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Exhibit No. 123

Evergy Missouri West – Exhibit 123
Melissa K. Hardesty
Surrebuttal
File No. ER-2024-0189

Exhibit No.:
Issue: Tax Losses on Asset Dispositions,
Property Tax Tracker
Witness: Melissa K. Hardesty
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: Evergy Missouri West
Case Nos.: ER-2024-0189
Date Testimony Prepared: September 10, 2024

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2024-0189

SURREBUTTAL TESTIMONY

OF

MELISSA K. HARDESTY

ON BEHALF OF

EVERGY MISSOURI WEST

**Kansas City, Missouri
September 2024**

SURREBUTTAL TESTIMONY

OF

MELISSA K. HARDESTY

Case No. ER-2024-0189

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: Are you the same Melissa K. Hardesty who submitted direct testimony on February**
5 **2, 2024 and rebuttal testimony on August 6, 2024?**

6 A: Yes.

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

8 A: I am testifying on behalf of Evergy Missouri West, Inc. d/b/a Evergy Missouri West
9 (“Evergy Missouri West,” “EMW,” or the “Company”).

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

11 A: The purpose of my rebuttal testimony is to respond to the rebuttal testimony of: (1)
12 Matthew R. Young, on behalf of Missouri Public Service Commission (“MPSC” or the
13 “Commission”) Staff (“Staff”), regarding his opinions as to tax losses on asset dispositions;
14 and (2) Karen Lyons, on behalf of Staff, regarding the computation of the property tax
15 expense tracker.

1 **TAX LOSSES ON ASSET DISPOSITIONS**

2 **Q: Do you agree with Mr. Young that the tax benefits of asset dispositions should be**
3 **included in the calculation of income tax expense in cost of service?**

4 A: As I stated in my rebuttal testimony addressing the direct testimony of John S. Riley, on
5 behalf of the Office of Public Council (“OPC”), the reduction of income by the tax losses
6 on asset dispositions proposed ignores the simplified method used by the Company and
7 Staff to compute income tax expense in cost of service. If the tax losses were included as
8 a reduction in current income tax expense without an offset for the impact on deferred
9 income taxes, then the losses would be double-counted in computing income tax expense
10 over time.

11 **Q: Please explain the simplified method used by the Company and Staff to compute**
12 **income tax expense?**

13 A: The simplified methodology used by the Company and Staff eliminates the need to
14 specifically identify all book and tax differences in computing income tax expense. Most
15 significantly, all basis differences between the book basis and tax basis of assets are ignored
16 in the current tax provision. This includes the write-off of any remaining tax basis due to
17 the retirement of an asset. Only the difference between book depreciation and tax
18 depreciation is included in computing current income tax expense. The difference in the
19 timing of depreciation deductions for book and tax purposes is a temporary difference.
20 Therefore, an offsetting deferred tax expense adjustment is applied to ensure that a level of
21 total income taxes included in cost of service was as if depreciation deductions used to
22 arrive at taxable income were based solely on depreciation of tax basis on a straight-line
23 basis.

1 The write-off of any tax basis for tax purposes is also just a temporary or timing difference.
2 Any remaining book basis for which a loss was not recognized upon the retirement will
3 eventually be recovered through an adjustment to future book depreciation rates and book
4 depreciation deductions. Under mass asset accounting, the book depreciation deduction
5 will eventually recover the full basis of any asset disposed of, just like we have deducted
6 the full tax basis of the asset through tax depreciation, tax basis adjustments, or the tax loss
7 on disposal.

8 If the Company included the tax loss in the computation of current tax expense, an
9 offsetting deferred tax expense would also need to be recorded. The resulting income tax
10 expense, considering both the current and deferred income tax components, is the same.
11 The Company and Staff have used this modified approach since the 2014 Rate Case.

12 **Q: Can you provide an example of how the tax losses are a temporary timing difference**
13 **under mass asset accounting?**

14 **A:** Yes. In the table below, you can see how book and tax depreciation and tax losses work
15 under mass asset accounting. Over time, the full cost basis is recovered for book purposes
16 and tax purposes. As a timing difference, if the tax losses are included in the current
17 expense calculation, a deferred tax expense should also be included in the calculation of
18 income tax expense (similar to how deferred taxes are included for accelerated tax
19 depreciation).

Example under Mass Asset Accounting:											
	Cost	Year Placed in Service	Depreciation Rate		Year Retired						
			Book	Tax							
Asset A	1000	Year 1	10.00%	15.00%	Year 4						
Asset B	1000	Year 3	10.00%	15.00%	N/A						

Book Recovery	Beginning Cost	Additions	Retirement	Ending Cost	Beginning Depreciation	Current Year Depreciation	Retirement	Ending Depreciation	Book Loss on Retirement	Ending Net Book Value
Year 1	-	1,000	-	1,000	-	(100)	-	(100)	0	900
Year 2	1,000	-	-	1,000	(100)	(100)	-	(200)	0	800
Year 3	1,000	1,000	-	2,000	(200)	(200)	-	(400)	0	1,600
Year 4	2,000	-	(1,000)	1,000	(400)	(100)	1,000	500	0	1,500
Year 5	1,000	-	-	1,000	500	(100)	-	400	0	1,400
Year 6	1,000	-	-	1,000	400	(100)	-	300	0	1,300
Year 7	1,000	-	-	1,000	300	(100)	-	200	0	1,200
Year 8	1,000	-	-	1,000	200	(100)	-	100	0	1,100
Year 9	1,000	-	-	1,000	100	(100)	-	-	0	1,000
Year 10	1,000	-	-	1,000	-	(100)	-	(100)	0	900
Year 11	1,000	-	-	1,000	(100)	(100)	-	(200)	0	800
Year 12	1,000	-	-	1,000	(200)	(100)	-	(300)	0	700
Year 13	1,000	-	-	1,000	(300)	(100)	-	(400)	0	600
Year 14	1,000	-	-	1,000	(400)	(100)	-	(500)	0	500
Year 15	1,000	-	-	1,000	(500)	(100)	-	(600)	0	400
Year 16	1,000	-	-	1,000	(600)	(100)	-	(700)	0	300
Year 17	1,000	-	-	1,000	(700)	(100)	-	(800)	0	200
Year 18	1,000	-	-	1,000	(800)	(100)	-	(900)	0	100
Year 19	1,000	-	-	1,000	(900)	(100)	-	(1,000)	0	-
						(2,000)			0	

Tax Recovery	Beginning Cost	Additions	Retirement	Ending Cost	Beginning Depreciation	Current Year Depreciation	Retirement	Ending Depreciation	Tax Loss on Retirement	Ending Net Book Value
Year 1	-	1,000	-	1,000	-	(150)	-	(150)	0	850
Year 2	1,000	-	-	1,000	(150)	(150)	-	(300)	0	700
Year 3	1,000	1,000	-	2,000	(300)	(300)	-	(600)	0	1,400
Year 4	2,000	-	(1,000)	1,000	(600)	(150)	600	(150)	(400)	850
Year 5	1,000	-	-	1,000	(150)	(150)	-	(300)	-	700
Year 6	1,000	-	-	1,000	(300)	(150)	-	(450)	-	550
Year 7	1,000	-	-	1,000	(450)	(150)	-	(600)	-	400
Year 8	1,000	-	-	1,000	(600)	(150)	-	(750)	-	250
Year 9	1,000	-	-	1,000	(750)	(150)	-	(900)	-	100
Year 10	1,000	-	-	1,000	(900)	(100)	-	(1,000)	-	-
						(1,600)			(400)	

1

2 **Q: Did Mr. Young propose an offsetting deferred income tax expense adjustment for the**

3 **tax losses on asset disposals?**

4 A: No, Mr. Young did not. Similar to Mr. Riley’s direct testimony, Mr. Young is treating the

5 tax losses like they are a permanent tax deduction that would never be recovered for book

6 purposes, and he does not have a deferred income tax expense offset.

7 **Q: Do you agree that the accumulated deferred income tax (“ADIT”) benefits related to**

8 **the tax losses should be included in rate base?**

9 A: Generally, yes, we do agree that ADIT benefits related to tax losses should be in rate base.

10 Everyg Missouri West included the ADIT benefits created due to the deduction of tax

1 losses generated by an asset disposition as a reduction to rate base in this rate case. These
2 amounts have been included just like any other ADIT created due to other timing
3 differences related to property assets. If, however, we do not include the deferred income
4 tax expense in cost of service related to asset dispositions, the Company will no longer
5 receive the benefit of an “interest free loan” from the government since it will have returned
6 the benefits to customers. Therefore, it would not be appropriate to continue to include the
7 related ADIT tax benefits in rate base and Evergy Missouri West will need to remove the
8 ADIT related to asset dispositions from rate base. For these reasons, Mr. Young’s proposal
9 related to the tax losses being included in the income tax expense calculation should be
10 denied.

11 **Q: Does Mr. Young agree that the ADIT-related to tax losses should be excluded from**
12 **rate base if the tax losses are used to reduce income tax expense in this case?**

13 A: No. Mr. Young appears to confuse the issue related to ADIT by stating that the amount of
14 ADIT in rate base is not the exact same amount that Evergy Missouri West has collected
15 from customers, therefore we do not need to match the amount of ADIT in rate base with
16 the income tax expense calculation. For completeness and fairness, the amount of ADIT in
17 rate base has historically been treated consistently with the items included in the
18 computation of income tax expense in cost of service. If the Company must give the tax
19 benefits to customers now, then as I stated before, it no longer receives the benefit of the
20 “interest free loan” and it is disingenuous of Mr. Young to state it that doesn’t matter and
21 you should ignore it in the computation of ADIT and continue to leave the ADIT related
22 to tax losses in rate base.

1 **PROPERTY TAX TRACKER**

2 **Q: Do you agree that Evergy Missouri West is improperly computing the amount of**
3 **property tax expense included in the property tax tracker?**

4 A: No. Ms. Lyons indicated in her rebuttal testimony that the Company has included any
5 under-collected property tax expense back to the 2018 general rate case (or for four
6 additional years from 2018-2022 until the 2022 general rate case) in its calculation of the
7 property tax tracker to be recovered. Essentially, she has disallowed any amounts prior to
8 2023 from the balance of the tracker that Evergy Missouri West can recover even though
9 the property tax legislation was effective August 28, 2022. The assertion by Ms. Lyons is
10 incorrect. Evergy Missouri West only included the amount of property tax expense that
11 exceeded the property tax expense in base rates from the date that the law became effective,
12 or August 28, 2022. The amount of under-collected property tax expense from August 28,
13 2022 to December 31, 2022, or \$2,645,016 after the effective date of the new law, was
14 properly included in the amortization of the property tax tracker in this case. Please see
15 the testimony of Company witness Ronald Klote for additional discussion on the issue.

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

17 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) Case No. ER-2024-0189
Implement A General Rate Increase for Electric)
Service)

AFFIDAVIT OF MELISSA K. HARDESTY

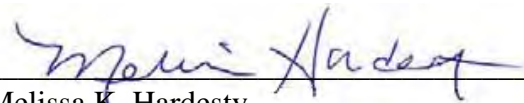
STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

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 Evergy Metro, Inc. and serve as Senior Director of Taxes.

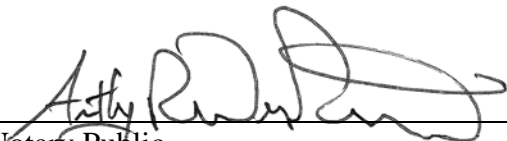
2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of Evergy Missouri West consisting of six (6) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

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 10th day of September 2024.



Notary Public

My commission expires: 4/26/2025

