

Exhibit No:  
Issue: Property Tax & ADIT  
Witness: L. Jay Williams  
Type of Exhibit: Direct Testimony  
Sponsoring Party: Empire District Electric  
Docket No: ER-2012-0345  
Date Testimony Prepared: July 2012

**Before the Public Service Commission  
of the State of Missouri**

**Direct Testimony**

**Of**

**L. Jay Williams**

**July 2012**



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L. JAY WILLIAMS  
ON BEHALF OF  
THE EMPIRE DISTRICT ELECTRIC COMPANY  
BEFORE THE  
MISSOURI PUBLIC SERVICE COMMISSION  
CASE NO. ER-2012-0345

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OF  
L. JAY WILLIAMS  
THE EMPIRE DISTRICT ELECTRIC COMPANY  
BEFORE THE  
MISSOURI PUBLIC SERVICE COMMISSION  
CASE NO. ER-2012-0345

1     **INTRODUCTION**

2     **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3     A. L. Jay Williams. My business address is 602 Joplin Street, Joplin, MO.

4     **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5     A. I am employed by The Empire District Electric Company (“Empire” or  
6     “Company”) as Regulatory Tax Manager.

7     **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND WORK**  
8     **BACKGROUND.**

9     A. I graduated from Missouri Southern State University with a BS in Business  
10     Administration (emphasis in accounting) in 1975. I hold certificate number 8047  
11     from the Missouri State Board of Accountancy. Prior to joining Empire in 1983, I  
12     spent six years in public accounting, primarily in the income tax field. Except for  
13     a short period in Empire’s Internal Auditing Department, I have spent my entire  
14     tenure working in the tax area of the Company. My tax experience at the  
15     Company includes the responsibility for tax compliance in the areas of property,  
16     sales/use, corporate franchise and income taxes.

17     **Q. HAVE YOU FILED TESTIMONY PREVIOUSLY BEFORE THE**  
18     **MISSOURI PUBLIC SERVICE COMMISSION (“COMMISSION”)?**

19     A. Yes.

1 **EXECUTIVE SUMMARY**

2 **Q. PLEASE BRIEFLY SUMMARIZE YOUR TESTIMONY.**

3 A. I will explain the property tax and accumulated deferred income tax (“ADIT”)  
4 components of the Company’s rate case filing.

5 **PROPERTY TAX EXPENSE**

6 **Q. HOW WAS THE LEVEL OF PROPERTY TAX EXPENSE DETERMINED**  
7 **BY EMPIRE FOR PURPOSES OF THIS CASE?**

8 A. We used the actual 2011 property tax liability as the basis to estimate 2012  
9 property tax levels.

10 **Q. WHY HAS EMPIRE ESTIMATED THE 2012 PROPERTY TAX LEVELS?**

11 A. Estimation of the 2012 property tax levels is necessary due to the timing of the  
12 property tax assessment valuations from each of the four states in which we  
13 operate. These assessments or valuations are not finalized until May or June of  
14 each year. In addition, the actual property tax in many of the taxing authorities is  
15 not finalized until late fall when the actual bills are received. As a result of these  
16 timing issues, Empire adjusts its property tax accrual to actual in December each  
17 year.

18 **Q. IS THERE ANYTHING UNUSUAL ABOUT EMPIRE’S PROPERTY TAX**  
19 **ACCRUAL FOR 2012?**

20 A. Yes, there is. The property tax accrual for 2012 consists of an approximate 5%  
21 increase in property tax expense, as well as new property taxes of approximately  
22 \$660,000.

23 **Q. WHAT ARE THESE NEW PROPERTY TAXES RELATED TO?**

1 A. The new property taxes are related to two of Empire's generating units, Riverton  
2 12 and Plum Point.

3 **Q. PLEASE EXPLAIN.**

4 A. Empire's Riverton 12 unit went into service in 2007, and, under Kansas law, was  
5 exempt from Kansas property taxes during its construction and the first full four  
6 years of operation after being placed in service. This Kansas property tax  
7 exemption or abatement has expired, and Riverton 12 will be subject to full  
8 assessment beginning in 2012. We expect the expiration of the Riverton 12  
9 exemption to add approximately \$575,000 in property tax expense in 2012. In  
10 addition, a Payment in Lieu of Taxes ("PILOT") agreement related to property  
11 taxes on our investment in the Plum Point unit in Osceola, AR requires annual  
12 payments of approximately \$84,000 to begin in September of 2012.

13 **ADIT RELATED TO ACCELERATED DEPRECIATION**

14 **Q. HOW WAS EMPIRE'S ADIT BALANCE ADJUSTED FOR PURPOSES**  
15 **OF THIS CASE?**

16 A. We used Empire's composite income tax rate multiplied by the 2012 budgeted tax  
17 basis for deferral (tax depreciation minus tax straight line depreciation) to  
18 determine an estimate of the deferred tax expense for 2012. We then added the  
19 results to the ADIT balance at December 31, 2011, to arrive at an estimate of the  
20 ADIT balance at December 31, 2012. This adjustment resulted in deferred taxes  
21 included in rate base of \$210,840,545.

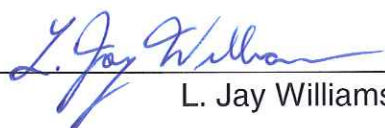
22 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

23 A. Yes it does.

**AFFIDAVIT OF L. JAY WILLIAMS**

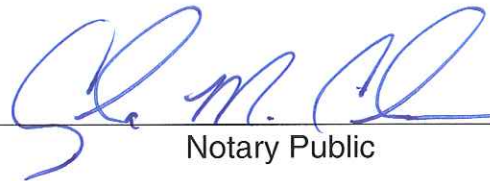
STATE OF MISSOURI    )  
  ) **ss**  
COUNTY OF JASPER    )

On the   2nd   day of July, 2012, before me appeared L. Jay Williams, to me personally known, who, being by me first duly sworn, states that he is Retulatory Tax Manager of The Empire District Electric Company and acknowledges that he has read the above and foregoing document and believes that the statements therein are true and correct to the best of his information, knowledge and belief.

  
\_\_\_\_\_  
L. Jay Williams

Subscribed and sworn to before me this   2nd   day of July, 2012.

ANGELA M. CLOVEN  
Notary Public - Notary Seal  
State of Missouri  
Commissioned for Jasper County  
My Commission Expires: November 01, 2015  
Commission Number: 11262659

  
\_\_\_\_\_  
Notary Public

My commission expires   11-01-2015