

Exhibit No.:
Issues: *Property Tax*
Witness: *Karen Herrington*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Rebuttal Testimony*
Case No.: *ER-2009-0090*
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-MPS AND GMO-L&P ELECTRIC

CASE NO. ER-2009-0090

Jefferson City, Missouri
March 2009

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

CASE NO. ER-2009-0090

9 Q. Please state your name and business address.

10 A. Karen Herrington, Fletcher Daniels State Office Building, Room G8,
11 615 East 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
16 in this proceeding?

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

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

23 A. KCP&L Greater Missouri Operations Company (Company, GMO-MPS or
24 GMO-L&P) and Staff disagree with property taxes for additional plant and when the taxes
25 should be included as an expense for rate determination.

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EXECUTIVE SUMMARY

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

A. The Company is billed by each taxing authority that has jurisdiction over the assessment and taxing of the Company's property. The actual property taxes are assessed on plant costs and construction costs the Company owns as of January 1 of any given year. The property taxes related to plant costs are expensed on the Company's books while those taxes related to construction costs are capitalized and recovered through depreciation expense over the life of the asset. In this case, the test year is the period ending December 31, 2007 with an update period through September 30, 2008. Currently, a true-up period of March 31, 2009 is planned to accommodate new plant additions and any other material changes to the revenue requirement for increased and decreased costs. Based on this timeline, Staff included expense for property taxes on plant owned by the Company on January 1, 2008. In most cases the taxes are due by the end of the year in which the plant was assessed. Any additional plant added after January 1, 2008 would not be assessed until January 1, 2009 and the Company would not have to pay those property taxes until December 31, 2009, well beyond the operational of law date of August 5, 2009 and well beyond the update and true-up periods used in this case. For the direct filing, Staff used a tax ratio based on 2007 property tax payment to January 1, 2007 plant. This same ratio was also applied to the plant balance as of January 1, 2008. Staff will update its case by either using a ratio developed on the same basis as the 2007 ratio of using the 2008 property tax payment to the January 1, 2008 plant and applying that level to January 1, 2009 plant or using the 2008 actual property tax amounts for the true-up.

1 **PROPERTY TAX**

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

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

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

20 A. Yes. Staff will adjust the property tax amount by either using a ratio
21 developed on the same basis as the 2007 ratio of using the 2008 property tax payment to the
22 January 1, 2008 plant and applying that level to January 1, 2009 plant or using the actual taxes

1 paid by the Company in 2008. This data will be come available between the update period
2 and the true-up period.

3 Q. Are there any other differences between the positions of Staff and the
4 Company? If so, please explain.

5 A. Yes. The taxes used for the Iatan project and any other plant additions were
6 estimated based on assessed values and estimated levy taxes.

7 Q. Why does Staff disagree with including property taxes associated with
8 additional plant?

9 A. As mentioned earlier in this testimony, property taxes are based on plant that is
10 in service effective January 1 of any given year. In this case, Staff included property taxes for
11 plant that was in service effective January 1, 2008. For plant assessed on January 1, 2008, the
12 Company paid the taxes by December 31, 2008 and paid Kansas in two installments, one due
13 December 31, 2008 and the remainder to be paid in April or May 2009. For the true-up
14 period of March 31, 2009, if Staff included the plant additions that occur after the January 1,
15 2009 assessment date, customers would have to pay for property taxes in this case even
16 though those taxes would not be due and payable to the taxing authority until December 31,
17 2010. The Company's rates would be excessive if plant additions were placed in service after
18 the January 1 assessment date because the Company would collect in rates for overstated
19 plant assessments that will not be reflected in property taxes values until the next assessment
20 date. These taxes will be collected well in advance of the property taxes being paid for.

21 For example, if Staff included the estimated property taxes for the Iatan 1 plant
22 additions, which GMO-L&P will be a partial owner, Iatan 1 is currently expected to be
23 completed in April 2009, the Company would receive funds from the ratepayers even though

1 the property tax on the Iatan 1 additions (or any other additions placed in service after the
2 January 1 assessment date) would not be paid to the taxing authorities until December 31,
3 2010. The Iatan 1 plant in service additions were not part of the plant on January 1, 2009
4 when the Company's plant in service was assessed. Since the project had not yet been
5 completed, the Iatan 1 plant would not be assessed by the taxing authority until January 1,
6 2010 with the taxes due in December 31, 2010 and a portion of the Kansas taxes not due until
7 April or May 2011. All plant additions occurring between January 2 and December 31, 2009
8 will be assessed January 1, 2010 and the taxes will not be due until December 31, 2010, well
9 beyond the effective date of rates determined in this case.

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

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

15 A. If the property taxes associated with the Iatan 1 additions or any other plant
16 additions were included in rates, the Company would have access to cash provided by the
17 ratepayers for a substantial period of time before those taxes were ever paid to the taxing
18 authorities.

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

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

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

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

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

- 14 • KCPL Case No. ER-2006-0314
- 15 • MGE Case No. GR-95-285
- 16 • Empire Case No. ER-2001-0299
- 17 • St Louis County Water Co. Case No. WR-2000-844

18
19 In the 2001 Empire rate case, an excerpt from the Report and Order for Case No.
20
21 2001-0299 states:

22
23 The Commission finds that the arguments of Staff and Praxair
24 regarding the property tax issue are persuasive. Staff's estimate of
25 property taxes is based upon known and measurable factors and
26 preserves appropriate matching of all revenue requirements, and is
27 consistent with the Commission's past practice. Empire's position is
28 not based upon known and measurable factors. In addition, it would be
29 unreasonable for the Company to start charging ratepayers...for
30 (estimated) costs that the Company will not start paying... The
31 Commission determines that it will not increase the total company

1 revenue requirement to account for property taxes on the additional
2 plant in service.
3 [page 27 of the Order in Case No. ER-2001-0299]
4
5

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

7 The Commission finds that MGE's proposal would require waiting until
8 the end of 1997 to account for an item of expense for inclusion in this
9 case because this would be a violation of the test year, updated test year
10 or true-up concepts. Staff's recommendation will be adopted.
11 [page 45 of the Order in Case No. GR-96-285]
12

13 In the 2000 St. Louis County Water Company, currently known as Missouri
14 American Water Company, Case No. WR-2000-844, the Commission stated:
15

16 The Commission states, the Company's projected property tax increases
17 are neither known nor measurable. While it is probable that the Company
18 will experience an increase in property tax expense at the end of the year,
19 it is by no means certain. Even more damaging to the Company's
20 proposal is the fact that its best estimate of the amount of any increase is
21 based on a calculation assumes that the tax rates for 2000 will be the same
22 as the tax rates for 1999. Because any increase in the Company's
23 proposed property tax expense is not known and measurable, the
24 Commission will not adopt the Company's proposal.
25 [page 268 of the Order in Case No. WR-2000-844]
26
27

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

30 A. Yes. KCPL wanted to include property taxes for plant additions in its
31 2006 rate case, Case No. ER-2006-0314. In that case, using a true-up date of September 30,
32 2006 period, KCPL wanted to include the 2006 assessments and levies which would have
33 included plant additions after the January 1, 2006 assessment date Staff used. The property
34 taxes for those post-January 1 assessment date additions were not actually paid until
35 December 31, 2007 which was the day before the effective date of rates in the second rate
36 case filed by KCPL (Case No. ER-2007-0291). Had the Commission used
37 KCPL's methodology to compute property taxes on plant additions in the 2006 rate case, the

1 actual taxes would not have paid until the effective date of the second case forcing the
2 customers to pay those taxes a full year in advance of those taxes.

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

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

6 Staff recommends that the Commission calculate property tax expense
7 by multiplying the January 1, 2006 plant-in-service balance by the ratio
8 of the January 1, 2005 plant-in-service balance to the amount of
9 property taxes paid in 2005. KCPL wants the property tax cost of
10 service updated to include 2006 assessments and levies.

11
12 The Commission finds that the competent and substantial evidence
13 supports Staff's position, and finds this issue in favor of Staff. As with
14 all issues, KCPL bears the burden of proof. According to KCPL's
15 True-up brief, its September 30 true-up filing had latest available actual
16 2006 tax levy rates for 96% of Missouri tax liability. As the
17 Commission deciphers KCPL's true-up filing-- entitled KCPL's
18 Summary of Adjustments, September 30 Update -- line 152 shows a
19 decrease in property taxes. To the extent this issue was in play, it was
20 not listed in the Commission-ordered List of Issues for the True-up
21 Proceeding, filed by Staff on November 8, and KCPL did not object to
22 that list, or put on any evidence concerning property taxes at the true-up
23 hearing. As such, the Commission does not find adequate evidence to
24 support KCPL's position on this issue.

25 [pages 68-69 of the Order in Case No. GR-96-285]
26

27 As was the case in the 2006 KCPL rate case, the Company is requesting plant
28 additions based on in-service dates after January 1 assessment dates that will result in
29 customers having to pay for property taxes well in advance of the actual payments of those
30 taxes. Using KCPL's approach to calculating property taxes, customers will pay in rates
31 determined in this case for those taxes on post-January 1 assessed plant additions including
32 the Iatan 1 plant additions even though those taxes will not be paid until December 2010
33 at the earliest and a portion of those taxes will not be paid until May 2011.

Rebuttal Testimony of
Karen Herrington

1 The rates determined in KCPL's next rate case (Iatan 2 rate case) will go into effect prior to
2 the actual property tax payments for the plant additions being requested by the Company in
3 this case.

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

6 Q. Does this conclude your rebuttal testimony?

7 A. Yes, it does.

8

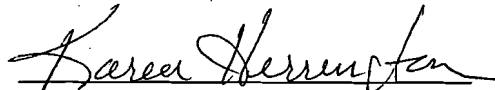
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

AFFIDAVIT OF KAREN HERRINGTON

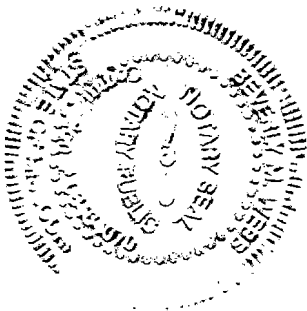
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

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