13,264)	(151,198)
4	Amortization of CIAC	(1,502,651)	0	(1,502,651)
5	Amortization of Debt Retirement Premium	0	1,309,267	1,309,267
6	Amortization of Easements	(135,031)	0	(135,031)
7	Amortization of Loss on Reacq Debt	0	543,200	543,200
8	Bad Debts	(428,578)	0	(428,578)
9	CIAC	(14,200,727)	0	(14,200,727)
10	Crossroads Transmission Credits	(937,311)	0	(937,311)
11	Customer Advances	(905,085)	0	(905,085)
12	Customer Demand Programs	6,296,686	0	6,296,686
13	CWIP-Elec-Adjustments	0	(12,523)	(12,523)
14	Deferred Rate Case Expenses	1,192,179	0	1,192,179
15	Depreciation	205,046,764	12,867,289	217,914,053
16	Economic Relief Pilot Program	96,201	0	96,201
17	Embedded Costs	964,269	0	964,269
18	Emission Allowance Proceeds	(109,331)	0	(109,331)
19	Emission Allowances Amortization	606,889	0	606,889
20	Environmental Accruals	135,500	0	135,500
21	FASB 106	3,364,491	0	3,364,491
22	Iatan 2 Deferrals	3,887,272	0	3,887,272
23	Injuries and Damages Reserve	(814,226)	0	(814,226)
24	MO Jurisdiction Difference Iatan 1 & Common	1,217,836	0	1,217,836
25	Net Plant Basis Transfer	61,532	0	61,532
26	Other Accruals	(384,818)	0	(384,818)
27	Pensions	12,047,619	0	12,047,619
28	Plant Equipment Relocation Expense	640,469	0	640,469
29	R&D Sec. 174 Deduction	805,965	533,264	1,339,229
30	Rail Car Leases - JEC	(56,479)	0	(56,479)
31	Removal Costs	21,164,913	2,435	21,167,348
32	DSM Advertising Costs Deferral	54,617	0	54,617
33	Repair Allowance	7,222,081	0	7,222,081
34	Repair Expense	2,548,117	0	2,548,117
35	Transition Costs	6,471,030	0	6,471,030
36	UNICAP Adjustments	4,640,052	0	4,640,052
37	Post Acq NOLs	20,634,693	(52,542,262)	(31,907,569)
38	Total MPS Accumulated Deferred Income Taxes	274,866,958	(37,312,593)	237,554,364

KCP&L Greater Missouri Operations Company
For All Territories Served As L&P Electric
TY 9/30/11; Update TBD; K&M 8/31/12
2012 RATE CASE - Direct Filing

Income Taxes

Line No.	Line Description	Total Company L&P	Juris Factor #	Juris Allocation	Tax Rate	L&P Electric (Juris) Adjusted with 8.173% Return	
A						B	C
1	Net Income Before Taxes (Sch 9)					30,301,345	
2	Add to Net Income Before Taxes:						
3	Depreciation Expense					17,748,037	
4	Plant Amortization Exp	167,338	1	100.00%		167,338	
5	Transportation Expenses-Clearing					365,146	(a)
6	50% Meals & Entertainment	49,554	13	82.87%		41,065	
7	Total					<u>18,321,586</u>	
8	Subtract from Net Income Before Taxes:						
9	Interest Expense					12,897,934	
10	IRS Tax Return Depreciation	44,661,048	3	94.16%		42,052,099	
11	IRS Tax Return Plant Amortization	230,678	1	100.00%		230,678	
12	IRC Section 199 Domestic Production Activities					-	
13	Total					<u>55,180,710</u>	
14	Net Taxable Income					<u>(6,557,779)</u>	
15	Provision for Federal Income Tax:						
16	Net Taxable Income					(6,557,779)	
17	Deduct Missouri Income Tax @ 100.0%				6.25%	-	
18	Deduct City Income Tax					-	
19	Federal Taxable Income					<u>(6,557,779)</u>	
20	Total Federal Tax				35.00%	<u>(2,295,223)</u>	0.3500
21	Provision for Missouri Income Tax:						
22	Net Taxable Income					(6,557,779)	
23	Deduct Federal Income Tax @ 50.0%				17.50%	-	
24	Deduct City Income Tax					-	
25	Missouri Taxable Income					<u>(6,557,779)</u>	
26	Total Missouri Tax				6.25%	<u>(409,861)</u>	
27	Provision for City Income Tax:						
28	Net Taxable Income					(6,557,779)	
29	Deduct Federal Income Tax					(2,295,223)	
30	Deduct Missouri Income Tax					(409,861)	
31	City Taxable Income					<u>(3,852,695)</u>	
32	Total City Tax					<u>-</u>	
33	Summary of Provision for Income Tax:						
34	Federal Income Tax					(2,295,223)	
35	Missouri Income Tax					(409,861)	
36	City Income Tax					-	
37	Total Provision for Current Income Tax					<u>(2,705,084)</u>	
						41.2500%	38.3900%
38	Deferred Income Taxes:					0	
39	Deferred Income Taxes - Excess IRS Tax over Tax SL					9,573,024	See Comp Below
40	Amortization of Deferred ITC	(41,072)	3	94.16%		(38,673)	
41	Amort of Excess Deferred Income Taxes (ARAM)	(214,261)	3	94.16%		(201,745)	
42	Total Deferred Income Tax Expense					<u>9,332,607</u>	
43	Total Income Tax					<u>6,627,523</u>	

(a) Percent of vehicle depr clearing to O&M

55.06%

**KCP&L Greater Missouri Operations Company
For All Territories Served As L&P Electric
TY 9/30/11; Update TBD; K&M 8/31/12
2012 RATE CASE - Direct Filing**

Income Taxes

Line No.	Line Description	Total Company L&P	Juris Factor #	Juris Allocation	Tax Rate	L&P Electric (Juris) Adjusted with 8.173% Return
	A				B	C
Interest Expense Proof:						479,530,569
						2,690%
						<u>12,897,934</u>
						12,897,934
						0
<u>Computation of Line 38 Above:</u>						
44	Straight Line Tax Depreciation:					
45	Annualized Book Depreciation (Sch 5)					17,748,037
46	Straight Line Tax Ratio					<u>97.21%</u>
47	Straight Line Tax Depreciation					<u><u>17,252,867</u></u>
48	Deferred Income Taxes - Excess IRS Tax over Tax SL:					
49	IRS Tax Return Depreciation					42,052,099
50	Less: Tax Straight Line Depreciation					<u>17,252,867</u>
51	Excess IRS Tax Depr over Tax SL Depr					24,799,232
52	IRS Tax Return Plant Amortization					230,678
53	Less: Tax Straight Line Amortization	93,666	1	100.00%		<u>93,666</u>
54	Excess IRS Tax Amort over Tax SL Amort					137,012
55	Other Plant Related Depr/Amortiz:					
56	Tax Basis SL Depr - Unrecovered Reserve- MO					<u>0</u>
57	Excess Tax Depr/Amort over Tax SL					0
58	Total Timing Differences					24,936,244
59	Effective Tax rate					<u>38.39%</u>
60	Deferred Income Taxes - Excess IRS Tax over Tax SL					<u><u>9,573,024</u></u>

KCP&L Greater Missouri Operations Company
For All Territories Served As MPS
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2012 RATE CASE - Direct Filing

Income Tax

Line No.	Line Description	-	Tax Rate	(ELEC-JURIS) Adjusted with 8.173% Return	
	A		B	C	
1	Net Income Before Taxes (Sch 9)			105,916,178	
2	Add to Net Income Before Taxes:				
3	Depreciation Expense			65,166,547	
4	Plant Amortization Exp			674,955	
5	Transportation Expenses-Clearing			870,065	(a)
6	50% Meals & Entertainment			116,795	
7	Total			66,828,361	
8	Subtract from Net Income Before Taxes:				
9	Interest Expense			37,978,261	
10	IRS Tax Return Depreciation			119,090,930	
11	IRS Tax Return Plant Amortization			490,584	
12	IRC Section 199 Domestic Production Activities			0	
13	Total			157,559,775	
14	Net Taxable Income			15,184,765	
15	Provision for Federal Income Tax:				
16	Net Taxable Income			15,184,765	
17	Deduct Missouri Income Tax @ 100.0%		6.25%	791,623	
18	Deduct City Income Tax			0	
19	Federal Taxable Income			14,393,142	
20	Total Federal Tax		35.00%	5,037,600	0.3500
21	Provision for Missouri Income Tax:				
22	Net Taxable Income			15,184,765	
23	Deduct Federal Income Tax @ 50.0%		17.50%	2,518,800	
24	Deduct City Income Tax			0	
25	Missouri Taxable Income			12,665,965	
26	Total Missouri Tax		6.25%	791,623	
27	Provision for City Income Tax:				
28	Net Taxable Income			15,184,765	
29	Deduct Federal Income Tax			5,037,600	
30	Deduct Missouri Income Tax			791,623	
31	City Taxable Income			9,355,542	
32	Total City Tax			0	
33	Summary of Provision for Income Tax:				
34	Federal Income Tax			5,037,600	
35	Missouri Income Tax			791,623	
36	City Income Tax			0	
37	Total Provision for Current Income Tax			5,829,223	
				38.388629%	38.3900%
38	Deferred Income Taxes:				
39	Deferred Income Taxes - Excess IRS Tax over Tax SL			21,437,927	See Comp Below
40	Amortization of Deferred ITC			(677,564)	
41	Amort of Excess Deferred Income Taxes (ARAM)			(153,677)	
42	Total Deferred Income Tax Expense			20,606,686	
43	Total Income Tax			26,435,909	

(a) Percent of vehicle depr clearing to O&M 47.71%

Interest Expense Proof:	Total Rate Base (Sch. 2)	1,411,988,738
	X Wtd Cost of Debt	2.690%
	Interest Exp	37,978,261
	Less: Interest Expense from Line 7	37,978,261
	Difference	0

Computation of Line 38 Above:

44 **Straight Line Tax Depreciation:**

KCP&L Greater Missouri Operations Company
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2012 RATE CASE - Direct Filing

Income Tax

Line No.	Line Description	-	Tax Rate	(ELEC-JURIS) Adjusted with 8.173% Return
45	Annualized Book Depreciation (Sch 5)			65,166,547
46	Straight Line Tax Ratio			97.02%
47	Straight Line Tax Depreciation			<u>63,224,584</u>
48	Deferred Income Taxes - Excess IRS Tax over Tax SL:			
49	IRS Tax Return Depreciation			119,090,930
50	Less: Tax Straight Line Depreciation			<u>63,224,584</u>
51	Excess IRS Tax Depr over Tax SL Depr			55,866,346
52	IRS Tax Return Plant Amortization			490,584
53	Less: Tax Straight Line Amortization			<u>514,453</u>
54	Excess IRS Tax Amort over Tax SL Amort			(23,869)
55	Other Plant Related Depr/Amortiz:			
56	Tax Basis SL Depr - Unrecovered Reserve- MO			<u>0</u>
57	Excess Tax Depr/Amort over Tax SL			0
58	Total Timing Differences			55,842,477
59	Effective Tax rate			<u>38.39%</u>
60	Deferred Income Taxes - Excess IRS Tax over Tax SL			<u><u>21,437,927</u></u>