Exhibit No.:	_______________
Issue(s):	Early Retirements in Tax Calculations
Witness/Type of Exhibit:	Riley/Rebuttal
Sponsoring Party:	Public Counsel
Case No.:	ER-2026-0143

REBUTTAL TESTIMONY

OF

JOHN S. RILEY

Submitted on Behalf of the Office of the Public Counsel

EVERGY METRO, INC. D/B/A
EVERGY MISSOURI METRO

CASE NO. ER-2026-0143

August 11, 2026

REBUTTAL TESTIMONY

OF

JOHN S. RILEY

EVERGY METRO, INC.

d/b/a EVERGY MISSOURI METRO

CASE NO. ER-2026-0143

Q. What is your name and what is your business address?

A. John S. Riley, PO Box 2230, Jefferson City, Missouri 65102.

Q. Are you the same John S. Riley who prepared and filed direct testimony in this case on behalf of the Office of the Public Counsel?

A. Yes.

Q. What are you rebutting?

A. I am responding to Staff witness Mr. Matthew R. Young's calculation of current income tax for Evergy Missouri Metro's cost of service and how discarded deferred taxes are costing its ratepayers money every year.

Q. Is Mr. Young calculating income tax in a different manner than Staff normally does?

A. No. Mr. Young is very consistent with Staff's determination of taxable income and income tax expense. I have quoted his testimony below that is a very consistent methodology to its income tax calculations.

"To calculate ratemaking income tax expense (see Schedule 11 of Staff's Accounting Schedules), Staff used the following in its calculation:

Add Back to Operating Income Before Taxes: 21

• Book Depreciation Expense

• Book Amortization Expense

• Book Nuclear Fuel Amortization

• Non-Deductible Meals

Subtract from Operating Income:

• Interest Expense

• IRS Depreciation

• IRS Plant Amortization

• IRS Nuclear Fuel Amortization

• ESOP 401k Dividend Deduction

Subtractions – Federal Income Tax Credits:

• Research and Development Tax Credit

• Fuel Tax Credit

• Solar Production Tax Credit

• Nuclear Production Tax Credit

Q. What is your point of contention with Staff's taxable income model?

A. Staff does not include a legitimate deduction that the Company includes in its own taxable income calculations within its consolidated income tax returns.

Q. What is that deduction?

A. Evergy, and all utilities that operate in Missouri, deduct the remaining value of utility assets which they retire from service prior to the end of its taxable life.

Q. Would you expand on your answer?

A. Utility assets are plant-in-service assets. Generation, transportation or distribution assets that still have a taxable, depreciable remaining life at the time of retirement.[1] Utility companies claim these dispositions as a loss on the tax return to reduce taxable income. Staff disregards this reduction when calculating income taxes for a general rate case.

Q. What are the general differences between a company's net income and its taxable income?

A. Companies take advantage of tax timing differences to reduce income for income tax recognition. Accelerated depreciation would be the most recognizable tax timing difference. Mr. Young points out in his testimony that Staff converts a Company's book income "into ratemaking net taxable income by recognizing various tax timing differences."[2] He also goes on to point out that Staff does not recognize all tax timing differences when calculating ratemaking taxable income.

Q. What is Staff's reasoning for not recognizing all the tax timing differences?

A. Mr. Young states that most timing differences are temporary, so they are ignored for ratemaking purposes. This reasoning makes it even more perplexing as to why Staff does not recognize early retirements as a reduction to ratemaking taxable income.

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[1] The terminology is interchangeable. Disposition, retirement, sale or abandonment are all indications that the asset has been taken out of service and the remaining value has been eliminated from the balance sheet or rate base.
[2] Staff witness Mathew R. Young direct testimony, p. 14, lines 12 and 13.

Q. Why is this lack of recognition puzzling?

A. Retirements are not a temporary tax timing difference but are a permanent difference that is denied to the ratepayer due to Staff not accounting for the change. What I mean when I say it is permanent is that the timing does not eventually revert through rates so that the ratepayer funding is eventually reimbursed. No, the interest free loan provided by the ratepayer to fund the asset, in the first place, is written off and never becomes fully repaid.

Q. What do you mean by "interest free loan" in your answer?

A. The quick explanation is that the interest free loan and deferred income tax expense are one and the same. The IRS tax codes are set up in a way to encourage companies to invest and expand production. For utilities, encouragement is in the form of preventing utility commissions from immediately passing these tax savings directly back to ratepayers through rates. Mr. Young refers to this as "normalized" ratemaking methodology on page 17 of his direct testimony where ratepayers are charged deferred tax expense to prevent the flow through of these tax benefits. This ratepayer funding is the "interest free loan." The federal tax code (IRS) specifically prevents the flow through to ratepayers of the tax benefit of accelerated depreciation that relates to plant assets. These are the same assets that correspond to the early retirements that should be recognized in the Staff's income tax calculations.

Q. The "interest free loan" then is the ratepayers funded deferred tax expense built into rates?

A. Yes. The "loan" is eventually paid back to the ratepayers through the life of the asset. This can be referred to as a temporary timing difference, however, the timeframe is in the range of 30 to 40 years.

Q. Would you explain how this "interest free loan" is "repaid"?

A. As I stated, the "loan" is paid back over the life of the asset. For illustration purposes, let's say that a particular asset has deferred taxes of $1 million associated with it. The asset is expected to have a useful life of 40 years. The accelerated depreciation creates the deferred taxes over the first five years of its life. This interest free loan is paid back to the ratepayer over the remaining 35 years. In this example, the pay back is $28,571 a year. Let's say the asset wears out early and is retired at 25 years. The ratepayer has only been paid back $714,286. ($28,571 X 25, rounded) The IRS dictates that the associated deferred tax is removed from rate base when the asset is retired. That is $285,714 ($1,000,000 less $714,286) that is never repaid to the ratepayer due to early retirement.

Q. Why is the $285,714 never repaid?

A. If the asset is no longer in rate base, then the associated deferred taxes are no longer calculated and applied to reduce rate base (repayment). The loan is not fully repaid and the $285,714 is erased.

Q. But the Company gets to claim the remaining life of the asset as a loss due to having retired it early?

A. Yes. I believe that Staff does not understand that failure to recognize the remaining balance as an income tax adjustment is short-changing the ratepayers while still giving the Company the balance of the "interest-free loan" *and* a final tax write-off.

Q. Is this lack of recognition a Staff policy?

A. No, I don't believe it is. If you continue reading Mr. Young's testimony, you will see that his discussion concerning excess accumulated deferred income tax ("EADIT") is a complete contradiction to denying ratepayers the reimbursement of deferred taxes.

Q. How does Mr. Young frame his EADIT discussion?

A. To quote Mr. Young's testimony, "**EADIT are tax liabilities which were previously deferred to future periods but are no longer a future liability.**"[3] He goes on to say, "**Staff included the ongoing amortization of EADIT as an offset to total income tax expense.**"[4]

Q. Why does Staff include the continued amortization of EADIT in rates?

A. Mr. Young's direct testimony provides the complete reasoning on page 22, lines 3 through 6:

> A. Yes. The unamortized balance of EADIT represents income tax expense the customers have provided to the utility but the utility has not, and is not required to, pay to the taxing authorities. The balances are appropriate to include in rates bases to avoid charging customers a return on cost-free that they provided to the utility.

Q. Would you say this is similar to the situation with early retirements of assets?

A. I would say it is exactly the same situation. Ratepayers funded deferred taxes that were no longer considered active rate base because of the TCJA tax rate reduction,.[5] The same is true of early retirements. The ratepayer funded deferred taxes were no longer considered active rate base because of early retirement. Without the Commission stepping in and restoring the EADIT liability, the ratepayers would have been denied their rightful repayment.

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[3] Staff witness Young direct, page 20, lines 28 and 29.
[4] Id. at p. 21, lines 20 and 21.
[5] Because of the reduction in the tax rate, the ADIT calculated at 21% is less than the ADIT calculated at 35%. The difference between the two is no longer considered ADIT and is removed from rate base.

Q. Should the ADIT associated with the early retirements continue to be amortized?

A. No. The retirement deductions were applied to current income tax expense and that application should be used by Staff. EADIT balances created by the TCJA have been amortized to avoid financial stress or to follow IRS guidelines. Neither one of those factors apply in this situation. The retirement deduction isn't a deferred tax balance but a recognition of a financial loss for tax purposes. I believe Staff should recognize that the ratepayer funded every aspect of the retirement transaction. Ratepayers funded the ROR, the depreciation and the ADIT. In order to make the ratepayer whole, the tax deduction should flow to the ratepayer.

Q. Have you proposed an adjustment that Staff should consider?

A. Yes. In my direct testimony, I applied an average to seven years of tax write-offs for retirements. The average annual write-off is $33,396,688. Staff should apply this annualized amount to the established allocation factor and reduce taxable income by the allocated amount.

Q. Would you summarize your position concerning early retirements?

A. Staff should recognize that early retirements prematurely remove ADIT from the revenue requirement and that the Company's tax benefit should be a flow through deduction to the income tax calculation so the ratepayers are reimbursed for the income tax expense that will never be paid to a taxing authority.

Q. Does this conclude your testimony?

A. Yes.

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 Implement a General Rate Increase for Electric Service	))))	Case No. ER-2026-0143

AFFIDAVIT OF JOHN S. RILEY

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

John S. Riley, of lawful age and being first duly sworn, deposes and states:

1. My name is John S. Riley. I am a Utility Regulatory Supervisor for the Office of the Public Counsel.

2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony.

3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

John S. Riley
Utility Regulatory Supervisor

Subscribed and sworn to me this 10th day of August 2026.

TIFFANY HILDEBRAND
NOTARY PUBLIC - NOTARY SEAL
STATE OF MISSOURI
MY COMMISSION EXPIRES AUGUST 8, 2027
COLE COUNTY
COMMISSION #15637121

My Commission expires August 8, 2027.

Tiffany Hildebrand
Notary Public