Exhibit No.:	
Issue:	Excess Deferred Income Taxes; Current and Deferred Income Tax; Accumulated Deferred Income Tax; Potential Federal Tax Increase; Property Tax
Witness:	Melissa K. Hardesty
Type of Exhibit:	Direct Testimony
Sponsoring Party:	Evergy Missouri West
Case Nos.:	ER-2024-0189
Date Testimony Prepared:	February 2, 2024

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2024-0189

DIRECT TESTIMONY

OF

MELISSA K. HARDESTY

ON BEHALF OF

EVERGY MISSOURI WEST

Kansas City, Missouri
February 2024

DIRECT TESTIMONY

OF

MELISSA K. HARDESTY

Case No. ER-2024-0189

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 Evergy Metro, Inc. and serve as Senior Director of Taxes for Evergy Metro, Inc. d/b/a as Evergy Missouri Metro ("Evergy Missouri Metro"), Evergy Missouri West, Inc. d/b/a Evergy Missouri West ("Evergy Missouri West" or "Company"), Evergy Metro, Inc. d/b/a Evergy Kansas Metro ("Evergy Kansas Metro"), and Evergy Kansas Central, Inc. and Evergy South, Inc., collectively d/b/a as Evergy Kansas Central ("Evergy Kansas Central") the operating utilities of Evergy, Inc.

Q: On whose behalf are you testifying?

A: I am testifying on behalf of Evergy Missouri West.

Q: What are your responsibilities?

A: My responsibilities include management of taxes for Evergy Missouri West, 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 Evergy in December 2006, I was Manager of Income Taxes for Sprint's Wireless Division. I joined Evergy as the Director of Taxes and was subsequently promoted to my current position of Senior Director of Taxes for Evergy in May of 2009.

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

A: Yes.

Q: What is the purpose of your testimony?

A: The purpose of my testimony is to describe the various tax related adjustments included in the revenue requirement model (Schedule MKH-1 attached to this testimony.) The schedule includes various adjustments for accumulated deferred income taxes in rate base, income tax expense, and property tax expense.

RB-125 ACCUMULATED DEFERRED INCOME TAXES

Q: Please explain adjustment RB-125.

A: We adjusted September 30, 2023 Accumulated Deferred Income Taxes ("ADIT") in adjustment RB-125. Deferred income taxes represent the tax on timing differences for income and deductions reported on Evergy Missouri West income tax returns compared to what is reported for book purposes. ADIT represents the accumulated balance of these income tax timing differences at a point in time.

Q: What are the ADIT adjustments to Evergy Missouri West rate base?

A: Adjustment RB-125 relates to items included in Evergy Missouri West's rate base or net operating income. This schedule reflects the deferred tax liabilities relating to depreciation and other expenses deducted for the tax return in excess of book deductions (including bonus depreciation), resulting in a rate base decrease. It also reflects deferred tax assets that serve to increase rate base.

Q: Why does ADIT affect rate base?

A: ADIT liabilities such as accelerated depreciation are considered a cost-free source of financing for ratemaking purposes. Ratepayers should not be required to provide for a return on plant in service that has been funded by the government in the form of reduced (albeit temporarily) taxes. As a result, ADIT liabilities are reflected as a rate base offset (reduction in rate base). Conversely, ADIT assets such as the timing difference related to accrued maintenance increase rate base. Evergy Missouri West has paid taxes to the government in advance of the time when such taxes are included in cost of service and collected from ratepayers. To the extent taxes are paid, Evergy Missouri West must borrow money and/or use shareholder funds. The increase to rate base for deferred income tax assets allows shareholders to earn a return on shareholder-provided funds until recovered from ratepayers through ratemaking.

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

A: ADIT is based in general on September 30, 2023 general ledger balances, with the plant-related ADIT balances adjusted for projected plant activity through June 30, 2024 as reflected in rate case adjustment RB-20. In addition, Pension related ADIT balances were adjusted for projected activity through June 30, 2024 as reflected in rate case adjustments RB-65.

CS-125 INCOME TAX

Q: Please explain adjustment CS-125.

A: We adjusted test period income tax expense based on various adjustments to test year taxable income. The adjusted income tax calculation is shown on Schedule MKH-1. The income tax adjustment includes current income taxes, deferred income taxes, and the amortization of investment tax credits ("ITC") and certain other amortizations.

Q: Please explain the current income tax component in cost of service as calculated in Schedule MKH-1.

A: Jurisdictional operations and maintenance deductions and other adjustments are applied against jurisdictional revenues to derive net jurisdictional taxable income, which is then used to compute the jurisdictional current income tax expense component (current provision) for cost of service. For book purposes, these adjustments are the result of book versus tax differences and their implementation under normalization or flow through tax methods. Each adjustment is either added to or subtracted from net income to derive net taxable income for ratemaking. For Schedule MKH-1, however, a simplified methodology is used that eliminates the need to specifically identify all book and tax differences. Most significantly, all basis differences between the book basis and tax basis of assets are ignored in the current tax provision. Accelerated tax depreciation is used in the currently payable calculation based on the tax basis of projected plant in service as identified in adjustment RB-20. The difference between the accelerated depreciation deduction for tax depreciation on tax basis assets and the book depreciation deduction calculated on a straight-line basis generates offsetting deferred income tax. The resulting income tax expense, considering both the current and deferred income tax components, reflects a level of total income taxes as if the depreciation deduction to arrive at taxable income was based solely on depreciation of projected tax basis assets calculated on a straight-line basis. This modified approach normalizes depreciation relating to the method differences (*e.g.*, accelerated versus straight-line) and life differences. The Company and the MPSC Staff have used this modified approach since the 2014 Rate Case.

Q: Please describe the adjustments to derive net taxable income for ratemaking.

A: The following are the primary adjustments to derive net taxable income for ratemaking purposes:

- Book depreciation and amortization expense (adjustments CS-120 through CS- 121) have been excluded from the deductions listed on Schedule MKH-1. As previously discussed, accelerated tax depreciation on both projected depreciable plant and projected amortizable plant is subtracted to derive taxable income.
- A portion of Meals and Entertainment expense is added back in to derive net taxable income since a portion of certain meals and entertainment expenses is not tax deductible. This adjustment increases taxable income and ultimately increases the current income tax provision. The amount by which taxable income was increased is equal to the amount for the 2022 federal income tax return.
- Interest expense is subtracted to derive net taxable income. It is calculated by multiplying the adjusted jurisdictional rate base by the weighted average

cost of debt as recommended in this proceeding. This is referred to as "interest synchronization" because this calculation ensures that the interest expense deducted to derive current taxable income equals the interest expense provided for in rates.

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

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

Q: What rate is used to compute the current income tax component?

A: The current income tax calculation utilizes the 21% federal tax rate and a 4% Missouri state tax rate, each of which is applied independently to the appropriate level of taxable income as discussed above. The federal and state income tax rates are used to compute the composite tax rate of 23.844% which is used to calculate deferred income taxes, discussed below. The composite tax rate reflects the federal benefit relating to deductible Missouri state income tax and the Missouri benefit of deducting 50% of federal income taxes when computing the current Missouri tax provision.

Q: Is the current federal tax expense, determined by multiplying current taxable income by the federal income tax rate, further reduced by tax credits?

A: Yes, the research and development ("R&D") and solar production tax credits reduce the current federal income tax due.

Q: Please explain the R&D tax credit on Schedule MKH-1.

A: IRC Section 41 allows for a federal tax credit based on the amount of qualified research expenses incurred. The adjustment shown on this schedule as a direct reduction of the currently payable federal income tax expense reflects the estimated R&D tax credit for Evergy Missouri West based on the amount claimed on the 2022 federal tax return.

Q: Please explain the Solar production tax credit on Schedule MKH-1.

A: IRC Section 45 allows for a federal tax credit based on the amount of megawatts produced by the Hawthorn Solar facility multiplied by $27.50. The adjustment shown on this schedule as a direct reduction of the currently payable federal income tax expense reflects the estimated Solar production tax credit for Evergy Missouri West based on the amount of power we produced through September 2023 plus the additional power expected to be produced from October through December 2023.

Q: Please explain the deferred income tax component of cost of service as calculated in Schedule MKH-1.

A: The deferred income tax component of cost of service is primarily the result of applying the composite income tax rate (23.844%) to the difference between projected accelerated tax depreciation used to compute current income tax, as discussed earlier in this testimony, and projected book depreciation.

The other main deferred tax items are the amortization of excess deferred income taxes, AFUDC Equity reversal, and other miscellaneous flow-through items.

Q: Please explain what the excess deferred income taxes represent?

A: Excess deferred income taxes primarily reduce the income tax component of cost of service. During the 1980’s and up until 2017, the federal tax rate was higher than 2021’s

21% rate. Since deferred taxes were provided at the rate in effect when the originating timing differences were generated, the deferred income taxes were provided at a rate higher than the tax rate that is expected to be in existence when the timing differences reverse and the taxes are due to the government. This difference in the federal rates is being amortized into cost of service over the remaining book lives of the assets that generated the timing differences for protected plant related temporary differences and over the period of time agreed to in the 2018 rate case for other non-protected plant related and other temporary differences. Similarly, the differences in the Missouri income tax rate for periods before 2020 has also been included and is being amortized over the period of time agreed to in the 2022 rate case.

Q: Are there other amounts of excess deferred income taxes included in the adjustment for income taxes?

A: Yes. The Company has two other types of excess deferred income taxes included in this case. (1) The Company was required to defer the amortization of federal excess deferred income taxes related to the Tax Cut and Jobs Act of 2017 prior to when rates were effective in Evergy Missouri West's 2018 rate case (not already given back as a bill credit), per the Stipulation and Agreement approved with the rate order in case ER-2018-0146. And, (2) The Company deferred the amortization of excess deferred income taxes that was directly related to the retirement of the Sibley generation station at the end of 2018 after rates were set in the 2018 rate case. These two types of excess deferred taxes are also being amortized over the period of time agreed to in the 2022 rate case.

Q: What does the AFUDC Equity reversal and other miscellaneous flow-through represent in the adjustment for income taxes?

The AFUDC Equity reversal adjustment represents the reversal of the book amortization of AFUDC Equity placed in service in prior years not allowed for tax purposes and the other miscellaneous flow-through items represent the reversal of book amortization of other small items placed in service and flowed through to ratepayers in prior years.

Q: Does the Company expect there to be another federal corporate tax rate change during the duration of this rate case?

A: It is uncertain whether another federal tax rate change could occur during this rate case. However, if Congress does enact new legislation that would increase or decrease the federal corporate tax rate before the true-up period in this case, the Company requests that any impact of the rate change and any amortization of any new deficient or excess deferred taxes generated be included as an adjustment in this case.

Q: Please explain the ITC amortization component in cost of service as calculated in Schedule MKH-1.

A: In prior years, the company generated investment tax credits (“ITC”) under IRC Section 46 and IRC Section 48 on certain facilities. Under the IRS normalization rules, the ITC is amortized ratably back to customers over the remaining book lives of the underlying assets. The ITC amortization is a reduction to the income tax component of cost of service.

CS-126 PROPERTY TAX

Q: Please explain adjustment CS-126.

A: The Company annualized the real estate and personal property tax expense and payments-in-lieu-of-taxes ("PILOT") that will be paid based on the estimated plant in-service balances on January 1, 2024.

Q: How was annualized property tax expense determined?

A: Evergy Missouri West used a property tax ratio of estimated property tax expense for 2022 divided by actual plant in-service as of January 1, 2022. This ratio was then applied to the estimated January 1, 2024 plant original cost to project the 2024 property tax expense. The annual PILOT payments for the Crossroads and South Harper generation plants were then added to the projected 2024 property tax expense to determine the Company's annualized property tax amount.

Q: Why was the estimated January 1, 2024 original plant cost used?

A: The property taxes paid for 2022 are based on the plant balances on January 1, 2022. However, the property taxes paid for 2024, the first year that the new rates in this case will be in effect, will be based on plant balances as of January 1, 2024.

Q: Do the various components of the real estate and personal property tax adjustment discussed above take into effect tax amounts allocated to vehicles and charged to accounts other than property tax expense and amounts allocated to non-utility plant?

A: Yes, these components have been excluded from both the plant-in-service and property taxes paid components of the calculation.

Q: Please explain the PILOT adjustment.

A: The Company has placed in-service two generation facilities (South Harper and Crossroads) that were built under Chapter 100 financing. Facilities constructed using Chapter 100 financing are exempt from real and personal property taxes. To ensure proper permitting and easements were obtained, the Company agreed to provide PILOT payments to the taxing authorities where these two facilities are located. South Harper has an annual payment of $241,832 and Crossroads has an annual payment of $258,000.

Q: Is the Company requesting amortization of the Property Tax Tracker allowed by Missouri statute in this rate case?

A: Yes. The Company has deferred property tax expense incurred in excess of the amount that was allowed in base rates from the 2022 Rate Case, in accordance with Missouri Revised Statute § 393.400. We are requesting that we be allowed to amortize the balance of this tracker at June 30, 2024 back through cost of service over four years.

Q: Please explain how the Property Tax Tracker works.

A: The difference between the actual property tax expense incurred and the property tax expense amount used in setting rates in the most recently completed general rate case proceeding (base rates) has been deferred into a regulatory liability account. The regulatory liability account balance will be included in the Company's subsequent general rate proceeding through an amortization over a period of time set by the Commission. The unamortized regulatory liability account balance will also be included in Rate Base and used to establish the revenue requirement in the rate case.

Q: Why it is reasonable for the Commission to provide a tracker for property taxes?

A: Historically, and projected going forward, the Company has experienced an under-recovery of property taxes paid. In some years, the under-recovery is significant. Property tax valuations are determined by the State of Missouri and Kansas and mill levies are set by various Missouri and Kansas taxing jurisdictions. Evergy Missouri West assists the State assessors to ensure that it receives a fair valuation. However, the final valuations are set by the State, and the Company has no input on how mill levies are set. There should be no negative effect on the Company's ability to earn its authorized return due to taxes assessed by Missouri and Kansas that benefit its customers, especially given that the Company has little control over the assessments. Additionally, the tracker is structured to provide the value of any adjustments or reductions in property tax expense back through the tracker which could benefit ratepayers.

Q: How was the four year amortization period determined for the property tax tracker?

A: The Company believes that a four-year period is a reasonable period to return these benefits as quickly as possible to ratepayers without a large impact on rates once the amortization is complete.

Q: Is Evergy able to continue to dispute valuations and mill levies if a property tax tracker is allowed?

A: A taxpayer may continue dispute valuations. However, it is difficult to achieve meaningful changes to valuations once they are determined by a state. Unfortunately, Evergy may not dispute a mill levy once set by a taxing jurisdiction. This was also the case before property tax trackers were allowed. We continue to review property tax valuations and bills to ensure the Company is paying the proper amounts.

Q: Please explain how mill levy rates impact property taxes?

A: The property tax mill levy rates are set by each county and then applied to the assessments by the various taxing authorities. These mill levy rates are adjusted up or down annually depending on the revenue needed by the taxing jurisdictions. The mill levy rates will increase if the taxing jurisdictions need to increase tax revenues to offset other sources of revenue that may decrease due to the economy or other factors. Because Evergy Missouri West has no ability to affect this process, the Company should be able to recover or refund any changes that t mill levies have on property tax expense as they occur to avoid regulatory lag.

Q: Does that conclude your testimony?

A: Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Evergy Missouri West, Inc. d/b/a Evergy Missouri West's Request for Authority to Implement A General Rate Increase for Electric Service	))))	Case No. ER-2024-0189

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 Direct Testimony on behalf of Evergy Missouri West consisting of thirteen (13) 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 2nd day of February 2024.

Notary Public

My commission expires: 4/26/2025

ANTHONY R. WESTENKIRCHNER
NOTARY PUBLIC - NOTARY SEAL
STATE OF MISSOURI
MY COMMISSION EXPIRES APRIL 26, 2025
PLATTE COUNTY
COMMISSION #17279952

Evergy
2024 RATE CASE - MO WEST - Direct
TY 6/30/23; Update 12/31/23; True-Up 6/30/24

Income Tax Calculation

Line No.	Line Description	Total Company Balance	Juris Factor #	Juris Allocation	Tax Rate	(ELEC-JURIS) Adjusted with 7.566% Return	
	A				B	C	
1	Net Income Before Taxes (Sch 9)					128,819,946	
2	***Add to Net Income Before Taxes:***						
3	Depreciation Expense					141,887,776	
4	Plant Amortization Exp					1,241,424	
5	Transportation Expenses-Clearing					649,266	(a)
6	50% Meals & Entertainment	12,015	6,14	96.707%		11,619	
7	**Total**					143,790,085	
8	***Subtract from Net Income Before Taxes:***						
9	Interest Expense					59,500,166	
10	IRS Tax Return Depreciation	181,248,773	7,3	98.993%		179,423,697	
11	IRS Tax Return Plant Amortization	877,078	7,3	98.993%		868,246	
12	IRC Section 199 Domestic Production Activities					0	
13	**Total**					239,792,109	
14	**Net Taxable Income**					32,817,922	
15	**Provision for Federal Income Tax:**						
16	Net Taxable Income					32,817,922	
17	Deduct Missouri Income Tax @ 100.0%					0	
18	Deduct City Income Tax					0	
19	Federal Taxable Income					32,817,922	
20	Federal Tax Before Tax Credits				21.00%	6,891,764	
21	Less Tax Credits:						
22	Research and Development Tax Credit	(38,976)	7,3	98.993%		(38,584)	
23	Solar Credit	(175,890)	1,1	100.000%		(175,890)	
24	**Total Federal Tax**					6,677,290	
25	**Provision for Missouri Income Tax:**						
26	Net Taxable Income					32,817,922	
27	Deduct Federal Income Tax @ 50.0%				10.50%	3,338,645	
28	Deduct City Income Tax					0	
29	Missouri Taxable Income					29,479,277	
30	**Total Missouri Tax**				4.00%	1,179,171	
31	**Provision for City Income Tax:**						
32	Net Taxable Income					32,817,922	
33	Deduct Federal Income Tax					6,677,290	
34	Deduct Missouri Income Tax					1,179,171	
35	City Taxable Income					24,961,461	
36	**Total City Tax**				0	0	
37	**Summary of Provision for Current Income Tax:**						
38	Federal Income Tax					6,677,290	
39	Missouri Income Tax					1,179,171	
40	City Income Tax					0	
41	**Total Provision for Current Income Tax**					7,856,461	
			Effective Tax Rate (Current, Deferred)			23.84%	
42	**Deferred Income Taxes:**						
43	Deferred Income Taxes - Excess IRS Tax over Book D&A					9,185,770	
44	Amortization of Deferred ITC	0	1,1	100.000%		0	
45	Amort of Excess Deferred Income Taxes - Protected - ARAM	(3,938,883)	7,3	98.993%		(3,899,221)	
46	Amort of Excess Deferred Income Taxes - UnProtected - 10yr	(5,535,902)	7,3	98.993%		(5,480,158)	
47	Amort of Excess Deferred Income Taxes - NOL - ARAM	604,921	7,3	98.993%		598,830	
48	Amort of Excess Deferred Income Taxes - Misc - 10 yr	(857,193)	7,3	98.993%		(848,562)	
49	Amort of Excess Deferred Income Taxes - 4 yr	(9,945,806)	7,3	98.993%		(9,845,658)	
50	**Total Deferred Income Tax Expense**					(10,288,998)	
51	**Total Income Tax**					(2,432,536)	

(a) Percent of vehicle depr clearing to O&M 23.06%

Computation of Line 43 Above:

Evergy
2024 RATE CASE - MO WEST - Direct
TY 6/30/23; Update 12/31/23; True-Up 6/30/24

Income Tax Calculation

Line No.	Line Description	Total Company Balance	Juris Factor #	Juris Allocation	Tax Rate	(ELEC-JURIS) Adjusted with 7.566% Return
52	**Deferred Income Taxes - Excess IRS Tax over Book D&A:**					
53	IRS Tax Return Depreciation					179,423,697
54	Less: Book Depreciation					141,887,776
55	Excess IRS Tax Depr over Book Depr					37,535,921
56	IRS Tax Return Plant Amortization					868,246
57	Less: Book Amortization					1,241,424
58	Excess IRS Tax Amort over Book Amortization					(373,178)
59	Total Timing Differences					37,162,743
60	AFUDC Equity	596,423	7,3	98.993%		590,417
61	ITC Basis Adjustment - Solar	36,490	1,1	100.000%		36,490
62	Miscellaneous Flow Through	734,802	1,1	100.000%		734,802
63	Total Timing Differences after Flow Through					38,524,452
64	Effective Tax rate					23.84%
65	**Deferred Income Taxes - Excess IRS Tax over Book D&A**					9,185,770