Exhibit No. 33

Evergy Missouri Metro – Exhibit 33
Melissa K. Hardesty
Direct Testimony
File Nos. ER-2022-0129 & ER-2022-0130

Public Version

Exhibit No.:	
Issue:	EDITs, Current Tax and ADIT, Potential Federal Tax Increase, Property Tax
Witness:	Melissa K. Hardesty
Type of Exhibit:	Direct Testimony
Sponsoring Party:	Evergy Missouri Metro
Case Nos.:	ER-2022-0129
Date Testimony Prepared:	January 7, 2022

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2022-0129

DIRECT TESTIMONY

OF

MELISSA K. HARDESTY

ON BEHALF OF

EVERGY MISSOURI METRO

Kansas City, Missouri
January 2022

DIRECT TESTIMONY

OF

MELISSA K. HARDESTY

Case No. ER-2022-0129

Q: Please state your name and business address.

A: My name is Melissa K. Hardesty. My business address is 1200 Main, Kansas City, Missouri 64105.

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

A: I am employed by Evergy Metro, Inc. as Senior Director of Taxes for Evergy Metro, Inc. d/b/a as Evergy Missouri Metro ("Evergy Missouri Metro"), Evergy Missouri West, Inc. d/b/a Evergy Missouri West ("Evergy Missouri West"), Evergy Metro, Inc. d/b/a Evergy Kansas Metro ("Evergy Kansas Metro"), and Evergy Kansas Central, Inc. and Evergy South, Inc., collectively d/b/a as Evergy Kansas Central ("Evergy Kansas Central") the operating utilities of Evergy, Inc.

Q: On whose behalf are you testifying?

A: I am testifying on behalf of Evergy Missouri Metro.

Q: What are your responsibilities?

A: My responsibilities include management of taxes for Evergy Missouri Metro, 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 Evergy in December 2006, I was Manager of Income Taxes for Sprint's Wireless Division. I joined Evergy Missouri Metro as the Director of Taxes and was subsequently promoted to my current position of Senior Director of Taxes for Evergy Missouri Metro in May of 2009.

Q: Have you previously testified in a proceeding at the Missouri Public Service Commission ("MPSC" or "Commission") or before any other utility regulatory agency?

A: Yes.

Q: What is the purpose of your testimony?

A: The purpose of my testimony is to describe the various tax related adjustments included in the revenue requirement model (Schedule MKH-1 attached to this testimony.) The schedule includes various adjustments for accumulated deferred income taxes in rate base, income tax expense, property tax expense and Kansas City, Missouri Earnings tax expense.

RB-125 ACCUMULATED DEFERRED INCOME TAXES

Q: Please explain adjustment RB-125.

A: We adjusted June 30, 2021 Accumulated Deferred Income Taxes ("ADIT") in adjustment RB-125. Deferred income taxes represent the tax on timing differences for deductions and income reported on Evergy Missouri Metro income tax returns compared to what is reported for book purposes. ADIT represents the accumulated balance of these income tax timing differences at a point in time.

Q: What are the ADIT adjustments to Evergy Missouri Metro rate base?

A: Adjustment RB-125 related to items included in Evergy Missouri Metro's rate base or net operating income. This schedule reflects the deferred tax liabilities relating to depreciation and other expenses deducted for the tax return in excess of book deductions (including bonus depreciation), resulting in a rate base decrease. This adjustment also reflects deferred tax assets that serve to increase rate base.

Q: Why does ADIT affect rate base?

A: ADIT liabilities such as accelerated depreciation are considered a cost-free source of financing for ratemaking purposes. Ratepayers should not be required to provide for a return on plant in service that has been funded by the government in the form of reduced (albeit temporarily) taxes. As a result, ADIT liabilities are reflected as a rate base offset (reduction in rate base). Conversely, ADIT assets such as the timing difference related to SO_2 allowance proceeds increase rate base. Evergy Missouri Metro has paid taxes to the government in advance of the time when such taxes are included in cost of service and collected from ratepayers. To the extent taxes are paid, Evergy Missouri Metro must borrow money and/or use shareholder funds. The increase to rate base for deferred income tax assets allows shareholders to earn a return on shareholder-provided funds until recovered from ratepayers through ratemaking.

Q: What time period was used for ADIT in this case?

A: ADIT is based in general on June 30, 2021 general ledger balances, with the plant-related ADIT balances adjusted for projected plant activity through May 31, 2022 as reflected in rate case adjustment RB-20. In addition, Pension related ADIT balances were adjusted for projected activity through May 31, 2022 as reflected in rate case adjustments RB-65.

Q: Does the projected ADIT in this case include the impact of the reduction of the Missouri corporate tax rate effective beginning in 2020?

A: Yes. However, there is minimal impact of the Missouri corporate rate reduction on ADIT included in rate base. The amount of ADIT computed using the historical statutory rates versus the new Missouri rate of 4%, is considered excess ADIT. This excess ADIT remains in rate base until it is amortized and has been included in the income tax expense component of cost of service. The amortization of the excess ADIT is included in the adjustment for CS-125 Income Taxes.

<u>CS-125 INCOME TAX</u>

Q: Please explain adjustment CS-125.

A: We adjusted test period income tax expense based on various adjustments to test year taxable income. The adjusted income tax calculation is shown on Schedule MKH-1. The income tax adjustment includes current income taxes, deferred income taxes, and the amortization of investment tax credits ("ITC") and certain other amortizations.

Q: Does the adjustment include the impact of the Missouri corporate tax rate reduction?

A: Yes. The reduction of the Missouri corporate tax rate in 2020 to 4% and an estimate of the annual amount of amortization related to excess ADIT (included in certain other amortizations) created as a result of the legislation is included in the income tax expense calculation.

Q: Please explain the current income tax component in cost of service as calculated in Schedule MKH-1.

A: Jurisdictional operations and maintenance deductions and other adjustments are applied against jurisdictional revenues to derive net jurisdictional taxable income, which is then used to compute the jurisdictional current income tax expense component (current provision) for cost of service. For book purposes, these adjustments are the result of book versus tax differences and their implementation under normalization or flow through tax methods. Each adjustment is either added to or subtracted from net income to derive net taxable income for ratemaking. For Schedule MKH-1, however, a simplified methodology is used that eliminates the need to specifically identify all book and tax differences. Most significantly, all basis differences between the book basis and tax basis of assets are ignored in the current tax provision. Accelerated tax depreciation is used in the currently payable calculation based on the tax basis of projected Plant in Service as identified in adjustment RB-20. The difference between the accelerated depreciation deduction for tax depreciation on tax basis assets and the book depreciation deduction calculated on a straight-line basis generates offsetting deferred income tax. The resulting income tax expense, considering both the current and deferred income tax components, reflects a level of total income taxes as if the depreciation deduction to arrive at taxable income was based solely on depreciation of projected tax basis assets calculated on a straight-line basis. This modified approach normalizes depreciation relating to the method differences (*e.g.*, accelerated versus straight-line) and life differences. The Company and the MPSC Staff have used this modified approach since the 2014 Rate Case.

Q: Please describe the adjustments to derive net taxable income for ratemaking.

A: The following are the primary adjustments to derive net taxable income for ratemaking purposes:

- Book depreciation and amortization expense (adjustments CS-120 through CS- 121) have been excluded from the deductions listed on Schedule MKH-

1. As previously discussed, accelerated tax depreciation on both projected depreciable plant and projected amortizable plant is subtracted to derive taxable income.

- The deduction for nuclear fuel amortization is treated consistently with the treatment of depreciation and amortization on Plant in Service.
- A portion of Meals and Entertainment expense is added back in deriving net taxable income since a portion of certain meals and entertainment expenses is not tax deductible. This adjustment increases taxable income and ultimately increases the current income tax provision. The amount by which taxable income was increased is equal to the amount for the 2020 federal income tax return.
- A deduction for Evergy dividends paid into the employee 401(k) plan is included in deriving net taxable income since these dividends are deductible for tax purposes.
- Interest expense is subtracted to derive net taxable income. It is calculated by multiplying the adjusted jurisdictional rate base by the weighted average cost of debt as recommended in this proceeding. This is referred to as "interest synchronization" because this calculation ensures that the interest expense deducted to derive current taxable income equals the interest expense provided for in rates.

Q: Once the deductions and adjustments have been applied to net income to derive taxable income for ratemaking, what further deductions from taxable income are applied before calculating the two components of current income tax expense: federal current income tax expense and Missouri state current income tax expense?

A: Before calculating federal income taxes, Missouri state income taxes are deducted. Before calculating Missouri state income taxes, one-half of federal income taxes are deducted.

Q: How are the current income tax components calculated?

A: The current income tax calculation utilizes the 21% federal tax rate, and a 4% Missouri state tax rate, each of which is applied independently to the appropriate level of taxable income as discussed above. The federal and state income tax rates are used to compute the composite tax rate of 23.844% which is used to calculate deferred income taxes, discussed below. The composite tax rate reflects the federal benefit relating to deductible Missouri state income tax and the Missouri benefit of deducting 50% of federal income taxes when computing the current Missouri tax provision.

Q: Is the current federal tax expense, determined by multiplying current taxable income by the federal income tax rate, further reduced by tax credits?

A: Yes, the R&D tax credit and the federal excise tax credit reduce the current federal income tax due.

Q: Please explain the R&D tax credit on Schedule MKH-1.

A: IRC Section 41 allows for a federal tax credit based on the amount of qualified research expenses incurred. The adjustment shown on this schedule as a direct reduction of the currently payable federal income tax expense reflects the estimated R&D tax credit for Evergy Missouri Metro’s based on the amount claimed on the 2020 federal tax return.

Q: Please explain the federal excise tax credit on Schedule MKH-1.

A: IRC Section 212 allows for a federal tax credit for excise taxes paid on fuel used for off-highway business use by a taxpayer in a trade or business or in an income-producing activity. The adjustment shown on this schedule as a direct reduction of the federal currently payable income tax expense reflects the federal excise tax credit reported on Evergy Missouri Metro's 2020 federal tax return.

Q: Please explain the deferred income tax component of cost of service as calculated in Schedule MKH-1.

A: The deferred income tax component of cost of service is primarily the result of applying the composite income tax rate (23.844%) to the difference between projected accelerated tax depreciation used to compute current income tax, as discussed earlier in this testimony, and projected book depreciation.

The other main deferred tax item is the amortization of excess deferred taxes, AFUDC Equity reversal, and other miscellaneous flow-through items.

Excess deferred income taxes primarily reduce the income tax component of cost of service. During the 1980s and up until 2017, the federal tax rate was higher than 2021's 21% rate. Since deferred taxes were provided at the rate in effect when the originating timing differences were generated, the deferred income taxes were provided at a rate higher than the tax rate that is expected to be in existence when the timing differences reverse and the taxes are due to the government. This difference in the federal rates is being amortized into cost of service over the remaining book lives of the assets that generated the timing differences for protected plant related temporary differences and over the period of time agreed to in the 2018 rate case for other non-protected plant related and other temporary differences. The difference in the Missouri rates has also been included and is being amortized over five years for all excess deferred income taxes. The AFUDC Equity reversal adjustment represents the reversal of the book amortization of AFUDC Equity placed in service in prior years not allowed for tax purposes. The other miscellaneous flow-through items represent the reversal of book amortization of other small items placed in service and flowed-through to ratepayers in prior years.

Q: Are there other amounts of excess deferred income taxes included in the adjustment for income taxes?

A: Yes. The Company has two other types of excess deferred income taxes included in this case.

1) The Company was required to defer the amortization of federal excess deferred income taxes related to the Tax Cuts and Jobs Act of 2017 prior to when rates were effective in Evergy Missouri Metro's 2018 rate case (not already given back as a bill credit), per the Stipulation and Agreement approved with the rate order issued in case ER-2018-0145. These excess deferred taxes have not been amortized yet and the company has included an adjustment to begin amortizing these excess deferred income taxes over five years.

2) the Company also deferred the amortization of excess deferred income taxes that was directly related to the retirement of the Montrose generation station at the end of 2018 after rates were set in the 2018 rate case. These excess deferred income taxes have also not been amortized yet and the company has included an adjustment to begin amortizing these excess deferred income taxes over five years as well.

Q: How was the five-year amortization period determined for excess deferred income taxes related to the Missouri rate change, the additional 2018 amortization, and the retirement of the Montrose generation station?

A: These excess deferred income taxes are not subject to the Internal Revenue Service (IRS) normalization requirements. They represent a state rate change or excess deferred taxes that would have already been amortized under the IRS normalization rules. Therefore, they are not covered by the IRS rules and any amortization period may be set by the Commission. The Company believes that a five-year period is a reasonable period to return these benefits. This allows the Company to give back the benefits as quickly as possible to customers without a large impact on rates once the amortization is complete.

Q: Does the Company expect there to be another federal corporate tax rate change during the duration of this rate case?

A: It is uncertain whether another federal rate change could occur during this rate case. However, if Congress does enact new legislation that would increase or decrease the federal corporate tax rate before the true-up period in this case, the company requests that any impact of the rate change when enacted and any amortization of any new deficient or excess deferred taxes generated be included as an adjustment in this case.

Q: Please explain the ITC amortization component in cost of service as calculated in Schedule MKH-1.

A: ITC amortization reduces the income tax component of cost of service. ITC is amortized ratably over the remaining book lives of the underlying assets.

Q: Are there any other income tax amortizations that affect jurisdictional income tax cost of service?

A: Yes, there is one additional amortization, relating to pre-1981 cost of removal which was addressed in the Stipulation and Agreement As to Certain Issues in the Case No. ER-2007-0291, approved by the Commission on December 6, 2007 ("2007 S&A").

Q: Please discuss the cost of removal amortization.

A: In accordance with the 2007 S&A, the Company adopted normalization accounting for the tax timing difference associated with the pre-1981 vintage cost of removal and began amortization of the cumulative income tax impact for the excess of Evergy Missouri Metro's actual cost of removal over the accrued cost included in book depreciation in prior years, over a 20 year period beginning January 1, 2008 ($7,088,760, Missouri jurisdictional). As a result, the Company's annual deferred income tax expense increased by $354,438 and this amortization is included as an increase in income tax expense on Schedule MKH-1.

CS-126 PROPERTY TAX

Q: Please explain adjustment CS-126.

A: The Company annualized the real estate and personal property tax expense and payments-in-lieu-of-taxes ("PILOT") that will be paid based on the estimated plant in-service balances on January 1, 2022.

Q: How was annualized property tax expense determined?

A: Evergy Missouri Metro used a property tax ratio of estimated property tax expense for 2021 divided by the actual plant in-service as of January 1, 2021. This ratio was then applied to the estimated January 1, 2022 plant original cost to project the 2022 property tax expense.

The annual PILOT payments for Spearville One and Two were then added to the projected 2022 property tax expense to determine the Company's annualized property tax amount.

Q: Why was the estimated January 1, 2022 original plant cost used?

A: The property taxes paid for 2021 are based on the plant balances on January 1, 2021. However, the property taxes paid for 2022, the first year that the new rates in this case will be in effect, will be based on plant balances as of January 1, 2022.

Q: Do the various components of the real estate and personal property tax adjustment discussed above take into effect tax amounts allocated to vehicles and charged to accounts other than property tax expense and amounts allocated to non-utility plant?

A: Yes, these components have been excluded from both the plant in-service and property taxes paid component of the calculation.

Q: Please explain the PILOT adjustment.

A: The Company has placed in-service two wind generating facilities located in Ford County, Kansas. The first facility was placed in-service in 2006 and the second facility was placed in-service during 2010. Pursuant to K.S.A. 79-201 *Eleventh,* such property is exempt from real and personal property taxes.

Q: Does Kansas law provide for a PILOT on property that is exempt from property taxes?

A: Yes. Pursuant to K.S.A. 12-147, taxing subdivisions of the state of Kansas are authorized and empowered to enter into contracts for a PILOT with the owners of property that are exempt from ad valorem taxes.

Q: Please explain the PILOT agreements relating to the wind generating facility located in Ford County, Kansas.

A: Separate agreements exist with Ford County and USD #381 that provide for 30 annual payments for both facilities. The first wind farm that was in-serviced in 2006 had the first PILOT payment due in 2007 and the payments escalating between 2.5% and 3% per year. The second wind farm that was in serviced in 2010 had the first PILOT payment due in 2011 and these payments also escalate between 2.5% and 3% per year. These payments were necessary to secure agreements with landowners and community leaders to site the wind facility.

Q: Is the Company requesting a Property Tax Tracker in this rate case?

A: Yes.

Q: Please explain how the property tax tracker will work.

A: The difference between the actual property tax expense incurred and the property tax expense amount used in setting rates in the most recently completed general rate case proceeding (base rates) will be deferred into a regulatory asset or liability account. The regulatory asset or liability account balance will be included in the company's subsequent general rate proceeding through an amortization over a period of time set by the Commission. The unamortized regulatory asset or liability account balance will also be included in Rate Base used to establish the revenue requirement in the rate case. Please see the Direct Testimony of Company Missouri Metro witnesses Darrin Ives and Michael Adams.

Q: Please explain why it is reasonable for the Commission to provide a tracker for property taxes.

A: Property taxes paid by Evergy Missouri Metro benefit its ratepayers. Historically, and projected going forward, the Company has experienced under-recovery of property taxes paid. In some years the under-recovery is significant. Property tax valuations are determined by the State of Missouri and Kansas and mill levies are set by various Missouri and Kansas taxing jurisdictions. Evergy Metro assists the State assessors to ensure that it receives a fair valuation. However, the final valuations are set by the State, and the Company has no input on how mill levies are set. There should be no negative effect on the Company's ability to earn its authorized return due to taxes assessed by the State that benefit its customers, especially given that the Company has little control over the assessments. Additionally, the tracker would be structured to provide the value of any adjustments back through the tracker to the benefit of customers.

Q: What has been the property tax expense for Evergy Missouri Metro over the last ten years.

A: A table with the property tax expense for Evergy Missouri Metro is provided below.

Year	Property Tax Expense	Increase (Decrease) from prior year
2021	119,156,600	5,805,539
2020	113,351,061	6,552,184
2019	106,798,877	(1,567,951)
2018	108,366,828	6,177,026
2017	102,189,802	7,421,819
2016	94,767,984	2,812,494
2015	91,955,490	3,547,783
2014	88,407,707	5,390,623
2013	83,017,084	5,512,178
2012	77,504,905	-

Q: Do the amounts shown in this table of property tax expense represent regulatory lag and under- recovery of property taxes?

A: Yes. Evergy Missouri Metro last reset its Missouri rates in 2018. As the table shows, there have been significant increases in property tax expense since the 2018 rate case which represent significant regulatory lag and under-recovery by the Company.

Q: Do you expect property taxes to continue to increase after 2021?

A: Yes. The table below shows the Company's current estimate of property tax expense for 2022-2026.

Year	Property Tax Expense	Increase (Decrease) from prior year
2022	[redacted]	
2023		
2024		
2025		
2026		

Q: Is Evergy able to dispute valuations and mill levies?

A: Yes. A taxpayer may dispute a valuation. However, in my years of experience it is difficult to achieve meaningful changes on valuations once they are determined by a state. Unfortunately, Evergy may not dispute a mill levy once set by a taxing jurisdiction.

Q: Please explain the valuation process and how property taxes determined by the States of Kansas and Missouri for utilities?

A: In Kansas and Missouri, electric utilities like Evergy Missouri Metro, are valued at the state level instead of the county or local level for all property except real estate, rail cars, construction work in progress, and vehicles. This is generally referred to as being "centrally assessed." Both states start by determining the fair market value of the Company (not the fair market value of the utility's assets or property). Once the fair market value of the Company is determined, then the value is allocated pro-rata to the counties based on

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miles of distribution and transmission lines ("pole miles") in each county in Missouri and allocated to the counties based on the historical cost of property in each county in Kansas. Once each county has its allocated share of "fair market value" of Evergy Missouri Metro, the county then applies the mill levy determined for that year and sends the Company a bill. For real estate, rail cars, construction work in progress, and vehicles, the fair market value of each asset is determined by each county which then applies the mill levy determined for that year and sends Evergy Missouri Metro a bill. The aggregate amount of these bills represents the total amount of property taxes paid by Evergy Missouri Metro in a year.

Q: Please explain how the fair market value is determined for utilities by Kansas and Missouri.

A: The state appraisers use three standard appraisal methods for determining the fair market value of utilities, upon which the property tax assessments for the Company are based. The three methods used are the Cost Approach (based on the cost of plant placed in service), the Income Approach (based on an average of net operating income of the entity over a certain period of time dived by the Company's cost of capital) and the Market Approach (based on the stock value of the company). Once the three calculations are done, the appraisers determine a fair market value that in their opinion is in line with these three calculations. Certainly, the addition of plant in service directly impacts the calculation of fair market value for the Cost Approach. However, Kansas and Missouri appraisers do not rely solely on the Cost Approach to determine fair market value. In fact, over my tenure at Evergy Missouri Metro, the fair market values as established by State assessment authorities have been very close to the value determined by the Income Approach. That is, assessment authorities have placed more emphasis on the Income Approach than either the Cost Approach or the Market Approach.

Q: What factors impact a valuation computed under the Income Approach methodology?

A: The Company's net operating income and it's cost of capital are the primary factors that impact a valuation set under the Income Approach appraisal method. As net operating income increases or cost of capital decreases, the fair market value of the Company increases. It is the estimated increase in net operating income, which will be significantly driven by the revenue increases to be authorized from Evergy Missouri Metro's rate case in Missouri, that the Company estimates will drive increases in property tax estimates in future years.

Q: Specifically, how will revenue increases authorized for Evergy Missouri Metro in its rate case impact future property taxes?

A: In the current rate case in Missouri, Evergy Missouri Metro is requesting revenue increases for several factors, including investment to upgrade its utility infrastructure in accordance with recently enacted legislation. The additional revenue that may be authorized by the Commission is expected to increase rates for Missouri customers in the latter part of 2022. This revenue will begin to impact net operating income (or earnings) of Evergy Missouri Metro once rates become effective. This increase in net operating income will impact the state assessor's determination of fair market value using the Income Approach on January 1 of the year following the increase in net operating income. Because there will only be a few days of additional revenue in 2022, the Company will only see a partial increase in property taxes in 2023 (based on a January 1, 2023 assessment date.) It will likely be 2024 or later before the full impact of the net operating income generated by new rates authorized will be represented in state assessments. As you can see there is a significant delay in the increase in property taxes due to investments made by the Company. It is this increase in net operating income in future years that will be the primary factor for continued increases in property taxes in future years.

Q: Please explain how mill levy rates may also impact property taxes?

A: The property tax mill levy rates are set by each county and then applied to the assessments by the various taxing authorities. These mill levy rates are adjusted up or down annually depending on the revenue needed by the taxing jurisdictions. The mill levy rates will increase if the taxing jurisdictions need to increase tax revenues to offset other sources of revenue that may decrease due to the economy or other factors. Because Evergy Missouri Metro has ability to affect this process, the Company should be able to recover or refund any changes that mill levies have on property tax expense as they occur to avoid regulatory lag.

CS-128 KCMO EARNINGS TAX

Q: Please explain adjustment CS-128.

A: We annualized KCMO Earnings Tax by multiplying the estimated net income projected for the Federal Income Tax Return, for the 12 months ending May 31, 2022, by its estimated KCMO Earnings tax apportionment Factor. The resulting amount was then multiplied by the 1% earnings tax rate.

Q: Does that conclude your testimony?

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 Implement A General Rate Increase for Electric Service	))))	Case No. ER-2022-0129

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 Direct Testimony on behalf of Evergy Missouri Metro consisting of eighteen (18) 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 7th day of January 2022.

Notary Public

My commission expires: 4/26/2025

ANTHONY R. WESTENKIRCHNER
NOTARY PUBLIC - NOTARY SEAL
STATE OF MISSOURI
MY COMMISSION EXPIRES APRIL 26, 2025
PLATTE COUNTY
COMMISSION #17279952

Evergy
2022 RATE CASE - MO METRO - DIRECT
TY 6/30/21; Update TBD; True-Up 5/31/22

Income Tax Calculation

Line No.	Line Description	Total Company Balance *	Juris Factor #	Juris Allocator *	Tax Rate	(Jurisdictional) Adjusted with 7.033% Return
1	Net Income Before Taxes (Sch 9)	427,107,558				196,131,462
2	**Add to Net Income Before Taxes**					
3	Depreciation Exp	343,771,306				178,558,081
4	Plant Amortization Exp	87,882,475				47,030,746
5	Amortization of Unrecovered Reserve-KS	1,877,054	100% KS	0.0000%		0
6	Book Nuclear Fuel Amortization	28,400,417				15,929,794
7	Transp & Unit Train Depr-Clearing	2,224,272				1,177,293
8	50% Meals & Entertainment	348,345	Sal&Wg	52.7661%		183,808
9	**Total**	464,503,869				242,879,722
10	**Subtract from Net Income Before Taxes**					
11	Interest Expense	116,674,251				60,332,405
12	IRS Tax Return Depreciation	312,422,309	PTD	53.5155%		167,194,361
13	IRS Tax Return Plant Amortization	86,757,355	PTD	53.5155%		46,428,632
14	IRS Tax Return Nuclear Amortization	20,174,271	E1	56.0900%		11,315,749
15	Employee 401k ESOP Deduction	1,454,525	Sal&Wg	52.7661%		767,496
16	IRC Section 199 Domestic Production Activities	0	D1	51.6490%		0
17	**Total**	537,482,711				286,038,643
18	**Net Taxable Income**	354,128,716				152,972,541
19	**Provision for Federal Income Tax**					
20	Net Taxable Income	354,128,716				152,972,541
21	Deduct State Income Tax @ 100.0%	12,801,713				5,539,021
22	Deduct City Income Tax	0				0
23	Federal Taxable Income	341,327,003				147,433,520
24	Federal Tax Before Tax Credits	71,678,671			21.00%	30,961,039
25	Less Tax Credits:					
26	Wind Tax Credit	0	E1	56.0900%		0
27	Research and Development Tax Credit	(3,498,228)	E1	56.0900%		(1,962,156)
28	Alternate Refueling Property Tax Credit (Charging Stations)	0	371	69.9789%		0
29	Fuels Tax Credit	(8,677)	E1	56.0900%		(4,867)
30	**Total Federal Tax**	68,171,766				28,994,016
31	**Provision for State Income Tax**					
32	Net Taxable Income	354,128,716				152,972,541
33	Deduct Federal Income Tax @ 50.0%	34,085,883			10.50%	14,497,008
34	Deduct City Income Tax	0				0
35	State Jurisdictional Taxable Income	320,042,833				138,475,533
36	**Total State Tax**	12,801,713			4 00%	5,539,021
37	**Provision for City Income Tax**					
38	Net Taxable Income	354,128,716				152,972,541
39	**Total City Tax**	0			0 00%	0
40	**Effective Tax rate before Tax Cr and Earnings Tax**	23.84%	Deferred			23.84%
41	**Summary of Provision for Current Income Tax**					
42	Federal Income Tax	68,171,766				28,994,016
43	State Income Tax	12,801,713				5,539,021
44	City Income Tax	0				0
45	**Total Provision for Current Income Tax**	80,973,479				34,533,037
46	**Deferred Income Taxes**					
47	Deferred Income Taxes - Excess IRS Tax over Book D&A	(7,265,764)	See Computation Below			(2,408,650)
48	Amortization of Deferred ITC	(3,100,679)	PTD	53.5155%		(1,659,344)
49	Amort of Excess Deferred Income Taxes - Protected - ARAM	(10,850,626)	PTD	53.5155%		(5,806,767)

50	Amort of Excess Deferred Income Taxes - UnProtected - 10yr	(12,019,542)	PTD	53.5155%		(6,432,318)
51	Amort of Excess Deferred Income Taxes - NOL - ARAM	710,300	PTD	53.5155%		380,121
52	Amort of Excess Deferred Income Taxes - Misc - 10 yr	(2,236,784)	PTD	53.5155%		(1,197,026)
53	Amort of Excess Deferred Income Taxes - 5 yr	(13,317,634)	PTD	53.5155%		(7,126,998)
54	Amortization of Cost of Removal-ER-2007-0291	354,438	100% MO	100.0000%		354,438
55	**Total Deferred Income Tax Expense**	(47,726,291)				(23,896,545)
56	**Total Income Tax**	33,247,188				10,636,492
57	(a) Percent of vehicle depr clearing to O&M				31.05%	
58	Effective Tax Rate excluding City Earnings Taxes - MO juris	23.84%	Current			23.84%

Interest Expense Proof

	Total Rate Base (Sch. 2)	3,153,481,360
	X Wtd Cost of Debt	1 913%
	Interest Exp	60,332,405
	Less: Interest Expense from Line 7	60,332,405
* As Needed	Difference	0

<u>Computation of Line 47 Above</u>

	Deferred Income Taxes - Excess IRS Tax over Book D&A:				
59	IRS Tax Return Depreciation	312,422,309			167,194,361
60	Less: Book Depreciation	345,648,360			178,558,081
61	Excess IRS Tax Depr over Book Depreciation	(33,226,051)			(11,363,721)
62	IRS Tax Return Plant Amortization	86,757,355			46,428,632
63	Less: Book Amortization	87,882,475	PTD	53.5155%	47,030,746
64	Excess IRS Tax Amort over Book Amortization	(1,125,120)			(602,113)
65	IRS Tax Return Nuclear Amortization	20,174,271			11,315,749
66	Less: Book Nuclear Amortization	28,400,417	E1	56.0900%	15,929,794
67	Excess IRS Tax Nuclear Amort over Book Nuclear Amort	(8,226,146)			(4,614,045)
68	Total Timing Differences	(42,577,317)			(16,579,879)
69	AFUDC Equity	9,429,256	PTD	53.5155%	5,046,113
70	MO ITC Coal Basis Adjustment	2,349,215	PTD	53.5155%	1,257,194
71	MO Miscellaneous Flow Through	326,762	PTD	53.5155%	174,868
72	Total Timing Differences after Flow Through	(30,472,084)			(10,101,703)
73	Effective Tax rate	23.84%			23.84%
74	**Deferred Income Taxes - Excess IRS Tax over Tax SL**	(7,265,764)			(2,408,650)