

Exhibit No.:
Issues: *Property Tax*
Witness: *Karen Herrington*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Rebuttal Testimony*
Case No.: *HR-2009-0092*
Date Testimony Prepared: *March 13, 2009*

MISSOURI PUBLIC SERVICE COMMISSION
UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

KAREN HERRINGTON

Great Plains Energy, Incorporated
GREATER MISSOURI OPERATIONS COMPANY
GMO-L&P STEAM

CASE NO. HR-2009-0092

Jefferson City, Missouri
March 2009

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1 **REBUTTAL TESTIMONY**

2 **OF**

3 **KAREN HERRINGTON**

4 **Great Plains Energy, Inc.**

5 **GREATER MISSOURI OPERATIONS COMPANY**

6 **GMO-L&P STEAM**

7
8 **CASE NO. ER-2009-0092**

9 Q. Please state your name and business address.

10 A. Karen Herrington, Fletcher Daniels State Office Building, Room G8, 615 East
11 13th Street, Kansas City, Missouri 64106.

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

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

15 Q. Are you the same Karen Herrington who previously filed direct testimony in
16 this proceeding?

17 A. Yes I am. I provided testimony in Staff's Cost of Service Report filed on
18 February 13, 2009 regarding Injuries and Damages, Insurance, Accounting Authority Orders,
19 Cash Working Capital, Property Tax, Accounts Receivable Bank Fees and Maintenance
20 expense. I also filed on February 11, 2009 on the same subject matter in the Kansas City
21 Power and Light, Case No. ER-2009-0089

22

1 **EXECUTIVE SUMMARY**

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

3 A. The purpose of this testimony is to respond to the Direct Testimony of
4 Company witness Ron Klote concerning the adjustment for property taxes, found on
5 pages 31-32 of his Direct Testimony in this case. KCP&L Greater Missouri Operations
6 Company (GMO or Company) and Staff disagree with the appropriate amount to include in
7 cost of service for property taxes for additional plant and also what date(s) should be used for
8 determining the amount of taxes that should be included as an expense in cost of service for
9 MPS, L&P and L&P Steam—GMO has different rate bases and, therefore, rates in different
10 parts of its service area..

11 Q. Please summarize Staff's position with how Property Tax should be calculated.

12 A. The Company is billed by each taxing authority that has jurisdiction over the
13 assessment and taxing of the Company's property. The actual property taxes are assessed on
14 plant costs and construction costs the Company owns as of January 1 of any given year.
15 The property taxes related to plant costs are expensed on the Company's books while those
16 taxes related to construction costs are capitalized and recovered through depreciation expense
17 over the life of the asset. In this case, the test year is the period ending December 31, 2007
18 with an update period through September 30, 2008. Currently, a true-up period of March 31,
19 2009 is planned to accommodate new plant additions and any other material changes to the
20 revenue requirement for increased and decreased costs. Based on this timeline, Staff included
21 expense for property taxes on plant owned by the Company on January 1, 2008. In most
22 cases the taxes are due by the end of the year in which the plant was assessed. Any additional
23 plant added after January 1, 2008 would not be assessed until January 1, 2009 and the

1 Company would not have to pay those property taxes until December 31, 2009, well beyond
2 the operational of law date of August 5, 2009 and well beyond the update and true-up periods
3 used in this case. For the direct filing, Staff used a tax ratio based on 2007 property tax
4 payment to January 1, 2007 plant. This same ratio was also applied to the plant balance as of
5 January 1, 2008. Staff will update its case by either using a ratio developed on the same basis
6 as the 2007 ratio of using the 2008 property tax payment to the January 1, 2008 plant and
7 applying that level to January 1, 2009 plant or using the 2008 actual property tax amounts for
8 the true-up.

9 **PROPERTY TAX**

10 Q. How does the Company and Staff property tax position differ?

11 A. The Company's property tax calculation differs with the Staff's with regard to
12 applying property taxes to plant additions that occur after January 1, 2008 for the update case
13 of September 30, 2008 and that occur beyond the January 1, 2009 assessment date for the
14 March 31, 2009 true-up case. The difference is that the Company develops a ratio for
15 property taxes and applies the amounts to total plant as of the September 30, 2008 update and
16 plans to use the same method for the April 30, 2009 true-up. This method is used to calculate
17 property taxes for plant additions through the updated period and eventually the true-up
18 period. The Company's proposal to include plant additions in this case for property taxes does
19 not meet the known and measurable standard used to develop rates in this state. According to
20 the Company's direct case, it calculated its annualized property tax amount for plant additions
21 placed in service after the January 1, assessment date. Staff does not include plant additions
22 that are placed in service after the January 1 assessment date. Staff uses a property tax ratio
23 based on the plant balance effective January 1, 2007 and applied this rate to the plant balance

1 effective January 1, 2008. Both the Company and Staff compare the computed annualized
2 property taxes to the amount of property taxes recorded in the test year to make their
3 respective adjustments for property tax expense.

4 Q. Will these differences be addressed in the true-up?

5 A. Yes. Staff will adjust the property tax amount by either using a ratio
6 developed on the same basis as the 2007 ratio of using the 2008 property tax payment to the
7 January 1, 2008 plant and applying that level to January 1, 2009 plant or using the actual taxes
8 paid by the Company in 2008. This data will be come available between the update period
9 and the true-up period.

10 Q. Are there any other differences between the positions of Staff and the
11 Company. If so, please explain.

12 A. Yes. The taxes used any plant additions were estimated based on assessed
13 values and estimated levy taxes.

14 Q. Why does Staff disagree with including property taxes associated with
15 additional plant?

16 A. As mentioned earlier in this testimony, property taxes are based on plant that is
17 in service effective January 1 of any given year. In this case, Staff included property taxes for
18 plant that was in service effective January 1, 2008. For plant assessed on January 1, 2008, the
19 Company paid the taxes by December 31, 2008 and paid Kansas in two installments, one due
20 December 31, 2008 and the remainder to be paid in April or May 2009. For the true-up
21 period of March 31, 2009, if Staff included the plant additions that occur after the January 1,
22 2009 assessment date, customers would have to pay for property taxes in this case even
23 though those taxes would not be due and payable to the taxing authority until December 31,

1 2010. The Company's rates would be excessive if plant additions were placed in service after
2 the January 1 assessment date because the Company would collect in rates for overstated
3 plant assessments that will not be reflected in property taxes values until the next assessment
4 date. These taxes will be collected well in advance of the property taxes being paid for.

5 For example, if Staff included the estimated property taxes for the Iatan 1 plant
6 additions, which GMO-L&P will be a partial owner, the Company would receive funds from
7 the ratepayers even though the property tax on the Iatan 1 additions (or any other additions
8 placed in service after the January 1 assessment date) would not be paid to the taxing
9 authorities until December 31, 2010. The Iatan 1 plant in service additions were not part of
10 the plant on January 1, 2009 when the Company's plant in service was assessed. Since the
11 project had not yet been completed, the Iatan 1 plant would not be accessed by the taxing
12 authority until January 1, 2010 with the taxes due in December 31, 2010 and a portion of the
13 Kansas taxes not due until April or May 2011. All plant additions occurring between January
14 2 and December 31, 2009 will be assessed January 1, 2010 and the taxes will not be due until
15 December 31, 2010, well beyond the effective date of rates determined in this case.

16 The construction related costs for Iatan 1 (and all other construction costs)
17 were assessed January 1, 2009 (to be paid December 31, 2009) and were capitalized to the
18 Iatan 1 construction work order. Those capitalized taxes will be treated as plant in service
19 upon completion of the project and included in depreciation expense over the life of the asset.

20 Q. Based on this scenario, what is the affect on the Company and the Ratepayers?

21 A. If the property taxes associated with the any plant additions were included in
22 rates, the Company would have access to cash provided by the ratepayers for a substantial
23 period of time before those taxes were ever paid to the taxing authorities.

1 For example, most of the taxes for the new additions would not be due until
2 December 31, 2010 for an assessment date of January 1, 2010 with the remaining portion paid
3 to Kansas in April or May of 2011. Rates for this case will go into effect on August 5, 2009.
4 GMO-Steam will have access to the ratepayers cash for at least 15 months and as much
5 as 20 months for a portion owed to Kansas.

6 Q. Does GMO intend on filing another rate case?

7 A. Yes. In order to include the Iatan 2 power plant in rates, the Company will
8 have to file a another rate case shortly after the implementation of rates determined in this
9 case. Depending on when the rate case is filed, the rates from the Iatan 2 rate case could go
10 into effect before the property taxes for Iatan 1 plant additions will actually be paid. In other
11 words, new rates from the Iatan 2 case will go into effect before the property taxes for
12 property placed in service after January 1, 2009 (January 2 through December 31, 2009)
13 will have to be paid for. Property placed in service between the period January 2 and
14 December 31, 2009 will not be due for payment until December 31, 2010, and May 2011.
15 New rates will likely go into effect for the Iatan 2 rate case before the property taxes for
16 post-January 1, 2009 plant additions will be paid.

17 Q. Has the Commission ruled on this issue in other cases?

18 A. Yes. The following cases address the same issue:

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

23 In the 2001 Empire rate case, an excerpt from the Report and Order for Case No.

24 2001-0299 states:
25
26
27

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 be
7 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
14

15 In the 1996 MGE rate case GR-96-285 the Commission stated:

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

20 [page 45 of the Order in Case No. GR-96-285]
21

22 In the 2000 St. Louis County Water Company, currently known as Missouri
23 American Water Company, Case No. WR-2000-844, the Commission stated:

24
25 The Commission states, the Company's projected property tax
26 increases are neither known nor measurable. While it is probable that
27 the Company will experience an increase in property tax expense at the
28 end of the year, it is by no means certain. Even more damaging to the
29 Company's proposal is the fact that its best estimate of the amount of
30 any increase is based on a calculation assumes that the tax rates for
31 2000 will be the same as the tax rates for 1999. Because any increase
32 in the Company's proposed property tax expense is not known and
33 measurable, the Commission will not adopt the Company's proposal.

34 [page 268 of the Order in Case No. WR-2000-844
35
36

37 Q. Has the Company's affiliate, Kansas City Power and Light (KCPL) presented
38 this issue in prior rate cases?

39 A. Yes. KCPL wanted to include property taxes for plant additions in its
40 2006 rate case, Case No. ER-2006-0314. In that case, using a true-up date of September 30,
41 2006 period, KCPL wanted to include the 2006 assessments and levies which would have

1 included plant additions after the January 1, 2006 assessment date Staff used. The property
2 taxes for those post-January 1 assessment date additions were not actually paid until
3 December 31, 2007 which was the day before the effective date of rates in the second rate
4 case filed by KCPL (Case No. ER-2007-0291). Had the Commission used
5 KCPL's methodology to compute property taxes on plant additions in the 2006 rate case, the
6 actual taxes would not have paid until the effective date of the second case forcing the
7 customers to pay those taxes a full year in advance of those taxes.

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 ratio
13 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 actual
21 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-up
28 hearing. As such, the Commission does not find adequate evidence to
29 support KCPL's position on this issue.
30 [pages 68-69 of the Order in Case No. GR-96-285]
31

32 As was the case in the 2006 KCPL rate case, the Company is requesting plant
33 additions based on in-service dates after January 1 assessment dates that will result in

1 customers having to pay for property taxes well in advance of the actual payments of those
2 taxes. Using KCPL's approach to calculating property taxes, customers will pay in rates
3 determined in this case for those taxes on post-January 1 assessed plant additions including
4 the Iatan 1 plant additions even though those taxes will not be paid until December 2010 at
5 the earliest and a portion of those taxes will not be paid until May 2011. The rates determined
6 in KCPL's next rate case (Iatan 2 rate case) will go into effect prior to the actual property tax
7 payments for the plant additions being requested by the Company in this case.

8 The Commission should reject the Company's proposal to include property taxes for
9 plant additions including the Iatan 1 plant additions.

10 Q. Does this conclude your rebuttal testimony?

11 A. Yes, it does.

12

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of KCP&L)
Greater Missouri Operations Company for) Case No. HR-2009-0092
Approval to Make Certain Changes in its)
Charges for Steam Heating Service)
)


AFFIDAVIT OF KAREN HERRINGTON

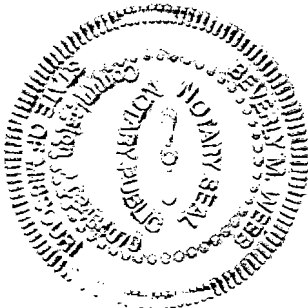
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Karen Herrington, 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 9 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.


Karen Herrington

Subscribed and sworn to before me this 6th day of March, 2009.


Notary Public



BEVERLY M. WEBB
Notary Public - Notary Seal
STATE OF MISSOURI
County of Clay
My Commission Expires 4/14/2012
Commission # 08464070