

Exhibit No. 34

Exhibit No.:
Issue: Income Tax, Property Tax, & Kansas
City Earnings Tax
Witness: Melissa K. Hardesty
Type of Exhibit: Rebuttal Testimony
Sponsoring Party: Evergy Missouri Metro and Evergy
Missouri West
Case Nos.: ER-2022-0129 / 0130
Date Testimony Prepared: July 13, 2022

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2022-0129 / 0130

REBUTTAL TESTIMONY

OF

MELISSA K. HARDESTY

ON BEHALF OF

EVERGY MISSOURI METRO and EVERGY MISSOURI WEST

**Kansas City, Missouri
July 2022**

REBUTTAL TESTIMONY

OF

MELISSA K. HARDESTY

Case No. ER-2022-0129 / 0130

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 in these**
5 **dockets on January 7, 2022?**

6 A: Yes.

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

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

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

12 A: The purpose of my rebuttal testimony is to respond to the income tax, Kansas City earnings
13 tax, and property tax related adjustments proposed in Direct Testimony on behalf of the
14 Missouri Public Service Commission (“MPSC” or the “Commission”) Staff, the Midwest
15 Energy Consumers’ Group (“MECG”), and the Office of the Public Council (“OPC”).

16 **INCOME TAXES**

17 **Q: Please provide a list of proposed adjustments related to income taxes?**

18 A: The following items are the income tax related proposed adjustments.

1 1) **Excess Deferred Income Taxes** - Matthew R. Young, on behalf of the
2 MPSC Staff, proposed a 10-year amortization period for the amortization
3 of excess deferred income taxes (“EDIT”) deferred as a result of the 2018
4 rate case, the retirement of the Sibley and Montrose generating stations, and
5 the 2020 reduction in the Missouri corporate tax rate.

6 2) **Federal or State Rate Change** - Greg R Meyer, on behalf of MECG,
7 proposed that only the currently payable portion of a federal or state rate
8 change that occurred prior the true-up date be included in this case. Other
9 possible impacts do not require immediate relief and could be addressed in
10 future cases.

11 3) **Net Operating Loss Accumulated Deferred Income Taxes** - John S.
12 Riley, on behalf of OPC, proposed that the amount of net operating loss
13 (“NOL”) accumulated deferred income taxes (“ADIT”) included in rate
14 base be reduced by the losses generated by the abandonment or sale of
15 obsolete business property.

16 4) **Income Tax Credit Carryforwards** - John S Riley, on behalf of OPC,
17 proposed including income tax credit carryforwards at the end of 2021 for
18 both companies as a reduction to rate base.

19 **Q: Do you agree with the adjustment related to the amortization period for EDIT**
20 **proposed in the testimony of Mr. Young?**

21 **A:** We are not opposed to the amortization period proposed by Mr. Young. However, a ten-
22 year amortization period will flow these tax benefits back to customers over a much longer
23 period of time than what was proposed by the Company. The Company included an

1 amortization period of five years for Evergy Missouri Metro and four years for Evergy
2 Missouri West. The shorter amortization periods will help keep rates lower over the next
3 few years until the next general rate proceeding is required for both companies.

4 **Q: Do you agree with the limited adjustments proposed in testimony of Mr. Meyer**
5 **related to a potential federal or state rate change?**

6 A: No. We do not agree that we should limit the impact of any federal or state rate change to
7 the current income tax payable amounts if a rate change would have occurred prior to the
8 true-up date in this case. However, the Company did not experience a federal or state rate
9 change prior to the true-up date and no adjustments are needed in these rate proceedings.

10 **Q: Do you agree with the reduction of NOL ADIT in rate base for tax losses on business**
11 **property included in testimony of Mr. Riley?**

12 A: No. There are several reasons why this reduction does not make sense to incorporate into
13 rate base in this case. 1) The NOL related ADIT that Mr. Riley says should be offset is
14 not ADIT related to NOL carryforwards as Mr. Riley suggests. In fact, the amounts he
15 included in his testimony are almost all related to EDIT generated due to the Tax Cuts and
16 Jobs Act passed in 2017. These amounts are flowed back to customers using the IRS's
17 average rate assumption method as approved in the 2018 general rate cases for Evergy
18 Missouri Metro and Evergy Missouri West, ER-2018-0145 and ER-2018-0146,
19 respectively. 2) Even if the amounts in rate base were related to NOL carryforwards,
20 offsetting a net operating loss generated in years 2010-2017, with business losses incurred
21 in 2018-2020 is not the correct way to compute these numbers. The business losses in later
22 years were used to offset taxable income in those years and should not be carried back to
23 offset NOL generated in prior years. This would be including the benefit of the losses

1 twice in rate base. Once as deferred tax liabilities in the year the loss was generated and a
 2 second time as a reduction to the NOL related deferred tax asset in a prior year. 3) And
 3 lastly, Mr. Riley appears to offset NOL ADIT in rate base with the actual business losses
 4 and not the deferred tax benefits associated with those losses. The deferred tax benefits
 5 would be the business loss times the statutory rate of 23.844% used in this case. This is
 6 clearly an error in his computation. The deferred tax assets would never be offset by a tax
 7 loss. If applicable (which it is not), the deferred tax assets would be offset by the deferred
 8 taxes associated with the tax loss.

9 **Q: Please provide a breakout of the NOL related ADIT and EDIT included in Mr. Riley's**
 10 **testimony?**

11 A: Please see the table below for Evergy Missouri Metro and Evergy Missouri West NOL
 12 ADIT and NOL EDIT balances included in rate base:

Amounts in Rate Base	Per Direct Filing	
	Evergy Missouri West	Evergy Metro
EDIT Federal Rate Change	42,317,505	63,104,840
EDIT MO Rate Change	3,631,342	10,631,619
ADIT Federal NOL	1,366	2
ADIT State NOL	425,432	(321,707)
Total NOL ADIT/EDIT	46,375,645	73,414,754

13
 14 As you can see by the table, very little of the deferred taxes in rate base is related to NOL
 15 ADIT. Therefore, there should be no reduction to rate base for the tax benefits of the
 16 business losses, and definitely not by the total amount of the business losses proposed by
 17 Mr. Riley in his testimony.

1 **Q: Do you agree with the reduction of rate base for the income tax credit carryforwards**
2 **proposed in the testimony of Mr. Riley?**

3 A: No. The income tax credit carryforwards represent tax benefits that the Company has not
4 realized yet and are deferred tax assets of the Company. The reduction of rate base for
5 deferred tax liabilities is intended be for tax benefits that the companies received from the
6 government that customers have not received yet. Deferred tax liabilities are considered
7 cost-free financing received by the Company. In this scenario, the Company has not gotten
8 the tax benefits yet and it cannot be considered cost-free financing. If anything, the
9 deferred tax assets related to the tax credit carryforward would be an increase to rate base
10 since the customers have gotten the benefit of the tax credits in setting rates, but the
11 Company has not received these tax benefits from the government yet.

12 **Q: Has the Company requested that the deferred tax assets for tax credit carryforwards**
13 **be included in rate base?**

14 A: No. But if the Commission rules that the credit carryforwards should be included in rate
15 base, then it would be an addition to rate base under generally accepted rate making
16 principles and not a reduction as Mr. Riley suggests.

17 **KANSAS CITY EARNINGS TAX**

18 **Q: Please provide a list of proposed adjustments related to Kansas City earnings taxes?**

19 A: Matthew R. Young, on behalf of the MPSC Staff, proposed using an average of the prior
20 three years of Kansas City Earnings Tax paid to compute the amount of earnings tax
21 included in the cost-of-service schedules for Evergy Missouri Metro and the last known
22 payment for Evergy Missouri West instead of using 2021 expense as an estimate of the
23 2022 expense.

1 **Q: Do you agree with the adjustments proposed in testimony of Mr. Young related to**
2 **Kansas City earnings tax?**

3 A: No. Mr. Young appears to pick the lowest number possible and include that amount in his
4 schedules. The Company believes that the amount of Kansas City earnings tax included in
5 this case be computed in a similar manner for both companies and should reflect the amount
6 will be due in the period when rates are set. Due to the timing of the completion of the
7 2021 Kansas City earnings tax return in October of 2022, we do not have the actual tax
8 liability for Evergy Missouri Metro or Evergy Missouri West at this time. However, we
9 did compute an estimate for 2021 based on estimated 2021 taxable income. We believe
10 the estimated 2021 earnings tax expense (excluding any prior year true up expense) reflects
11 a more accurate earnings tax expense and should be the amounts included in this case.

12 **PROPERTY TAX EXPENSE**

13 **Q: Please provide a list of proposed adjustments related to property tax expense?**

14 A: The following items are the income tax related proposed adjustments

- 15 1) Jared Giacone, on behalf of the MPSC Staff, Greg Meyer, on behalf of
16 MECG and Angela Schaben on behalf of the OPC have all recommended
17 against implementing a tracker for the deferral of property tax expense
18 increase or decreases between general rate proceedings.
- 19 2) Greg R Meyer, on behalf of MECG, proposed using 2021 actual property
20 tax expense instead of the ratio method proposed by the Company and
21 MPSC Staff.

1 **Q: Do you agree with the arguments against implementing a property tax tracker in**
2 **testimony of Mr. Giacone, Mr. Meyer, and Ms. Schaben?**

3 A: No. Missouri recently passed legislation, signed by the governor on June 29, 2022, which
4 expressly allows utilities to establish a property tax tracker to defer increases or decreases
5 in property tax expense compared to the amount included in base rates into a regulatory
6 asset or liability. Therefore, the Company should be allowed to establish this tracker under
7 current Missouri law.

8 **Q: Do you agree with the adjustment to property tax expense included in testimony of**
9 **Mr. Meyer?**

10 A: No. Mr. Meyer proposes that the Company only be allowed to include the 2021 property
11 tax expense in this case. The method proposed by the Company and the Staff which uses
12 a ratio of the 2021 property tax expense divided by the applicable property at the beginning
13 of 2021 times the amount of property at the beginning of 2022 has been approved by the
14 Commission in all of the most recent rate cases, including ER-2018-0145 and ER-2018-
15 0146. This ratio method estimates the amount of property taxes due in 2022 based on
16 historical property tax rates and known property balances at the beginning of the year. This
17 ratio method provides a more accurate representation of current year property taxes based
18 on known and measurable plant balances at January 1, 2022.

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

20 A: Yes, it does.

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

In the Matter of Evergy Metro, Inc. d/b/a Evergy)
Missouri Metro's Request for Authority to) Case No. ER-2022-0129
Implement A General Rate Increase for Electric)
Service)

In the Matter of Evergy Missouri West, Inc. d/b/a)
Evergy Missouri West's Request for Authority to) Case No. ER-2022-0130
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 Rebuttal Testimony on behalf of Evergy Missouri Metro and Evergy Missouri West consisting of seven (7) 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 13th day of July 2022.



Notary Public

My commission expires: 4/26/2025

