Exhibit No.:
Issue: Cost of Removal
Witness: Melissa K. Hardesty
Type of Exhibit: Rebuttal Testimony
Sponsoring Party: Kansas City Power & Light Company
Case No.: ER-2007-0291
Date Testimony Prepared: August 30, 2007

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2007-0291

REBUTTAL TESTIMONY

OF

MELISSA K. HARDESTY

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
August 2007

REBUTTAL TESTIMONY

OF

MELISSA K. HARDESTY

Case No. ER-2007-0291

Q: Please state your name and business address.

A: My name is Melissa K. Hardesty. My business address is 1201 Walnut, Kansas City, Missouri 64106.

Q: By whom and in what capacity are you employed?

A: I am employed by Kansas City Power & Light Company ("KCPL" or the "Company") as Director of Taxes. KCPL is a direct, wholly-owned subsidiary of Great Plains Energy Incorporated ("Great Plains Energy").

Q: What are your responsibilities?

A: My responsibilities include management of KCPL'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. I am a Certified Public Accountant with a permit to practice in the State of Kansas. 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 from 1999 to 2006. When I left Sprint to join KCPL

in December 2006, I was Manager of Income Taxes for Sprint's Wireless Division. Since December of 2006, I have been Director of Taxes for KCPL.

Q: What is the purpose of your testimony?

A: The purpose of my testimony is to discuss KCPL's flow-through treatment for taxes related to cost of removal ("COR") deductions for assets placed in service before 1981 ("Pre-81 COR").

Q: What concerns do you have with Mr. Traxler's handling of COR in Staff's income tax schedule (Schedule 11 of the Staff Accounting Schedules)?

A: The Staff has chosen to exclude KCPL's flow-through adjustments for Pre-81 COR in its calculation of income tax expense. By excluding the adjustments, the Staff has reflected the tax benefits related to Pre-81 COR expenses as if they are being normalized for regulatory purposes.

Q: Do you agree with the exclusion of the flow-through adjustments for Pre-COR?

A: No, I do not. KCPL believes that the tax benefits related to Pre-81 COR should continue to be flowed-through for regulatory purposes.

Q: What is normalization vs. flow-through?

A: Normalization and flow-through refer to accounting methods used to account for timing differences between deductions recorded on the financial/regulatory books and those taken on the income tax return.

Q: When is flow-through used and how does it work?

A: In the past, utilities were often required to "flow-through" tax benefits to ratepayers immediately to reduce current rates. This occurred as a result of reflecting a higher level of expense deductions when calculating the income tax expense for regulatory purposes

than the level of expense deductions reflected in cost of service for regulatory purposes. When the tax became due in the future, higher rates would be provided to cover the tax liability. Flow-through can still be used for tax timing differences not covered by the tax code's mandatory normalization requirements. Under flow-through accounting, taxes are computed based on the income tax return deduction instead of the book deduction. The tax due based on the tax deduction is then recorded for book purposes and is used when calculating tax expense for regulatory purposes. Deferred taxes are not recorded for regulatory reporting purposes on the difference between the book deduction and the tax deduction.

Q: What is normalization and how does it work?

A: Normalization is a process whereby taxes are calculated and recorded for book and regulatory purposes based on all taxes expected to be paid, without regard to when the taxes will be paid. Under normalization, revenues and deductions used to calculate book and regulatory income tax expense are the same as those used to record book and regulatory net income before income taxes. Any differences between the tax calculated per the books and the tax payment due based on the filed income tax return for the same period are provided for by recording a deferred tax liability. All timing differences between book income or deductions and tax income or deductions must have a deferred tax liability recognized that will be available in the future to satisfy the tax liability when the tax payment becomes due. Under normalization, a utility is allowed to recover taxes from the ratepayers based on the tax expense calculated for book purposes. The resulting deferred tax on the Balance Sheet, generally a liability, is reflected for ratemaking as a rate base offset.

Q: Is COR a timing difference that is required to be normalized?

A: No, normalization is not required for COR deductions.

Q: Has KCPL been authorized to flow-through the tax benefits related to Pre-81 COR?

A: Yes, it has. KCPL was required to flow-through the tax benefits related to COR in an agreement made with the Staff in Case No. ER-78-252. As part of that agreement, the existing deferred tax liability related to normalized COR was amortized to $0 over a five-year period. COR tax benefits for assets placed in service before 1981 have continued to be flowed-through since that time.

Q: Has KCPL consistently applied flow-through for Pre-81 COR for regulatory purposes since 1978?

A: Yes, it has. KCPL has flowed-through the tax benefits for Pre-81 COR in the annual surveillance reports filed with the Staff since 1979, and in its financial records. That is, the Company has included a COR component in its depreciation expense for both regulatory reporting and financial reporting. When the tax expense is computed for regulatory and financial reporting, the depreciation expense is reduced for the COR component and the actual COR incurred during the year is included as a deduction.

Q: What is the effect on revenue requirements if the tax benefits for Pre-81 COR are no longer allowed to be flowed-through?

A: If KCPL is not allowed to continue to flow-through taxes for Pre-81 COR, the cumulative accelerated tax benefits flowed-through to the ratepayers subsequent to Case ER-78-252 would not be recovered by KCPL when the timing differences reverse and the tax is paid.

Q: If the Commission should agree with Mr. Traxler's approach, *i.e.*, reflect Pre-81 COR on a normalized basis, what effect would that have on KCPL?

A: KCPL currently has a regulatory asset recorded on its balance sheet for the future recovery of the cumulative accelerated tax benefits provided to ratepayers related to Pre-81 COR. The impact to KCPL of requiring normalization going forward would depend on the approach the Commission adopted. The Commission could require Pre-81 COR to be normalized and authorize amortization of the regulatory asset over a defined period, or the Commission could require KCPL to normalize the Pre-81 COR without any amortization of the regulatory asset. If KCPL is authorized to amortize the regulatory asset, it will recover the accelerated tax benefits over the time period agreed to by the Commission. If KCPL is required to normalize Pre-81 COR without any amortization, it will have to write-off the regulatory assets recorded on the balance sheet.

Q: What impact would such a write-off entail?

A. The income statement impact would be an increase to income tax expense of $17,078,526 (total Company effect), based on the COR regulatory asset balance at June 30, 2007.

Q: How was this impact computed?

A: KCPL has realized income tax deductions of $45,421,611 Pre-81 COR (total Company) in excess of the expense that was accrued for book/regulatory purposes through the depreciation provision as of June 30, 2007. If normalized, the deferred tax liability, calculated at 37.6%, would be $17,078,526. Under financial reporting requirements, KCPL has recorded the deferred tax liability offset by a regulatory asset that has been grossed up for the deferred taxes on its balance sheet. If normalization is required without amortization, the deferred tax liability will remain but the regulatory asset and the tax gross up would be written-off. This would result in an expense of $17,078,526 (total Company).

Q: If the Commission should require normalization and authorize an amortization of the regulatory asset, what amortization period would be appropriate?

A: Similar to the amortization authorized in Case No. ER-78-252 discussed earlier in my testimony, a five-year amortization would be appropriate.

Q: Does that conclude your testimony?

A: Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power & Light Company to Modify Its Tariff to Continue the Implementation of Its Regulatory Plan	)))	Case No. ER-2007-0291

AFFIDAVIT OF MELISSA K. HARDESTY

STATE OF MISSOURI)
) **ss**
COUNTY OF JACKSON)

Melissa K. Hardesty, being first duly sworn on her oath, states:

1. My name is Melissa K. Hardesty. I work in Kansas City, Missouri, and I am employed by Great Plains Energy Incorporated as 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

Melissa K. Hardesty

Subscribed and sworn before me this 30th day of August 2007.

Nicole A. Wehry

Notary Public

My commission expires: Feb. 4 2011

"NOTARY SEAL"
Nicole A. Wehry, Notary Public
Jackson County, State of Missouri
My Commission Expires 2/4/2011
Commission Number 07391200