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Witness: Harold "Steve" Smith  
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**MISSOURI PUBLIC SERVICE COMMISSION**

**CASE NO.: ER-2012-0174**

**DIRECT TESTIMONY**

**OF**

**HAROLD "STEVE" SMITH**

**ON BEHALF OF**

**KANSAS CITY POWER & LIGHT COMPANY**

**Kansas City, Missouri  
February 2012**

KCP&L Exhibit No. 46  
Date 10-29-12 Reporter KF  
File No. ER-2012-0174

**DIRECT TESTIMONY**

**OF**

**HAROLD "STEVE" SMITH**

**Case No. ER-2012-0174**

1 **Q: Please state your name and business address.**

2 A: My name is Harold "Steve" Smith. My business address is 1200 Main, Kansas City,  
3 Missouri 64105.

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

5 A: I am employed by Kansas City Power & Light Company ("KCP&L" or the "Company")  
6 as Manager, Property & Miscellaneous Taxes.

7 **Q: What are your responsibilities?**

8 A: As Manager, Property & Miscellaneous Taxes, I have primary responsibility to minimize  
9 KCP&L's cash expenditures for property and miscellaneous taxes while ensuring  
10 compliance with all tax laws, regulations and ordinances.

11 **Q: Please describe your education, experience and employment history.**

12 A: I graduated from University of Missouri - Columbia in 1983 with a Bachelor of Science  
13 Degree in Accounting and passed the Certified Public Accountant examination in 1986. I  
14 was first employed at Aquila, Inc. in June 2000 as a Manager of Property and Transaction  
15 Taxes. Prior to my career at KCP&L, I was employed by Sprint, in various Tax and  
16 Accounting positions from 1986 to 2000. Prior to joining Sprint I was employed as an  
17 Auditor with the Missouri Department of Revenue.

1 **Q: Have you previously testified in a proceeding before the Missouri Public Service**  
2 **Commission (“Commission” or “MPSC”)?**

3 A: I have not testified before the MPSC, but I have testified before the Kansas Corporation  
4 Commission.

5 **Q: What is the purpose of your testimony?**

6 A: The purpose of this testimony is to describe the property tax expense adjustment CS-126,  
7 included in Schedule JPW-3 and JPW-4 attached to the direct testimony of Company  
8 witness John P. Weisensee.

9 **Q: Please explain adjustment CS-126.**

10 A: The Company annualized the real estate and personal property tax expense and  
11 payments-in-lieu-of-taxes (“PILOT”) that will be paid based on plant in service balances.

12 **Q: How was annualized property tax expense determined?**

13 A: KCP&L used a property tax ratio of actual property tax expense for 2011 divided by  
14 plant in-service as of January 1, 2011. This ratio was then applied to the January 1, 2012  
15 plant original cost to project the 2012 property tax expense. The annual PILOT payments  
16 for Spearville One and Two were then added to the projected 2012 property tax expense  
17 to determine the Company’s annualized property tax amount.

18 **Q: Why was the actual January 1, 2012 original plant cost used?**

19 A: The property taxes paid for 2012 will be based on the plant balances at January 1, 2012.  
20 However, the property taxes paid for 2013, the first year that the new rates in this case  
21 will be in effect, will be based on plant balances as of January 1, 2013. The Company  
22 will adjust the amount included in cost of service to reflect the projected property tax

1 expense associated with plant at August 31, 2012, the anticipated True Up date in this  
2 case.

3 **Q: Please explain how the Iatan 2 property tax deferral was addressed in this**  
4 **calculation.**

5 A: Since the Company utilized construction accounting for Iatan 2 from its in service date  
6 (August 26, 2010) through the effective date of new rates in Case No. ER-2010-0355  
7 (May 4, 2011), as discussed by Mr. Weisensee in his direct testimony (adjustment RB-  
8 26/CS-112), KCP&L capitalized \$1.6 million of property taxes (Missouri jurisdictional)  
9 in 2011 that will be classified as expense in future periods. This \$1.6 million in  
10 capitalized property taxes was added back to the property tax expense for 2011 in order  
11 to capture all of the property tax expenses that will be incurred in future periods and to  
12 calculate the correct 2011 ratio to be applied to 2012 plant balances.

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

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

19 **Q: Please explain the PILOT adjustment.**

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

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

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

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

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

15 **Q: Do you expect future property tax expense to increase, decrease or remain the same**  
16 **for future periods?**

17 A: Based on the prior five years, KCP&L's property tax expense has continued to increase;  
18 in 2007 KCP&L's total property tax expense was \$60.9 million and in 2011 KCP&L's  
19 total property tax expense was \$75.3 million. In each of the prior years the Company's  
20 total property tax expense has increased over the prior year; see Schedule HSS-1, a 5-  
21 year summary of KCP&L property taxes. Based upon this history of increase in property  
22 tax expense in each of the last five years I expect property taxes to continue to increase  
23 during the next few years.



1 Q: Does that conclude your testimony?  
2 A: Yes, it does.





Kansas City Power & Light Company  
 5-Year Summary of KCP&L Property Taxes By Calendar Year  
 MPSC Filings

	<b>Property Taxes Charged By Calendar Year</b>				
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Total Property Taxes:</b>					
Total Property Taxes (excluding PILOTs)	74,539,929	71,954,230	66,897,155	66,628,541	60,620,669
Payments in Lieu of Taxes (PILOTs)	763,220	357,090	347,820	338,792	330,000
Total Property Taxes	<b>75,303,149</b>	<b>72,311,320</b>	<b>67,244,975</b>	<b>66,967,333</b>	<b>60,950,669</b>

**Source:**

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