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Service Commission

Exhibit No.:
Issues: Property Tax Expense
Witness: Ashley R. Sarver
Sponsoring Party: MoPSC Staff
Type of Exhibit: Surrebuttal Testimony
Case No.: ER-2016-0023
Date Testimony Prepared: May 16, 2016

MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF DIVISION

AUDITING DEPARTMENT

SURREBUTTAL TESTIMONY

OF

ASHLEY R. SARVER

THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2016-0023

*Jefferson City, Missouri
May 2016*

~~Staff~~ Exhibit No. 24
Date 6-02-16 Reporter JS
File No. ER-2016-0023

1 including the additional property tax to be incurred related to the large new plant addition
2 at Riverton,” and “Staff should update the effective rate calculation and plant in service
3 balances to March 31, 2016, the true-up date in this case, to eliminate the time lag in
4 Staff’s calculation.”

5 Q. Please summarize Staff’s position with regard to property tax expense.

6 A. Staff recommends that the Commission include in Empire’s rates property tax
7 expense based upon the Staff’s adjusted level of total electric plant in service as of January 1,
8 2015. Staff also recommends that the Commission exclude any amount of property taxes
9 estimated in relation to 2016 plant additions from the cost of service, including the new
10 Riverton plant additions, as Empire will not be required to pay property taxes on these plant
11 additions until December 2017, well beyond the true-up cutoff date that was established in
12 this rate proceeding.

13 Q. Why did Staff use the adjusted level of total electric plant in service as of
14 January 1, 2015?

15 A. Because this amount is “known and measurable” for ratemaking purposes.

16 Q. What does the term “known and measurable” mean in the ratemaking context?

17 A. The term “known and measurable” means that the utility costs under review
18 are associated with an event that has already occurred and the change in costs associated with
19 the event can be measured with a high degree of accuracy.

20 Q. How are property taxes typically assessed by the taxing authority and paid by
21 the utility?

22 A. Property taxes are computed using the assessed property values. The taxing
23 authority, either state or local, uses the utility plant balances assessed as of January 1 of each

1 year. This date is critical because it forms the basis for the property tax bill, which is generally
2 paid at the end of that same year, no later than December 31. Utilities are required to file with
3 the taxing authorities a valuation of their utility property based on the January 1 assessment
4 date each year. The taxing authorities will provide the utility with what they refer to as an
5 “assessed value” for each category of property owned. Later in the year, the taxing authorities
6 also determine a property tax rate that is given to the utilities. Property tax bills are then
7 issued to the utilities with “due dates” of December 31 for each year based on the property tax
8 rates applied to the assessed value. For example, a utility will pay property taxes on
9 December 31, 2015, based upon an assessment made of its asset values as of January 1, 2015.

10 Q. What is the test year for this case?

11 A. Empire filed its case based upon final costs and billing determinants used to
12 establish current rates in its last rate case, Case No. ER-2014-0351. In that case, the
13 Commission ordered a test year based upon twelve months ending April 30, 2014, with an
14 update period to reflect known and measurable changes through August 31, 2014. The parties
15 have agreed to use the final rate base levels, revenues, expenses (i.e. revenue requirement
16 components), as well as the billing determinants used in Case No. ER-2014-0351, as a starting
17 point for the analysis of Empire’s need for a rate change in this case. The billing determinants
18 and other revenue requirement components, including property taxes, were analyzed and
19 updated through September 30, 2015 in Staff’s direct filing.

20 Q. What is the true-up period for this case?

21 A. The true-up period for this case is through March 31, 2016.

22 Q. Will Staff be updating property tax as part of its true-up audit?

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1 A. Yes, Staff will update the property tax expense based on plant in service as of
2 January 1, 2016, and an updated tax ratio. The property tax ratio represents the actual property
3 tax amount paid on December 31, divided by the plant level as of January 1 of the same year.

4 Q. Will Staff include the Company's Riverton plant additions to calculate
5 property tax expense for this case?

6 A. No, plant additions and improvements made after January 1, 2016, will not be
7 assessed for property tax purposes until January 1, 2017, and will not be paid until
8 December 31, 2017, which is beyond the update period and the date when rates will become
9 effective in this case. The taxes paid for Riverton are not known and measurable as of
10 December 31, 2015. Staff's position is that it would be inappropriate to include property tax
11 payments that are paid 15 months after the operation of law date of this case. This action
12 would violate the ratemaking concept referred to as the "matching principle".

13 Q. Please define the concept of the "matching principle."

14 A. The term "matching principle" refers to the practice that all elements of
15 revenue requirement, including revenues, expenses, and rate base, be measured and included
16 in the utility's cost of service at the same general point in time.

17 Q. Why is it important to properly maintain the relationship of the individual
18 components that make up the revenue requirement?

19 A. It is very important that all elements of the revenue requirement be considered
20 at a consistent point in time because various events cause changes to a utility's revenues,
21 expenses, and rate base amounts individually or in combination, consequently causing the
22 utility's overall revenue requirement to change over time. Reflecting changes to only one
23 element of the revenue requirement in rates, in this case property taxes, without consideration

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1 of all other possible offsetting changes in the other cost of service components would likely
2 lead to a distorted and inaccurate level of customer rates.

3 Q. Does this conclude your surrebuttal testimony?

4 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of The Empire District Electric)
Company's Request for Authority to Implement) Case No. ER-2016-0023
a General Rate Increase for Electric Service)

AFFIDAVIT OF ASHLEY R. SARVER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW ASHLEY R. SARVER and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing SURREBUTTAL TESTIMONY; and that the same is true and correct according to her best knowledge and belief.

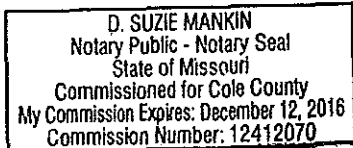
Further the Affiant sayeth not.




ASHLEY R. SARVER

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 13th day of May, 2016.





Notary Public