

Exhibit No.:
Issues: Property Tax
Maintenance
Witness: Karen Herrington
Sponsoring Party: MoPSC Staff
Type of Exhibit: Surrebuttal Testimony
Case No.: ER-2009-0090
Date Testimony Prepared: April 9, 2009

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

KAREN HERRINGTON

**Great Plains Energy, Incorporated
GREATER MISSOURI OPERATIONS COMPANY
GMO-MPS AND GMO-L&P**

CASE NO. ER-2009-0090

*Jefferson City, Missouri
April 9, 2009*

****Denotes Highly Confidential Information****

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KAREN HERRINGTON
Great Plains Energy, Inc.
GREATER MISSOURI OPERATIONS COMPANY
GMO-MPS AND GMO-L&P ELECTRIC
CASE NO. ER-2009-0090

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1 **REBUTTAL TESTIMONY**

2 **OF**

3 **KAREN HERRINGTON**

4 **KCP&L GREATER MISSOURI OPERATIONS COMPANY**

5 **CASE NO. ER-2009-0090**

6 Q. Please state your name and business address.

7 A. Karen Herrington, Fletcher Daniels State Office Building, Room G8,
8 615 East 13th Street, Kansas City, Missouri 64106.

9 Q. Are you the same Karen Herrington who previously filed direct and rebuttal
10 testimony in this proceeding?

11 A. Yes. I filed information supporting Staff's Cost of Service Report in this case
12 on February 13, 2009 and rebuttal testimony on March 13, 2009. I also provided input into
13 Staff's Cost of Service Reports filed on February 11, 2009 in Case ER-2009-0089
14 and Case No. HR-2009-0092. On March 13, 2009, I also filed rebuttal testimony in Case No.
15 ER-2009-0090 and Case No. HR-2009-0092.

16 **EXECUTIVE SUMMARY**

17 Q. What is the purpose of your surrebuttal testimony in this proceeding?

18 A. The purpose of my testimony is to respond to the rebuttal testimony
19 of Melissa Hardesty of GMO-L&P with regard to Property Taxes. In addition, I will respond
20 to the rebuttal testimony of Ronald A. Klote and Michael Herdegen, III on maintenance.
21 Company and Staff disagree over the calculation of property taxes for plant added in 2008.
22 GMO includes an amount for property taxes based on all property owned in 2008.

1 In contrast, the amount Staff includes is based on property owned on the assessment date of
2 January 1, 2008. Finally, although the Company and Staff have come to an agreement on the
3 normalization of maintenance costs, because Company witnesses Ron Klote
4 and Michael Herdegen address the issue in rebuttal, I will respond to the Company's rebuttal
5 testimony concerning maintenance costs.

6 **PROPERTY TAX**

7 Q. Does Staff agree with Ms. Hardesty's rebuttal testimony on pages 6 through 7
8 describing why Iatan 1 Air Quality Control System ("AQCS") should be included in Staff's
9 property tax calculation?

10 A. No. Ms. Hardesty states the property tax cost included in KCPL's cost of
11 service should include an amount for all property KCPL owned in 2008. Staff calculated
12 property taxes on all property that is currently providing service to customers based on
13 property tax assessments made on January 1, 2008. Any property placed in service after
14 January 1, 2008 would not have been assessed by the taxing authority until January 1, 2009,
15 even if it was in service in 2008, but after January 1, 2008..

16 Q. How are the property taxes for Iatan 1's AQCS accounted for in 2008?

17 A. Since the Iatan project was still under construction in 2008, the property taxes
18 for the project would have been included with all other construction costs associated with the
19 project and capitalized as part of the construction work order. Upon completion, the
20 construction costs are transferred from construction work in process (CWIP) to plant, at
21 which time depreciation begins. The Company will receive a rate of return on its investment
22 when new rates are determined by the Commission in this case, if Iatan 1 is completed and
23 placed in rate base as part of plant in service.

1 Q. When will the AQCS be placed in service?

2 A. Staff does not know. However, according to Ms. Hardesty, the in-service of
3 the AQCS project is expected to be in early 2009. According to the Company's status report
4 filed with the Commission on March 2, 2009, the Company wants the in-service date for the
5 Iatan 1 project to be extended to April 30, 2009.

6 Q. How much is the Company requesting in rates for property taxes
7 for the AQCS project?

8 A. According to Ms. Hardesty rebuttal testimony, page 4, line 9,
9 GMO-L&P's share, ** _____ ** capitalized property taxes should be included
10 in rates as expense.

11 Q. Why is Staff opposed to this request?

12 A. If the amount of capitalized property taxes was included as an expense in the
13 cost of service upon which rates are determined in this case, the Company would begin
14 receiving a return of its investment (as an expense item) plus recovery of the same property
15 taxes through depreciation when the plant is placed in rate base (a rate base item).
16 If the property tax amount associated with the Iatan 1 project is included in expense as
17 proposed by GMO-L&P, then the Company will over-recover the amount of property taxes
18 paid in 2008. This will happen because the property taxes paid at the end of 2008 were only
19 for the capitalized amounts that were assessed January 1, 2008. In other words, the Company
20 would be recovering in rates an amount for the capitalized property taxes through the return
21 depreciation compensated for the 2008 property taxes.

22 Q. When will the GMO-L&P Iatan 1 project improvements be assessed for
23 property taxes which will be reflected in its cost of service as an expense to the Company?

1 A. The property investment will not actually be assessed until January 1, 2010.
2 Therefore, 2010 will be the first year that the Iatan 1 AQCS plant additions properly could be
3 included in GMO-L&P's cost of service as an expense. Payment of taxes based on the
4 January 1, 2010 assessment will not be made until December 31, 2010. Thus, the Company
5 would recover these costs through expenses as well as an additional amount through
6 depreciation if the property taxes were capitalized prior to the January 1, 2010 assessment
7 date.

8 Q. What is the significance of the January 1 date?

9 A. Personal property taxes are assessed on a local and state basis on this date.
10 The only property assessed is that which is owned on that date. The only property taxes that
11 are expensed are those attributable to plant in service owned and assessed as of January 1 of
12 any given year, in this case January 1, 2008 and for the true-up on January 1, 2009. However,
13 Iatan 1 was still in the construction phase on January 1, 2009. While plant additions are under
14 construction, the Company will capitalize all property taxes, along with all other construction
15 costs. Only when the property is both owned and in service on January 1, will it be assessed
16 and will associated property taxes be expensed. Any property placed in service from
17 January 2nd through December 31st, will not be assessed until the following year. In this case,
18 the new AQCS additions for Iatan 1 will not be assessed for property tax expense purposes
19 until January 1, 2010, with property tax not actually being due until the end of that year.

20 The taxes owed for property owned and in service on January 1, 2010 will not be due
21 until December 31, 2010. Please see Schedule 1.

1 Q. Will Staff update its property tax recommendation in the true-up in this case?

2 A. Yes, if appropriate. Staff indicated in its direct testimony that property taxes
3 will be reviewed during the true-up to see what changes, if any, should occur for this item.
4 Staff will perform the necessary calculations to determine if the amount included in the direct
5 filing should change. Staff will either use the actual 2008 property taxes paid for plant in
6 service (not plant under construction at that time) assessed on January 1, 2008 or Staff will
7 reflect an amount for property taxes based on an update of the calculation made in the direct
8 filing. Any update will be calculated by applying a ratio to the December 31, 2008 plant
9 balance. The ratio would be developed by using January 1, 2008 assessed plant compared to
10 actual property taxes paid December 31, 2008. All construction additions completed to plant
11 in service from January 2 to December 31, 2009 will be assessed as plant on January 1, 2010
12 and not paid until the end of 2010.

13 Q. Does Staff believe the Company's proposed property tax amount of
14 ** _____ ** for Iatan 1 should be included in rates?

15 A. Yes, but not as an expense. To the extent this is the amount that has been
16 capitalized for Iatan 1 plant additions, then the amount should be included in this case as part
17 of the construction costs of Iatan 1 plant additions. If the Commission includes those plant
18 additions in rate base, then this Iatan 1 property tax amount should be included in plant in
19 service where GMO-L&P will recover it through depreciation and rate base treatment over the
20 life of the plant, beginning with this case. However, the Company's recommendation to
21 reflect the amount it has capitalized for Iatan 1 plant additions in expense should be rejected,
22 as those taxes will not actually be in expense until 2010, not 2009, as inferred by GMO-L&P.
23 As noted above, the January 1, 2009 assessment of Iatan 1 additions are still subject to

1 capitalization requirements for 2009. No expense will be necessary for 2009 for these plant
2 additions, as the plant in service investment will not be assessed until January 1, 2010,
3 nor paid until the end of 2010. Therefore, GMO-L&P should not be allowed to include costs
4 it is recovering through depreciation and as a rate base component of cost of service
5 (the capitalized property taxes), and also be permitted to add additional expenses in rates for
6 amounts it will only pay out once as capitalized property taxes.

7 **MAINTENANCE-NON WAGE**

8 Q. What is the purpose of your surrebuttal testimony with regard to Maintenance?

9 A. The purpose of my testimony is to rebut Ronald A. Klote's rebuttal testimony,
10 pages 8-9 and Michael Herdegen, III, pages 1-4 addressing the non-wage and non-fuel
11 maintenance normalizations used by Staff. Although I will provide surrebuttal testimony in
12 response to Mr. Herdegen's and Mr. Klote's rebuttal testimony, the Company and Staff have
13 reached an agreement regarding the normalization of maintenance costs to be included in this
14 case, as reflected in the attached Schedule 2.

15 Q. If the Company and Staff agreed to the level of non-wage maintenance
16 expenses, why are you addressing this issue in surrebuttal testimony?

17 A. While GMO acknowledged that the differences between the Company and
18 Staff approaches to maintenance were resolved for purposes of this case, the Company
19 provided rebuttal testimony referencing its original position presented in its direct testimony.
20 Staff disagrees with the approach taken by GMO regarding how it normalized the non-wage,
21 non-fuel maintenance costs. Since the Company presented additional testimony on this issue

1 in rebuttal, Staff believes it is necessary to address our differences on how they originally
2 developed its normalized amounts.

3 Q. Briefly explain principal difference between the Company and Staff?

4 A. The Company has chosen to index their calculations for maintenance costs
5 using 2009 dollars, while Staff has not used this method, relying instead on actual costs
6 incurred for non-wage maintenance incurred by the Company.

7 Q. Is the indexing approach consistent with traditional ratemaking?

8 A. No. There are several reasons why the indexing approach is not consistent
9 with traditional ratemaking. First, specialized treatment of any one expense (or revenue) has
10 the potential to result in single-issue ratemaking. A Company's revenue requirement is
11 determined using various adjusted, annualized and normalized expense and revenue items.
12 Second, ratemaking in Missouri is based on known and measurable historical costs.
13 Inflationary factors contradict the known and measurable concept as they are highly
14 speculative in nature.

15 Q. Are there any other reasons inflation factors should not be used when
16 determining an appropriate level of maintenance costs?

17 A. The Handy Whitman Index numbers, used by the Company, are developed
18 from prevailing wage rates (among other things). Payroll is annualized separately in the
19 ratemaking process; therefore, any inflation index that also includes labor rates is not
20 appropriate to use. The maintenance costs that both GMO and Staff are making adjustments
21 for in this case relate strictly to non-labor maintenance costs. In other words, maintenance
22 costs for material and supplies excluding salaries and wages. The Handy Whitman Index uses
23 labor costs in computing the index numbers.

1 Q. Please summarize the Staff's disagreement with the Company's use of the
2 Handy-Whitman Index for normalizing its maintenance expense.

3 A. GMO is using inflationary factors, not generally accepted in traditional
4 ratemaking, that are based on labor related capitalized construction costs to normalize its
5 non-labor related expensed maintenance costs. In addition, using inflationary factors to
6 increase maintenance costs may be considered single issue ratemaking and the factors would
7 not be considered a known and measurable cost. The last area of concern with the Staff and
8 the use of The Handy Whitman Index is the lack of incentive that inflationary factors provide
9 to the Company to improve efficiency. Inflationary factors put all the risk on the ratepayers.

10 Q. Since the Company and Staff have agreed to the dollar amounts of non-wage
11 maintenance for purposes of this case, is there anything for the Commission to decide
12 respecting this matter?

13 A. No.

14 Q. Does this conclude your surrebuttal testimony?

15 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of KCP&L)
Greater Missouri Operations Company for)
Approval to Make Certain Changes in its)
Charges for Electric Service) Case No. ER-2009-0090

AFFIDAVIT OF KAREN HERRINGTON

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

Karen Herrington, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 8 pages to be presented in the above case; that the answers in the foregoing Surrebuttal 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

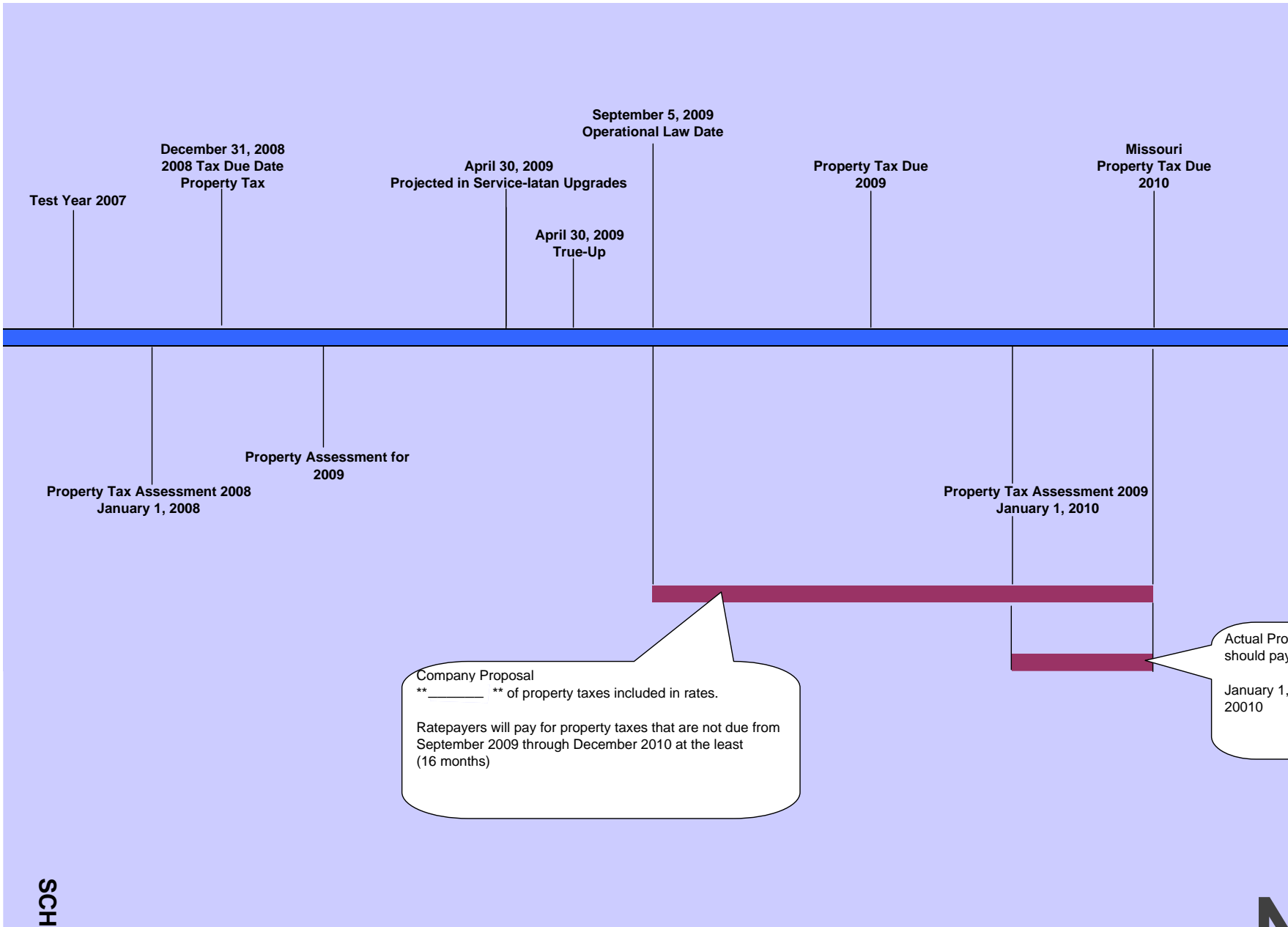
Subscribed and sworn to before me this 9th day of April, 2009.

NIKKI SENN
Notary Public - Notary Seal
State of Missouri
Commissioned for Osage County
My Commission Expires: October 01, 2011
Commission Number: 07287016



Notary Public

KCP&L Greater Missouri Operations Company
 Case No. ER-2009-0090
 Property Tax Timeline



Company Proposal
 ** _____ ** of property taxes included in rates.
 Ratepayers will pay for property taxes that are not due from September 2009 through December 2010 at the least (16 months)

Actual Property Taxes that ratepayers should pay.
 January 1, 2010 through December 31, 2010

SCHEDULE 2

HAS BEEN DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY