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Witness: *Karen Lyons*
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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

KAREN LYONS

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

FILE NO. ER-2010-0356

Jefferson City, Missouri
January 2011

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PROPERTY TAXES 2

1 **EXECUTIVE SUMMARY**

2 The Company and Staff disagree over the calculation of property taxes for plant added
3 in 2010. GMO included in its direct filing an amount for property taxes based on all property
4 owned in 2010. In contrast, the amount Staff included is based on property owned on the
5 assessment date of January 1, 2010, as that is the date property taxes are determined for tax
6 year 2010.

7 **PROPERTY TAXES**

8 Q. Will the Staff and Company difference with property taxes be addressed in this
9 case's true-up?

10 A. Yes. Staff will adjust the property tax amount by using a ratio of the 2010
11 property tax payment to the plant owned as of January 1, 2010 and applying that ratio to the
12 January 1, 2011 (actually the December 31, 2010--true-up date for this case) plant-in-service
13 balance. This data will become available for the Staff's review during the true-up period.

14 Q. If the difference between Company and Staff can be resolved in the true-up,
15 why are you addressing this issue in surrebuttal testimony?

16 A. The Company and Staff continue to disagree with the methodology used to
17 determine an appropriate level of expensed property taxes to include in the Company's cost
18 of service. While the true-up may solve the dollar differences, both the Company and Staff
19 believe it necessary to preserve the property tax issue for the Missouri Public Service
20 Commission's (Commission) consideration should a difference remain after the true-up is
21 completed.

22 Q. What are the differences between the Company and Staff relating to
23 property taxes?

1 A. Staff included a level of estimated property taxes of \$18,246,686 for MPS and
2 \$4,594,962 for L&P and the Company is proposing \$16,492,365 for MPS and \$5,166,027 for
3 L&P. The different amounts can be shown as follows:

	Staff		GMO	
	MPS	L&P	MPS	L&P
Annualized Property Taxes	\$18,004,854	\$4,594,962	\$14,431,390	\$4,607,263
South Harper Pilot Payment	\$241,832	\$0	\$241,832	\$0
Crossroads Pilot Payment	\$0	\$0	\$258,000	\$0
ECORP Allocation	\$0	\$0	\$1,561,143	\$558,764
Total Property Taxes	\$18,246,686	\$4,594,962	\$16,492,365	\$5,166,027

4 Q. What is the dollar difference between Staff and GMO for the total annualized
5 level of property taxes for both MPS and L&P proposed in this case?

6 A. Staff is proposing an annualized amount of \$22,841,648 and GMO
7 \$21,658,392 resulting in a difference of \$1,183,256.

8 Q. Explain the difference in calculations for the level of annualized property taxes
9 between GMO and Staff.

10 A. Staff calculated the annualized property tax level by developing a ratio using
11 property taxes paid in 2009—amount paid at December 31, 2009—compared to the
12 plant-in-service balances as of January 1, 2009. This ratio was then applied to the Company's
13 September 30, 2010 plant balance, which includes Iatan 2. During the true-up, Staff will use
14 the same method by developing a ratio of actual property taxes paid in 2010 to
15 plant-in-service balances as of January 1, 2010 and applying the ratio to the Company's
16 January 1, 2011 plant balances. The Company calculated an annualized property tax level
17 based on actual 2010 assessments and actual property taxes on Iatan 2. The 2010 property

1 taxes for Iatan 2 were assessed as construction work in process (CWIP). In addition, GMO
2 reclassified capitalized property taxes for Iatan 2 and moved the capitalized property taxes to
3 ECORP. These taxes were allocated by GMO to its MPS and L&P operations. The
4 allocation is identified in the chart above. Although Staff did not reclassify Iatan 2 property
5 taxes to ECORP, Iatan 2 property taxes are included in Staff's annualized amount.

6 Q. Does Staff typically apply a calculated ratio to mid-year plant in
7 service amounts?

8 A. While typically Staff would not apply the property tax ratio to mid-year plant
9 levels (in this instance, September 30, 2010 plant in service), it did so in this case only
10 because of the in-service date of Iatan 2 (August 26, 2010) and the fact a true-up had to be
11 performed in this case. Therefore, Staff used the September 30 plant levels to approximate
12 what the true-up value for the impact of Iatan 2 would have on the estimated true-up revenue
13 requirement. Because of the timing of the true-up in this case it is appropriate to reflect the
14 property taxes for Iatan 2 and other plant additions that will be in service on January 1, 2011.

15 Q. Are there any other differences between Staff and GMO for the estimated
16 property tax level for 2010?

17 A. Yes. MPS included pilot payments for the South Harper and Crossroads plants
18 in its annualized property tax calculation, while Staff did not include the pilot payments in
19 its calculation.

20 Q. Does Staff intend to include the pilot payments for South Harper and
21 Crossroads?

22 A. Staff has revised its property tax calculation to include the pilot payment for
23 South Harper. The revision can be verified in the table above. However, Staff does not

1 support the costs related to the Crossroads plant based on the exclusion of that plant discussed
2 in the Staff's Cost of Service Report at pages 90 to 94. Consequently, Staff did not include
3 the pilot payment for Crossroads.

4 Q. Please explain GMO's position regarding property taxes as identified in GMO
5 witness Hardesty's Rebuttal Testimony (page 6).

6 A. Ms. Hardesty's Rebuttal Testimony, page 6, lines 13-15 states, "the Company
7 considers the inclusion of the 2010 Iatan Unit 2 previously capitalized property taxes as a
8 component of property tax expense in this case to be appropriate."

9 Q. Does Staff agree with Ms. Hardesty's statement?

10 A. No. Since the Iatan 2 project was still under construction in 2010, the property
11 taxes for the project would have been included with all other construction costs associated
12 with the project and capitalized as part of the construction work order. Upon completion, the
13 construction costs are transferred from CWIP to plant, at which time depreciation begins.
14 Property taxes are based on plant that is in-service effective January 1 of any given year.
15 Since Iatan 2 was not placed in service until August 26, 2010, property taxes through this
16 period would be identified as capitalized property taxes and treated as part of the construction
17 costs of Iatan 2. The capitalized property taxes are considered part of CWIP. While in
18 construction, the Company receives a deferred return on its construction investment as long as
19 those costs are included in CWIP. This deferred return is known as allowance for funds used
20 during construction (AFUDC). Since CWIP includes all costs to construct Iatan 2, including
21 property taxes, a deferred return is calculated on these capitalized property taxes. During the
22 operating life of the unit, GMO will receive recovery of these costs through depreciation—
23 referred to as "return of investment." While the unit is included in rate base the Company

1 will also receive a “return on the investment.” As such, the 2010 assessed property taxes for
2 Iatan 2 were based on construction costs since the taxes are determined at the January 1, 2010
3 assessment date. Therefore, if those capitalized property taxes paid in 2010 were the basis to
4 set rates in this case, KCPL would recover those property taxes first through depreciation and
5 return on the newly completed plant and through property taxes expensed through the
6 adjustment by KCPL in this rate case.

7 Q. Has Staff included any property taxes for Iatan 2 in its case?

8 A. Staff has included an estimate for its estimated true-up case not because Iatan 2
9 was in service August 26, 2010, but because it will be assessed January 1, 2011—in time for
10 inclusion in the true-up in this case.

11 Since Iatan 2 will be assessed as part as the Company’s plant-in-service balance on
12 January 1, 2011, the property taxes assessed on January 1, 2011 will not be paid until
13 December 31, 2011. If the Commission had not ordered a true-up in this case of
14 December 31, 2010, the Company’s rates would be excessive because it would collect in rates
15 for overstated plant assessments that will not be reflected in property tax values until the next
16 assessment date of January 1 2011. Since there is a true-up in this case, then those property
17 taxes should be included in this case.

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

19 A. Personal property taxes are assessed on a local and state basis on this date.
20 The only property assessed is that which is owned on that date. The only property taxes that
21 are expensed are those attributable to plant-in-service owned and assessed as of January 1 of
22 any given year, in this case January 1, 2010 and for the true-up on January 1, 2011. However,
23 Iatan 2 was still in the construction phase on January 1, 2010. While plant additions are under

1 construction, the Company will capitalize all property taxes, along with all other construction
2 costs. When the property is both owned and in-service on January 1, it will be assessed and
3 the associated property taxes will be expensed. Any property placed in-service from
4 January 2nd through December 31st, will not be assessed until the following year. In this
5 case, Iatan 2 will not be assessed for property tax expense purposes until January 1, 2011,
6 with property tax not actually being due until the end of that year. Since the true-up in this
7 case is based on the December 31, 2010 cut-off, property taxes on the Iatan 2 plant will be
8 reflected in the true-up revenue requirement.

9 Q. Why is Staff opposed to including capitalized property taxes as expense as
10 GMO proposes?

11 A. The amount of capitalized property taxes for 2010 was included in CWIP and
12 as of August 26, 2010, reflected in plant-in-service. What GMO proposes is to include
13 the 2010 property taxes in expenses while at the same time have the 2010 property taxes
14 capitalized in plant. The same property tax dollars treated effectively twice—once in plant
15 and as an expense in the cost of service. When rates go into effect in this case the Company
16 would begin receiving a return of its investment including the capitalized property taxes
17 (as depreciation expense item) and recovery of the same property taxes through property
18 tax expense.

19 Q. Does Staff agree with Ms. Hardesty's Rebuttal Testimony on page 3 describing
20 a computational error with Staff's property tax calculation?

21 A. No. According to Ms. Hardesty's Rebuttal Testimony, page 3, lines 7-8, "The
22 formula used on Ms. Lyons's supporting schedule for property taxes used information from
23 schedule CS-126 that was updated on June 30, 2010. On this schedule, the total 2009

1 property tax expenses for MPS was \$10,981,169 and for L&P the total property tax expense
2 was \$3,360,364. I believe that actual 2009 property taxes from MPSC-20101012, DR #131.1
3 should have been used.” Schedule CS-126 referred to by Ms. Hardesty is GMO’s work paper.
4 This work paper was updated by the Company on June 30, 2010, and again on
5 December 31, 2010. Although Staff reviewed the Company work paper, Staff used the
6 2009 Company General Ledger to verify actual 2009 property taxes. Ms. Hardesty claims
7 Staff had a computational error based on the test year amounts she identified above.
8 Ms. Hardesty based her comment about Staff’s computational error on a test year amount that
9 Staff could not confirm on GMO’s general ledger. Consequently, Staff does not agree that a
10 computational error occurred based on the 2009 test year amount for property taxes.

11 Q. Are the 2009 property taxes in the Company General Ledger the same as the
12 2009 property taxes identified on the Company work paper, CS-126?

13 A. Yes.

14 Q. Did Staff review the response provided by the Company to Data
15 Request 131.1?

16 A. Staff reviewed GMO’s response to Data Request 131 - property taxes paid,
17 response to Data Request 131.1 - additional property tax documentation, response to
18 Data Request 27 - plant-in-service and response to Data Request 13 - general ledger. Staff
19 relied on all the information and documentation supplied in these responses to determine and
20 appropriate level of property tax expense for this case.

21 Q. Did Ms. Hardesty state other errors in Staff’s property tax calculation?

22 A. Yes. Ms. Hardesty stated Staff did not include unit train property taxes and
23 property taxes on vehicles.

1 Q. Does Staff agree with Ms. Hardesty's statement?

2 A. In part. Staff did not include unit train property taxes and property taxes on
3 vehicles. The exclusion of unit train property taxes was an oversight and has been corrected
4 in Staff's accounting schedules. However, Staff has not made any corrections related to the
5 property taxes on vehicles. Historically, property taxes on vehicles have not been included in
6 the annualization of property taxes by Staff or the Company. The following statement was
7 taken from the GMO's workpaper, "Taxes on vehicles are charged to Account 933, which are
8 allocated between O&M and capital, based on vehicle usage. Such taxes should follow the
9 vehicle allocation and are not part of the property tax annualization adjustment." Therefore,
10 the property taxes on vehicles are included in Account 933 which was included in the cost
11 of service.

12 Q. Does Ms. Hardesty address any other issues with Staff's property
13 tax calculation?

14 A. Yes. According to Ms. Hardesty, Staff did not include property taxes related
15 to GMO's Kansas Electric Property.

16 Q. Does Staff agree with Ms. Hardesty?

17 A. No. As mentioned earlier in this testimony, Staff relied on GMO's general
18 ledger to develop a property tax ratio. Staff believes property taxes related to GMO's Kansas
19 plant are included in the 2009 property tax balance in the general ledger. As a result, Staff
20 developed its ratio using GMO's Missouri and Kansas plant-in-service.

21 Q. Was Staff notified of these potential errors prior to filing Rebuttal Testimony?

22 A. No. Staff became aware of the Company's concerns after reading
23 Ms. Hardesty's Rebuttal Testimony.

1 Q. Is it customary to address errors in testimony?

2 A. No. It is my understanding there has been a long standing policy among the
3 parties, and in particular, among the utility companies and Staff, that errors are not addressed
4 in testimony.

5 Q. How do errors get addressed in rate cases?

6 A. Typically, they are brought to the attention of the Staff, either during the
7 prehearing conference or meetings and discussions with the company.

8 Q. Was there a prehearing in this case?

9 A. Yes. A prehearing occurred on November 22 through 23, 2010.

10 Q. Did the Company discuss mistakes in Staff's case during the prehearing?

11 A. Yes, on a very limited basis, but the property tax matter was not discussed at
12 all. Subsequent to the prehearing however, Staff and Company met in the audit room at
13 GMO's corporate offices for a series of meetings which dealt only with errors, omissions and
14 inconsistencies in the three rate case filings made on November 10 and November 17.
15 Nothing was discussed about the computational error or the omission in my property tax work
16 papers of unit train taxes, Kansas plant taxes, vehicle taxes or pilot payments. In fact, Staff
17 not only met in person with GMO personnel, but also had many contacts with the Company
18 through conference calls and e-mails. GMO had every opportunity to bring their concerns to
19 Staff's attention but chose not to do so. Perhaps it was simply an oversight on the Company's
20 part. Under the pressure of the work load on everyone connected with these cases, I can
21 certainly understand and appreciate how something can fall through the crack. And I do give
22 the Company the benefit of the doubt that it was not intentional that they waited to bring this
23 error up in rebuttal testimony.

1 Q. Why do errors occur in this process?

2 A. Regrettably, errors are part of the process. Thousands of steps occur in the
3 calculation of a revenue requirement. For GMO and KCPL, Staff is performing in essence
4 three separate revenue requirement calculations—two for GMO under MPS and L&P and one
5 for KCPL, which increases the potential for mistakes. While it is certainly not the Staff's
6 desire to have mistakes in the case, they do occur and are a part of the rate case process. They
7 range from omissions, such as the one that occurred in the property tax area, to getting
8 incorrect or incomplete information from the Company, which does occur on occasion.

9 Q. How did Staff correct the property taxes for the omission of unit train taxes
10 and the South Harper pilot payment?

11 A. Upon review of Ms. Hardesty's Rebuttal Testimony, I immediately reviewed
12 my property tax work papers and found the mistake. I made the necessary correction and
13 provided an updated work paper to the Company. I also made the necessary corrections to the
14 revenue requirement model – the Exhibit Modeling System (EMS) run.

15 Q. If the concerns about the Staff's property tax calculation had been brought to
16 the attention of Staff outside of testimony, would it have been corrected?

17 A. Yes. If GMO would have informed Staff of what it thought was an error, Staff
18 would have immediately reviewed the material and fixed the mistakes related to the unit
19 trains, the South Harper pilot payment and had the opportunity to discuss the Company's
20 concern with the vehicle taxes and Kansas plant taxes. If this approach had been used by the
21 Company instead of waiting until the filing of rebuttal testimony there would not have been a
22 need to address it here in my surrebuttal testimony.

1 Q. Did Staff and the Company discuss the concerns addressed in Ms. Hardesty's
2 Rebuttal Testimony prior to filing this Surrebuttal Testimony?

3 A. Yes. Staff participated on several phone calls and corresponded through email
4 in an attempt to address the Company's concerns.

5 Q. Was the Staff and Company successful in resolving this issue?

6 A. Yes. Staff advised the Company a correction would be made to include unit
7 train taxes and the South Harper pilot payment. In addition, the Company agreed property
8 taxes for vehicles should not be included in the property tax annualization and the property
9 taxes related to GMO's Kansas electric plant were included in the general ledger as
10 Staff suspected.

11 Q. Does Staff intend to include Iatan 2 property taxes in the true-up for this case?

12 A. Yes. As explained in Staff's Cost of Service report filed on
13 November 17, 2010, Staff calculated property taxes on all property that is currently providing
14 service to customers based on property tax assessments made on January 1, 2010. Any
15 property placed in-service after January 1, 2010 would not be assessed by the taxing authority
16 until January 1, 2011. However, Staff made a decision to file a projected December 31, 2010
17 case at the time of direct filing. Staff's projected December 31, 2010 case includes
18 anticipated costs for the December 31, 2010 true-up which includes the Iatan 2 plant addition
19 and the related property taxes. As mentioned earlier in this testimony, Staff applies a ratio of
20 property taxes paid to plant-in-service to determine an appropriate level of expense for
21 property taxes. To obtain an appropriate level of anticipated property taxes for 2011, Staff
22 used the Company's September 30, 2010 plant balances which include the Iatan 2 plant
23 addition. During the true-up Staff will use the same method by developing a ratio of actual

1 property taxes paid in 2010 to plant-in-service balances as of January 1, 2010 and applying
2 the ratio to the Company's January 1, 2011 plant balances.

3 Q. What is Staff's recommendation on this issue?

4 A. GMO should not be allowed to include costs it is recovering through
5 depreciation and as a rate base component of cost of service (the capitalized property taxes),
6 and also be permitted to add additional property tax expenses in rates for amounts it will only
7 pay out once as capitalized property taxes at the end of 2010. However, the timing of the
8 true-up should solve this issue, and capture the January 1, 2011 new assessment with Iatan 2
9 now being considered plant-in-service by the taxing authorities. This in turn will result in the
10 expensing of Iatan 2's property taxes in 2011.

11 Q. Does this conclude your surrebuttal testimony?

12 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) File No. ER-2010-0356
Approval to Make Certain Changes in its)
Charges for Electric Service)

AFFIDAVIT OF KAREN LYONS

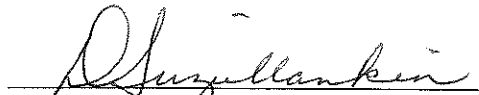
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Karen Lyons, 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 13 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 Lyons

Subscribed and sworn to before me this 12th day of January, 2011.

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