Exhibit No.:
Issue: Property Taxes, Kansas City Earnings Tax
Witness: Melissa K. Hardesty
Type of Exhibit: Rebuttal Testimony
Sponsoring Party: Kansas City Power & Light Company
Case No.: ER-2016-0285
Date Testimony Prepared: December 30, 2016

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2016-0285

REBUTTAL TESTIMONY

OF

MELISSA K. HARDESTY

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
December 2016

"_____**" Designates "Highly Confidential" Information.**
All Such Information Should Be Treated Confidentially
Pursuant To 4 CSR 240-2.135.

REBUTTAL TESTIMONY

OF

MELISSA K. HARDESTY

Case No. ER-2016-0285

Q: Please state your name and business address.

A: My name is Melissa K. Hardesty. My business address is 1200 Main Street, 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") and serve as Senior Director of Taxes for KCP&L and KCP&L Greater Missouri Operations Company ("GMO" or the "Company").

Q: On whose behalf are you testifying?

A: I am testifying on behalf of KCP&L.

Q: What are your responsibilities?

A: My responsibilities include management of KCP&L's taxes, 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 the "Commission") or before any other utility regulatory agency?

A: Yes. I have testified before the MPSC and the Kansas Corporation Commission.

Q: What is the purpose of your testimony?

A: The purpose of my testimony is to respond to the proposed property tax related adjustments included in the Direct Testimony of Matthew R. Young and Kansas City Earnings Tax related adjustments included in the Direct Testimony of Keith Majors, on behalf of the Missouri Public Service Commission ("MPSC" or the "Commission") Staff.

Q: What is the property tax related adjustments proposed by Mr. Young?

A: Mr. Young proposed to adjust the property tax expense in this case to an amount computed by determining a ratio of property tax payments for 2015 divided by taxable property owned by KCP&L at December 31, 2014 (which is the effective date for January 1, 2015 tax filings) and then multiplying the ratio times the taxable property at December 31, 2015 (which is the effective date for January 1, 2016 tax filings) to compute the estimated property taxes for 2016. The result of the ratio multiplied times the taxable property is added to the contractual payments in lieu of taxes (PILOT) applicable to non-taxable property to compute total property tax expense in this case.

Q: Do you agree with the method proposed by Mr. Young?

A: No. As filed in Ronald Klote's Direct Testimony, Page 74, KCP&L's Property Tax O&M expense has continued to increase dramatically over the last five years and is

expected to continue to increase. Based on the dramatic increases, we believe it is appropriate to use the average of 2017 and 2018 projected Property Tax O&M expense. Our current forecasted average of 2017 and 2018 Property Tax O&M expense of ** [redacted] ** million should be used in setting rates in this case in order to reduce regulatory lag associated with these costs.

Q: Does KCP&L have additional rebuttal testimony regarding the importance of regulatory lag related to property taxes in this case?

A: Yes. Tim Rush has filed rebuttal testimony regarding the continued regulatory lag associated with Property Tax O&M expense. His testimony will provide additional information and support for inclusion of forecasted Property Tax O&M expense in this case.

Q: Is the forecasted method consistent with how property taxes were computed in prior KCP&L rate cases?

A: No. The method used in prior rate cases, was consistent with the testimony provided by Mr. Young subject to the Property Tax O&M tax expense being updated to reflect taxes and plant balances during the true-up period ending December 31, 2016.

Q: If the current forecasted 2017 and 2018 Property Tax O&M expense amount is not approved by the Commission, what method should be used to compute Property Tax O&M expense in this case?

A: If the current forecasted method is not approved, the method used in prior rate cases subject to the tax expense being updated to reflect taxes and plant balances during the true-up period ending December 2016 should be used.

Q: Why do you say "subject to the tax expense being updated to reflect taxes and plant balances during the true-up period ending December 31, 2016"?

A: Staff in prior rate cases has consistently adjusted the annualized property tax expense to the most current property tax expense ratio applied to the most current year-end plant-in-service amount in the true-up period. Application of that procedure to this rate case would result in the development of the ratio of actual 2016 tax payments divided by taxable property owned by KCP&L at December 31, 2015 (which is the effective date for January 1, 2016 tax filings) and then multiplying it times the taxable property at December 31, 2016 (which is the effective date for January 1, 2017 tax filings) and then add in the PILOTs. While Mr. Young's Exhibit for Adjustment E-257.1 contains areas labeled for this updated information, it is not clear if Staff intends to update property tax expense in this rate case as Mr. Young states, "This method does not attempt to estimate or project any change in the rate of taxation for 2016 that is not known as of the update period of June 30, 2016".

Q: Why is using the most current tax ratio and plant-in-service balance important?

A: If Staff's method is to be utilized, it is important to utilize the most current information available in the true-up period to annualize the most current tax expense and to avoid creating additional regulatory lag which has been in existence in prior rate cases. Application of the most current tax ratio and plant-in-service balances in the true-up period will significantly increase the annualized property tax expense in this rate case. Additionally, even if Staff's method is updated to the most current tax ratio and plant-in-service balance in the true-up period the annualized property tax adjustment will still fall significantly short of the Company's proposed forecasted Property Tax O&M expense

amount. Please refer to the Rebuttal Testimony of Tim Rush which provides additional information regarding the current 2017-2018 property tax forecast.

Q: What is the Kansas City Earnings tax related adjustments proposed by Mr. Majors?

A: On the Staff Accounting Schedule 10 – Income Statement, adjustment E-262.1 Mr. Majors has removed the Kansas City Earnings tax amount recorded in the test year.

Q: Do you agree with this adjustment?

A: Yes. The test year had an amount of Kansas City Earnings tax benefit that was a reversal of taxes recorded before the test period. This tax benefit was necessary due to the late extension of bonus depreciation to 2015 and 2016 in December of 2015. This benefit is not reflective of a normalized Kansas City Earnings tax benefit.

Q: Will this adjustment be necessary for the true up period ending December 31, 2016?

A: Yes. However, the amount of Kansas City Earnings tax that will be recorded for the true up period ending December 31, 2016 will be reflective of a normalized amount of Kansas City Earnings tax and the adjustment should not be to reduce it to $0.

Q: Wouldn't the extension of bonus depreciation reduce Kansas City Earnings Tax to $0 in 2016, as well?

A: No. It is true bonus depreciation will significantly reduce taxable income for 2016. But, since the capital assets placed in service in 2016 are significantly less than the amount placed in service in 2015, the bonus depreciation will also be significantly reduced. Therefore, even with bonus depreciation we expect there to be positive taxable income at KCP&L for 2016 and we will incur and record a small amount of Kansas City Earnings Tax to KCP&L books. This amount is reflective of a normalized Kansas City Earnings

Tax and it should be used to adjust Kansas City Earnings Tax from the test period to an appropriate normalized amount for setting rates in this case.

Q: Does that conclude your testimony?

A: Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of KCP&L Greater Missouri Operations	)	
Company's Request for Authority to Implement	)	Case No. ER-2016-0285
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 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 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 30th day of December, 2016.

Notary Public

My commission expires: Feb. 4, 2019

NICOLE A. WEHRY
Notary Public - Notary Seal
State of Missouri
Commissioned for Jackson County
My Commission Expires: February 04, 2019
Commission Number: 14391200