

Exhibit No.:
Issue: Property Taxes
Witness: Melissa K. Hardesty
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: Kansas City Power & Light Company
Case No.: ER-2014-0370
Date Testimony Prepared: June 5, 2015

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2014-0370

SURREBUTTAL TESTIMONY

OF

MELISSA K. HARDESTY

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

**Kansas City, Missouri
June 2015**

“** [REDACTED] **” Designates “Highly Confidential” Information
Has Been Removed.

SURREBUTTAL TESTIMONY

OF

MELISSA K. HARDESTY

Case No. ER-2014-0370

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

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

4 **Q: Are you the same Melissa K. Hardesty who pre-filed Rebuttal Testimony in this**
5 **matter?**

6 A: Yes, I am.

7 **Q: What is the purpose of your Surrebuttal Testimony?**

8 A: The purpose of my testimony is to respond to Missouri Public Service Commission
9 (“MPSC”) Staff (“Staff”) witness Karen Lyons testimony regarding the property tax
10 tracker requested by Kansas City Power & Light Company (“KCP&L” or the
11 “Company”). Specifically, my testimony addresses the assumption by Ms. Lyons that
12 property taxes are a direct result of increases in plant additions. I will also briefly
13 respond to Staff witness Mark Oligschlaeger.

14 **Q: How are property taxes determined by the States of Kansas and Missouri for**
15 **utilities?**

16 A: By statute in both Kansas and Missouri, electric utilities like KCP&L, are valued at the
17 State level instead of the county or local level for all property except real estate, rail cars,
18 construction work in progress, and vehicles. This is generally referred to as being
19 “centrally assessed.” Both states start by determining the fair market value of the

1 Company (not the fair market value of the Company's assets or property). Once the fair
2 market value of the Company is determined, then the value is allocated pro-rata to the
3 counties based on miles of distribution and transmission lines ("pole miles") in each
4 county in Missouri, and allocated to the counties based on the historical cost of property
5 in each county in Kansas. Once each county has its allocated share of "fair market value"
6 of KCP&L, it then applies the mill levy determined for that year and sends KCP&L a bill.
7 For real estate, rail cars, construction work in progress, and vehicles, the fair market
8 value of each asset is determined by each county and then the county applies the mill levy
9 determined for that year and sends KCP&L a bill. The aggregate amount of these bills
10 represents the total amount of property taxes paid by KCP&L in a year.

11 **Q: Please explain how the fair market value is determined by the States for utilities in**
12 **Kansas and Missouri.**

13 A: The State appraisers use three standard appraisal methods for determining the fair market
14 value of KCP&L, upon which the property tax assessments for KCP&L are based. The
15 three methods used are the Cost Approach (based on the cost of plant placed in service),
16 the Income Approach (based on an average of net operating income of the entity over a
17 certain period of time) and the Market Approach (based on the stock value of the
18 company). Once the three calculations are done, the appraisers determine a fair market
19 value that in their opinion is in line with these three calculations. Certainly the addition
20 of plant in service directly impacts the calculation of fair market value for the Cost
21 Approach. However, neither Missouri nor Kansas appraisers rely solely on the Cost
22 Approach to determine fair market value. In fact, over the last several years, KCP&L's
23 fair market values as established by State assessment authorities have been very close to

1 the value determined by the Income Approach. That is, State assessment authorities have
2 placed more emphasis on the Income Approach than either the Cost Approach or the
3 Market Approach for KCP&L.

4 **Q: Does Staff consider these other standard appraisal methods in its analysis of**
5 **property taxes?**

6 A: No, the Staff has ignored the impact that increases in the stock price or net operating
7 income of the Company may have on the amount of property taxes paid by KCP&L.
8 Either one of these factors may occur without a corresponding increase in plant in
9 service.

10 **Q: Staff's witness Karen Lyons included a table on page 10 in her Rebuttal Testimony**
11 **that identified actual plant in service values at January 1 of each year and actual**
12 **property taxes paid by KCP&L as support to justify the increase in property taxes.**
13 **Does KCP&L agree with this table?**

14 A: In part. Although the table is accurate, the conclusion Ms. Lyons draws from the table is
15 flawed. KCP&L agrees that plant in service and property tax expense has increased
16 significantly since 2007, as demonstrated by the table. However, the table also shows
17 that the increases in property tax are not necessarily in relation to increases in plant in
18 service. In 2009, plant in service increased from 2008 by 3.8%, but property tax on her
19 table decreased by 5.1%. Even in recent tax years, such as 2013 and 2014, the plant in
20 service balance increased by 2% and 4%, but property taxes increased by 6.7% and 6.6%.

21 **Q: What other factors impact future property taxes?**

22 A: Other factors that will impact future property tax expense, include mill levies, net
23 operating income of the Company, and cost of capital in the markets. The property tax

1 mill levy rates are set by each county and then applied to the assessments by the various
2 taxing authorities. These mill levy rates are adjusted up or down annually depending on
3 the revenue needed by the taxing jurisdictions. The mill levy rates will increase if the
4 taxing jurisdictions need to increase tax revenues to offset other sources of revenue that
5 may decrease due to the economy or other factors. Net operating income from the
6 Company and the cost of capital are used for the Income Approach appraisal method and
7 as income increases or cost of capital decreases, the fair market value of the Company
8 increases. It is the estimated increase in net operating income, which will be significantly
9 driven by the revenue increases to be authorized from KCP&L's ongoing rate cases in
10 Missouri and Kansas, that the Company estimates will drive increases in property tax
11 estimates in future years.

12 **Q: How does all this impact the Company's request for a property tax tracker?**

13 A: Company witness Tim Rush provides more detailed testimony regarding the Company's
14 request for a property tax tracker. However, Ms. Lyon states on page 11, lines 5-6, that
15 *"KCPL did not provide any analysis to justify that property taxes will continue to*
16 *increase."* And, she implies in lines 14-15 that *"Although KCPL will continue to make*
17 *plant additions, the level of magnitude of the construction project will not compare to its*
18 *most recent projects."* Based on these statements, increases in plant in service appear to
19 be the only factor that Staff considered as drivers for increases in property taxes. She
20 does not consider that an increase in net operating income (that will likely occur as a
21 result of this rate case) or other factors such as mill levies will impact our property taxes.

1 **Q: Specifically, how will revenue increases authorized for KCP&L in its ongoing rate**
2 **cases in Kansas and Missouri impact future property taxes?**

3 A: In the current ongoing rate cases in Kansas and Missouri, KCP&L is requesting revenue
4 increases for several factors, including recovery of investment in the LaCygne
5 environmental equipment, investment in the Wolf Creek Nuclear Operating Company
6 (“WCNOC”) and other expenses. The additional revenue authorized by the Commission
7 is expected to increase rates for Kansas and Missouri customers in the latter part of 2015.
8 This revenue will begin to impact net operating income (or earnings) of KCP&L once
9 rates become effective. This increase in net operating income will impact the State
10 assessor’s determination of fair market value using the Income Approach on January 1 of
11 the year following the increase in net operating income. Because it will only have few
12 months of additional revenue in 2015, the Company will only see a partial increase in
13 property taxes in 2016 (based on a January 1, 2016 assessment date) related to the
14 investment in LaCygne environmental equipment and WCNOC. It will likely be 2017 or
15 later before the full impact of the net operating income generated by new rates authorized
16 due to the investment in these two generating stations will be represented in the State
17 assessments. As you can see there is a significant delay in the increase in property taxes
18 due to large investments made by the Company. Again, it is this increase in net operating
19 income in future years that we believe will be the primary factor for continued increases
20 in property taxes in future years.

21 **Q: Do you have any corrections to your previous testimony regarding property taxes?**

22 A: Yes. On page 24, lines 7-8 of my Rebuttal Testimony, incorrect numbers were used for
23 future estimated property taxes. The correct estimated amounts of future total property

1 taxes should have been **[REDACTED]** million in 2016 and **[REDACTED]** million in 2017. In
2 addition, we estimate that **[REDACTED]** million in 2016 and **[REDACTED]** million in 2017
3 will be recorded to the income statement as property tax expense related to property in
4 service included in rate base.

5 **Q: On pages 10-11 of his Rebuttal Testimony, Staff witness Oligschlaeger questions**
6 **whether KCP&L would vigorously challenge property tax assessments in the future**
7 **if tracker treatment is afforded. How do you respond?**

8 A: My understanding is that tracker treatment is not a guarantee of rate recovery and that
9 any costs deferred pursuant to the tracker would be reviewed for rate recoverability in a
10 future rate case. Because the Company knows that cost recovery is at risk, KCP&L will
11 act to protect its interests and those of its customers in property tax assessment matters as
12 it has in the past. Certainly any significant change in KCP&L's conduct in this regard
13 would be readily apparent in a subsequent rate case audit.

14 **Q: Does that conclude your Surrebuttal Testimony?**

15 A: Yes, it does.

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of Kansas City Power & Light Company's Request for Authority to Implement A General Rate Increase for Electric Service)))
))	Case No. ER-2014-0370
)))

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 Kansas City Power & Light Company as Senior Director of Taxes.

2. Attached hereto and made a part hereof for all purposes is my Surrebuttal 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 5th day of June, 2015.

Nicole A. Wehry
Notary Public

My commission expires: Feb. 21 2019

