

Exhibit No.:
Issue: *Property Tax*
Witness: *Patricia Gaskins*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Rebuttal Testimony*
Case No.: *ER-2012-0175*
Date Testimony Prepared: *September 12, 2012*

MISSOURI PUBLIC SERVICE COMMISSION

**REGULATORY REVIEW DIVISION
UTILITY SERVICES - AUDITING**

REBUTTAL TESTIMONY

OF

PATRICIA GASKINS

**KCP&L GREATER MISSOURI OPERATIONS COMPANY
GREAT PLAINS ENERGY, INC.**

CASE NO. ER-2012-0175

**Jefferson City, Missouri
September 2012**

1 **REBUTTAL TESTIMONY**

2 **OF**

3 **PATRICIA GASKINS**

4 **KCP&L Greater Missouri Operations Company**
5 **Great Plain Energy, Inc.**

6 **CASE NO. ER-2012-0175**

7 Q. Please state your name and business address.

8 A. Patricia Gaskins, Fletcher Daniels State Office Building, Room G8,
9 615 East 13th Street, Kansas City, Missouri 64106.

10 Q. By whom are you employed and in what capacity?

11 A. I am a Utility Regulatory Auditor with the Missouri Public Service
12 Commission (Commission or PSC).

13 Q. Are you the same Patricia Gaskins who previously filed direct testimony in
14 this proceeding?

15 A. Yes, I am. I provided testimony in Staff's Cost of Service Report filed on
16 August 9, 2012, regarding Plant in Service and Accumulated Depreciation Reserve,
17 Depreciation Clearing, Injuries and Damages, Insurance, Property Tax, Materials and
18 Supplies, Prepayments, Customer Advances, and Customer Deposits. On August 2, 2012,
19 I also provided testimony in Staff's Cost of Service Report in the KCP&L Case No.
20 ER-2012-0174, regarding the same issues as in this case.

21 Q. What is the purpose of your rebuttal testimony in this proceeding?

22 A. The purpose of my rebuttal testimony is to discuss the proper methodology
23 regarding the calculation of property taxes for plant additions. Kansas City Power & Light
24 Company-Greater Missouri Operations (GMO) and Staff disagree with property taxes for
25 additional plant and when the taxes should be included as an expense for rate determination.

1 **EXECUTIVE SUMMARY**

2 Q. Please summarize Staff's position with how property tax is calculated.

3 A. GMO is billed by each taxing authority that has jurisdiction over the
4 assessment and taxing of GMO's property. The actual property taxes are assessed on plant
5 costs and construction costs GMO owns on January 1 of any given year. The property taxes
6 related to plant costs are expensed on GMO's books, while those taxes related to construction
7 costs are capitalized and recovered through depreciation expense over the life of the asset.

8 In this case, the test year is the 12 month period ending September 30, 2011, with an
9 Update Period through March 31, 2012. Currently, a True-Up Period of August 31, 2012, is
10 planned to accommodate new plant additions and any other material changes to the revenue
11 requirement for increased and decreased costs. Based on this timeline, Staff included
12 expense for property taxes on all plant identified as Plant in Service owned by GMO on
13 January 1, 2012—the period the taxing authorities assessed this property. In most cases, the
14 taxes are due by the end of the year that the plant was assessed. Any additional plant
15 added after January 1, 2012, would not be assessed by the taxing authorities as Plant in
16 Service until January 1, 2013, and GMO would not have to pay those property taxes until
17 December 31, 2013.

18 For the direct filing, Staff used a tax ratio based on 2011 property tax payment to
19 January 1, 2011 Plant and applied that ratio to January 1, 2012 Plant. GMO's Plant in
20 Service will not be assessed again until January 1, 2013, and will not be paid until
21 December 31, 2013, which is well beyond the True-Up Period in this case. Consequently,
22 Staff's annualized level of property tax expense included in its direct case will need no
23 further update.

1 **PROPERTY TAX**

2 Q. How does GMO and Staff position differ?

3 A. According to Steve “Harold” Smith’s direct testimony, GMO will adjust the
4 amount included in cost of service to reflect the projected property tax expense associated
5 with plant at August 31, 2012, the anticipated True-Up date in this case. GMO uses this
6 method to calculate property taxes for plant additions through the Update Period and
7 eventually the True-Up Period.

8 GMO’s proposal to include plant additions in this case for property taxes does not
9 meet the known and measurable standard used to develop rates in this state. According to
10 Mr. Smith’s direct testimony, page 3, lines 3-7:

11 However, the property taxes paid for 2013, the first year that the new
12 rates in this case will be in effect, will be based on plant balances as of
13 January 1, 2013. The Company will adjust the amount included in
14 cost of service to reflect the projected property tax expense associated
15 with plant at August 31, 2012, the anticipated True Up date in this
16 case.

17 GMO uses this method to calculate property taxes for plant additions through the
18 Update Period and eventually the True-Up Period. GMO’s proposal to include plant
19 additions in this case for property taxes does not meet the known and measurable standard
20 used to develop rates in this state.

21 Staff does not include plant additions that are placed in service after the January 1
22 assessment date. Consistent with the Commission’s past practice, Staff used a property tax
23 ratio based on the plant balance effective January 1, 2011, and the related property taxes paid
24 as of December 31, 2011. This ratio or composite rate was applied to the plant balance
25 effective January 1, 2012. Both GMO and Staff compare the computed annualized property

1 taxes to the amount of property taxes recorded in the test year to make their respective
2 adjustments for property tax expense.

3 Q. Has the Commission ruled on this issue previously?

4 A. Yes. The Commission decided this issue in KCPL's 2006 rate case — Case
5 No. ER-2006-0314. The test year in that case was calendar year 2005 with an update of
6 June 30, 2006, and True-Up of September 30, 2006. Staff included an amount of property
7 taxes in the 2006 rate case based on the property taxes assessment date of January 1, 2006,
8 and developed a ratio similar to the method used in this current case. In the 2006 rate case,
9 Staff compared the amount of January 1, 2005 Plant to the related property taxes paid as of
10 December 31, 2005, to develop the ratio that was applied to the January 1, 2006
11 Plant balance. The property taxes in the 2006 rate case were reflected in the rates that
12 were effective January 1, 2007. Any plant that was under construction on January 1 but
13 was not completed until January 2 or later, was assessed January 1, 2007, and paid by
14 December 31, 2007.

15 Because of the way property taxes are assessed and the timing of when they are paid
16 for, Staff, with the support of the Commission has used method in this case consistently for
17 number of years.

18 The Commission has decided the property tax method in several other cases as
19 follows:

- 20 • KCPL Case No. ER-2006-0314
21 • MGE Case No. GR-95-285
22 • Empire Case No. ER-2001-0299
23 • St Louis County Water Co. Case No. WR-2000-844

24 In the 2001 Empire rate case, an excerpt from the Report and Order for Case No.
25 ER-2001-0299 states:

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1 The Commission finds that the arguments of Staff and Praxair
2 regarding the property tax issue are persuasive. Staff's estimate of
3 property taxes is based upon known and measurable factors and
4 preserves appropriate matching of all revenue requirements, and is
5 consistent with the Commission's past practice. Empire's position is
6 not based upon known and measurable factors. In addition, it would
7 be unreasonable for the Company to start charging ratepayers...for
8 (estimated) costs that the Company will not start paying... The
9 Commission determines that it will not increase the total company
10 revenue requirement to account for property taxes on the additional
11 plant in service.

12 [page 27 of the Order in Case No. ER-2001-0299]

13 In the 1996 MGE rate case GR-96-285:

14 The Commission finds that MGE's proposal would require waiting
15 until the end of 1997 to account for an item of expense for inclusion in
16 this case because this would be a violation of the test year, updated test
17 year or true-up concepts. Staff's recommendation will be adopted.

18 [page 45 of the Order in Case No. GR-96-285]

19 In the 2000 St. Louis County Water Company, currently known as Missouri American Water
20 Company, Case No. WR-2000-844:

21 The Commission states, the Company's projected property tax
22 increases are neither known nor measurable. While it is probable that
23 the Company will experience an increase in property tax expense at
24 the end of the year, it is by no means certain. Even more damaging to
25 the Company's proposal is the fact that its best estimate of the amount
26 of any increase is based on a calculation assumes that the tax rates for
27 2000 will be the same as the tax rates for 1999. Because any increase
28 in the Company's proposed property tax expense is not known and
29 measurable, the Commission will not adopt the Company's proposal.

30 [page 268 of the Order in Case No. WR-2000-844]

31 Q. Has GMO presented this issue before in prior rate cases?

32 A. Yes. GMO wanted to include property taxes for plant additions in its 2009 rate
33 case, Case No. ER-2009-0090. In Case No. ER-2009-0090, using a true-up date of
34 April 30, 2009, GMO wanted to include the 2009 assessments and levies which would have

1 included plant additions after the January 1, 2009 assessment date Staff used. The property
2 taxes for those post-January 1 assessment date additions would not be due until
3 December 31, 2010, which is approximately 16 months after the effective rate increase date
4 of September 1, 2009. Using GMO's approach to calculate property taxes, customers will
5 pay in rates, determined in future rate cases, for those taxes on post-January 1 assessed plant
6 additions even though those taxes will not be paid until December of the following year at
7 the earliest.

8 Q. How did the Commission determine property taxes in KCPL's 2006 rate case?

9 A. The Commission adopted Staff's calculation of property taxes which is the
10 same method used in this case. The Commission stated:

11 Staff recommends that the Commission calculate property tax expense
12 by multiplying the January 1, 2006 plant-in- service balance by the
13 ratio of the January 1, 2005 plant-in-service balance to the amount of
14 property taxes paid in 2005. KCPL wants the property tax cost of
15 service updated to include 2006 assessments and levies.

16
17 The Commission finds that the competent and substantial evidence
18 supports Staff's position, and finds this issue in favor of Staff. As with
19 all issues, KCPL bears the burden of proof. According to KCPL's
20 True-up brief, its September 30 true-up filing had latest available
21 actual 2006 tax levy rates for 96% of Missouri tax liability. As the
22 Commission deciphers KCPL's true-up filing-- entitled KCPL's
23 Summary of Adjustments, September 30 Update -- line 152 shows a
24 decrease in property taxes. To the extent this issue was in play, it was
25 not listed in the Commission-ordered List of Issues for the True-up
26 Proceeding, filed by Staff on November 8, and KCPL did not object to
27 that list, or put on any evidence concerning property taxes at the true-
28 up hearing. As such, the Commission does not find adequate evidence
29 to support KCPL's position on this issue.

30 [pages 68-69 of the Order in Case No. ER-2006-0314]

31 Q. How did GMO treat property taxes in Case No. ER-2010-0356?

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1 A. In Case No. ER-2012-0356 the True-Up Period was December 31, 2010.
2 Plant in Service as of December 31, 2010, is the same as January 1, 2011. Since the True-Up
3 Period for that case was December 31, 2010, the issue of including plant additions beyond
4 the January 1 assessment date did not apply. However, had a True-Up not been ordered by
5 the Commission, GMO rates would have been excessive because it would have collected in
6 rates for overstated plant assessments would not have been reflected in property taxes until
7 the following year.

8 Consistent with the Commission's past practices, the Commission should reject
9 GMO's methodology to include property taxes for plant additions placed in service after the
10 January 1 assessment date.

11 Q. If the Commission rejects GMO's method in determining the proper level
12 for property taxes, how will the taxes paid for non-Plant in Service as of the January 1
13 assessment date be treated?

14 A. Any amount of non-Plant in Service, or plant still under construction is
15 assessed by taxing authorities on January 1, but these taxes are capitalized as part of the
16 construction costs of the plant construction. As such, the taxes are identified as costs to
17 construct the plant and like other construction costs are captured in the construction work
18 order. All the construction costs, including the capitalized property taxes are included in the
19 Plant in Service amounts when construction is completed and the plant is deemed in service.
20 GMO will recover the costs to construct this plant, including the capitalized property taxes,
21 over the life of the plant through depreciation.

22 Q. Does this conclude your rebuttal testimony?

23 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 General Rate Increase for)
Electric Service)

Case No. ER-2012-0175

AFFIDAVIT OF PATRICIA GASKINS

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

Patricia Gaskins, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 7 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.


Patricia Gaskins

Subscribed and sworn to before me this 11th day of September, 2012.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 08, 2012
Commission Number: 08412071


Notary Public