Exhibit No.:	
Issue:	Taxes
Witness:	Melissa K. Hardesty
Type of Exhibit:	Rebuttal Testimony
Sponsoring Party:	Kansas City Power & Light Company and KCP&L Greater Missouri Operations Company
Case Nos.:	ER-2018-0145 and ER-2018-0146
Date Testimony Prepared:	July 27, 2018

MISSOURI PUBLIC SERVICE COMMISSION

CASE NOS.: ER-2018-0145 and ER-2018-0146

REBUTTAL TESTIMONY

OF

MELISSA K. HARDESTY

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY and
KCP&L GREATER MISSOURI OPERATIONS COMPANY

Kansas City, Missouri
July 2018

REBUTTAL TESTIMONY

OF

MELISSA K. HARDESTY

Case Nos. ER-2018-0145 and ER-2018-0146

Q: Please state your name and business address.

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

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

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

Q: On whose behalf are you testifying?

A: I am testifying on behalf of KCP&L and KCP&L Greater Missouri Operations Company ("GMO") (collectively, the "Company").

Q: What are your responsibilities?

A: My responsibilities include management of taxes for KCP&L and GMO, 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. 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 at Sprint 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. I joined KCP&L as the Director of Taxes and was subsequently promoted to my current position of Senior Director of Taxes for KCP&L in May of 2009.

Q: Have you previously testified in a proceeding at the Missouri Public Service Commission ("MPSC" or "Commission")?

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

Q: What is the purpose of your testimony?

A: The purpose of my testimony is to respond to the proposed income tax and Kansas City earnings tax related adjustments included in the Direct Testimony of Karen Lyons, on behalf of the MPSC Staff and the income tax related adjustments included in the Direct Testimony of Michael L. Brosch, on behalf of the Midwest Energy Consumers' Group ("MECG") and John Riley, on behalf of the Office of the Public Counsel ("OPC").

INCOME TAX EXPENSE

Q: Do you agree with the adjustments that are proposed in the testimony of Karen Lyons related to income tax expense included in cost of service?

A: No. I do not agree with the adjustments Ms. Lyons has proposed for the amortization of excess deferred income taxes ("EDIT") included in income tax expense component of cost of service.

Q: What are your concerns with the amortization of EDIT adjustments proposed by Ms. Lyons?

A: I have two concerns with the adjustments for EDIT that Ms. Lyons has proposed. 1) On Page 161, Lines 27-30, of the Staff's Cost of Service Report, Ms. Lyons has proposed using an "estimated average remaining life" of assets for the period that the EDIT protected under the Internal Revenue Service's ("IRS") normalization rules should be amortized over. The IRS's normalization rules require the use of the average rate assumption method ("ARAM") for the amortization of EDIT that is protected. And, 2) Ms. Lyons has indicated that all other EDIT, (any EDIT not protected by the IRS's normalization rules) should be amortized over a ten-year period.

Q: Please explain why an "estimated average remaining life" of assets does not meet the IRS normalization rules.

A: The Tax Cut and Jobs Act (TCJA") passed on December 22, 2017 reiterated that the IRS's normalization requirements related to EDIT related to "method and life" timing differences must be amortized using the ARAM method. Under ARAM, the amortization of the EDIT cannot occur more rapidly than would occur over the remaining life of assets and only begins once book depreciation is greater than tax depreciation. Thus, the computation of ARAM takes into account book depreciation, tax depreciation and the remaining book life of assets it relates to. Essentially, ARAM estimates how the deferred taxes would have reversed if not for the rate change. The mix of book depreciation, tax depreciation and the remaining book life of an assets does not result in the same answer as an "estimated average remaining life."

Q: Please provide an example of how EDIT would be amortized using both the "estimated average remaining life" and the IRS's ARAM method.

A: Assume there is a $100 asset depreciated over five years for book purposes and three years for tax purposes. And, in year two the tax rate changed from 35% to 20%. See the following table for the amount of EDIT amortization that would be calculated using the two methods. The table clearly illustrates that the "estimated average remaining life" is not the same as the ARAM method and is not in accordance with the IRS's normalization rules.

Normalization Calculation for Corporate Rate Reduction							
	Asset	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Book Depreciation	$100	20.00	20.00	20.00	20.00	20.00	100.00
Tax Depreciation	$100	33.33	33.33	33.33	0.00	0.00	100.00
Temporary Difference		(13.33)	(13.33)	(13.33)	20.00	20.00	-
Tax Rate		35%	20%	20%	20%	20%	
ARAM Rate		0%	35%	28%	25%	25%	
Adjustment to ADIT at Statutory Rates		(4.67)	(2.67)	(2.67)	4.00	4.00	(2.00)
ARAM Amortization		-	-	-	1.00	1.00	2.00
Annual Adjustment to ADIT		(4.67)	(2.67)	(2.67)	5.00	5.00	-
Adjustment to ADIT at Statutory Rates		(4.67)	(2.67)	(2.67)	4.00	4.00	(2.00)
Estimated Remaining Useful Life Amortization		-	0.50	0.50	0.50	0.50	2.00
Annual Adjustment to ADIT		(4.67)	(2.17)	(2.17)	4.50	4.50	-
Difference		-	(0.50)	(0.50)	0.50	0.50	-

Q: What method are you proposing should be used for amortizing the EDIT protected under the IRS's normalization rules?

A: The Company is requesting that the IRS's required ARAM method be used to amortize the EDIT protected under the IRS's normalization rules.

Q: Do you agree with how Ms. Lyons has proposed to amortize the EDIT that is not protected by the IRS's normalization rules?

A: No. Ms. Lyons has proposed to amortize all other unprotected EDIT using a ten-year period. The Company believes that it is appropriate to breakout the unprotected EDIT in to two components.

The first component is the unprotected EDIT related to book to tax basis differences for fixed assets ("unprotected plant EDIT"). The ten-year amortization period for this EDIT does not represent how the EDIT would have reversed for these book to tax timing differences. Since these timing differences would have reversed in a similar manner as the "method and life" timing differences, the Company recommends that the unprotected plant EDIT also be amortized using the IRS's ARAM method. The Company's fixed asset software can calculate the ARAM amounts and it would spread the amortization over the life of the assets it relates to instead of over an arbitrary ten-year period. Thus, the unprotected plant EDIT amortization is matched up with the recovery of the assets it relates to.

The second component is the EDIT related to miscellaneous temporary timing differences not related to fixed assets ("Miscellaneous NonPlant EDIT"). The Company proposed a ten-year amortization period in its filed original cost of service schedules and Ms. Lyons current proposal is consistent for this EDIT.

Q: Does Ms. Lyons give any reason why she recommends a ten-year amortization period for the unprotected plant EDIT?

A: No. She does not provide any rationale for the ten-year period she has selected for the unprotected plant EDIT in her testimony.

Q: Is there any requirement that the unprotected plant EDIT and the Miscellaneous NonPlant EDIT use the same amortization period?

A: No. The Commission may allow any amortization method or period it deems appropriate for the unprotected plant EDIT and the Miscellaneous NonPlant EDIT.

Q: If the Commission may use any amortization method or period it deems appropriate for the unprotected EDIT, why should it use ARAM for the unprotected plant EDIT and a ten-year period for the Miscellaneous NonPlant EDIT?

A: The Company believes that the unprotected plant EDIT is no different than the protected EDIT under the IRS's normalization rules and ARAM would be the most accurate method to estimate how the deferred taxes would have reversed if the tax rate had not occurred. ARAM matches up the EDIT amortization with the life of the fixed assets it relates to and the Company's fixed assets systems are already set up to compute the ARAM amortization. For the Miscellaneous NonPlant EDIT, it is very difficult to determine how much EDIT would have reversed over time since it covers a wide variety of timing differences such as accrued vacation, pensions, other post-retirement benefits, and regulatory assets and liabilities. The Company does not have a system or the ability to compute how much Miscellaneous NonPlant EDIT would reverse each year. Therefore, we agree that a ten-year amortization period for this EDIT is a reasonable time period to amortize the EDIT related to these timing differences.

Q: Do Mr. Riley and Mr. Brosch propose a ten-year amortization of the unprotected plant EDIT?

A: Yes. Similar to Ms. Lyons proposal, Mr. Riley and Mr. Brosch have also proposed that a ten-year period be used for all other unprotected plant EDIT amortization. As previously indicated, a ten-year amortization period for the unprotected plant EDIT does not match the recovery of the amortization with the recovery of the fixed assets it relates to.

Q: **Does Mr. Brosch have any other adjustments to the amortization periods for EDIT?**

A: Yes. Mr. Brosch has proposed different amortization periods for the Miscellaneous NonPlant EDIT and the EDIT for net operating losses ("NOL EDIT").

Q: What are your concerns with the amortization of EDIT adjustments proposed by Mr. Brosch for Miscellaneous NonPlant EDIT?

A: For the Miscellaneous NonPlant EDIT (identified in his testimony as "other Book/Tax Differences" or "Miscellaneous Excess ADIT") Mr. Brosch has proposed a five-year amortization period. In his testimony, Mr. Brosch accuses the Company of seeking to unreasonably delay the return of the EDIT to ratepayers. He mentions that the EDIT for these book to tax differences are shorter term in nature, and therefore a shorter period should be used to amortize them. Mr. Brosch cites several book to tax differences that do have a shorter term for reversing such as bad debts, Wolf Creek Outage costs, and vacations, among others as examples. However, he excludes many items that have a much longer period for the book to tax difference to reverse such as pensions, other post-retirement benefits, leases, and construction work in process. These timing differences may reverse over 20 or more years. Therefore, we believe a ten-year period is not an unreasonable delay since some book to tax differences would reverse over a shorter period and some over a longer period. Ten years is somewhere in the middle and is a reasonable time period to amortize this EDIT over.

Q: What are your concerns with the amortization of EDIT adjustments proposed by Mr. Brosch for NOL EDIT?

A: For the NOL EDIT (identified in his testimony as "Net Operating Loss Deferred Tax Asset") Mr. Brosch has proposed using ARAM to amortize the EDIT related to NOLs.

Mr. Brosch is correct that these NOLs were generated by tax deductions such as bonus depreciation and other accelerated tax depreciation deductions. And, ARAM would be an appropriate method to amortize the NOL EDIT if the Company's NOLs actually reversed over the remaining life of assets. But that is not how the deferred taxes related NOLs reverse. NOL related deferred taxes reverse as they are used to offset tax liability of the Company. Under TCJA, bonus depreciation is not available for regulated utilities and we expect to be able to use all of our NOLs to offset tax liabilities in the next five years. As with all of the other EDIT amortization periods proposed by the Company, we are requesting that the amortization of the NOL EDIT match the estimated period that the NOL deferred taxes it relates to will reverse.

Q: Does Mr. Brosch have any other income tax proposals included in his testimony?

A: Yes. Mr. Brosch has proposed that the tax benefits of the TCJA that have been available to the Company from January 1, 2018 until the effective date of rates ("Stub Period Tax Benefit") in this case be amortized over three years in rates and the amount to be given back be computed by using current rate case approved revenues, expenses, taxable income and EDIT amortization periods.

Q: Do you agree that the Stub Period Tax Benefits should be given back to customers?

A: Yes. The Company believes that all of the Stub Period Tax Benefits should been given back to ratepayers after considering all costs impacting the utility during this time period.

Q: Do you agree that Stub Period Tax Benefits should be given back over a three-year period in rates?

A: No. The Company is proposing that the Stub Period Tax Benefits be given back as a one-time bill credit. This would flow the benefits back to customers faster than over a three-year period in rates.

Q: Do you agree that the Stub Period Tax Benefits should be computed using current rate case approved revenues, expenses, taxable income, and EDIT amortization periods?

A: No. The Company believes the method proposed by Mr. Brosch would overstate the Stub Period Tax Benefits. Please see the rebuttal testimony of Ronald Klote for a detailed discussion of the overstatement of Stub Period Tax Benefits using Mr. Brosch methodology and a detailed discussion of the method the Company proposes to use.

Q: Does Ms. Lyons address how the Stub Period Tax Benefits should be given back?

A: Ms. Lyons recommended that KCPL-MO and GMO defer the amortization of EDIT for the period January 1, 2018 to the effective date of rates into a regulatory liability for consideration in a subsequent rate case. She does not appear to address the amount of Stub Period Tax Benefits related to the change in the rate from 35% to 21%.

Q: Do you agree that the Stub Period Tax Benefits for the amortization of EDIT should be deferred to a future rate case?

A: No. The Company believes that the issue of how all Stub Period Tax Benefits should be given back to customers should be resolved in this rate case.

KANSAS CITY EARNINGS TAX

Q: Do you agree with the adjustments that are proposed in the testimony of Karen Lyons related to Kansas City Earnings Tax?

A: No. Ms. Lyons has proposed to only allow the amount of Kansas City earnings taxes included on the 2016 Kansas City earnings tax return in this case. The Company is requesting that the estimated amount of 2017 Kansas City earnings tax be used instead. Ms. Lyons is correct that the 2017 Kansas City earnings tax return is based on federal taxable income will not be filed until October of 2018. However, the Company has estimated the amount of earnings tax due and has recorded this liability to its financial statements at December 31, 2017. The Company expects that this will be the amount of earnings tax that it will pay for 2017 and should be allowed to recover in this case. Alternatively, the Company could compute the estimated Kansas City earnings tax that would be due based on the federal taxable income computed for the income tax component of cost of service in this case. Either of these two methods would be a more accurate estimate of tax due in 2018 than the amount actually paid for 2016.

Q: Why has Ms. Lyons indicated that the 2016 should be used for Kansas City Earnings Tax?

A: Ms. Lyons states that the TCJA and the repeal of bonus depreciation will have an impact on federal taxable income and on the Kansas City earnings tax liability of the Company. She states that the impact is uncertain, and that only the 2016 return amount is known. However, tax reform primarily impacts the 2018 tax year and not 2017. Therefore, our estimates of tax liability for 2017 should not be materially impacted. Or alternatively, the federal taxable income estimated in this rate case should have the impact of tax reform embedded in it and could be used to compute the Kansas City earnings tax in this case. Ms. Lyons appears to be trying to identify the smallest earnings tax amount and using that number in this case. For the very reason Ms. Lyons stated in her testimony, the repeal of bonus depreciation will have an impact on Kansas City earnings taxes and the 2016 tax return amount is not a good estimate of the Kansas City earnings tax liability of the Company for 2018.

Q: What method is the Company proposing to use to compute Kansas City earning tax in this case?

A: The Company is requesting the estimated Kansas City earnings tax liability to its financial statements at December 31, 2017 for 2017 should be used. Alternatively, if the estimated 2017 amount is not approved, the Company believes that the estimated Kansas City earnings tax that would be due based on the federal taxable income for 2018 computed for the income tax component of cost of service in this case should be used.

Q: Does that conclude your testimony?

A: Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & Light Company's Request for Authority to Implement A General Rate Increase for Electric Service	)))	Case No. ER-2018-0145
In the Matter of KCP&L Greater Missouri Operations Company's Request for Authority to Implement A General Rate Increase for Electric Service	))))	Case No. ER-2018-0146

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 Kansas City Power & Light Company and KCP&L Greater Missouri Operations Company consisting of eleven (11) 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 27th day of July 2018.

Notary Public

My commission expires: 4/26/2021

ANTHONY R WESTENKIRCHNER
Notary Public, Notary Seal
State of Missouri
Platte County
Commission # 17279952
My Commission Expires April 26, 2021