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Witness: Harold "Steve" Smith
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Sponsoring Party: KCP&L Greater Missouri Operations Company
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2012-0175

DIRECT TESTIMONY

OF

HAROLD "STEVE" SMITH

ON BEHALF OF

KCP&L GREATER MISSOURI OPERATIONS COMPANY

**Kansas City, Missouri
February 2012**

Gmo Exhibit No. 137
Date 10/29/12 Reporter AF
File No. ER-2012-0175

DIRECT TESTIMONY
OF
HAROLD "STEVE" SMITH

Case No. ER-2012-0175

1 **Q: Please state your name and business address.**

2 A: My name is Harold "Steve" Smith. My business address is 1200 Main, Kansas City,
3 Missouri 64105.

4 **Q: By whom and in what capacity are you employed?**

5 A: I am employed by Kansas City Power & Light Company ("KCP&L") as Manager,
6 Property & Miscellaneous Taxes.

7 **Q: On whose behalf are you testifying?**

8 A: I am testifying on behalf of KCP&L Greater Missouri Operations Company ("GMO" or
9 the "Company") for the territories served by St. Joseph Light & Power ("L&P") and
10 Missouri Public Service ("MPS").

11 **Q: What are your responsibilities?**

12 A: As Manager, Property & Miscellaneous Taxes, I have primary responsibility to minimize
13 GMO's cash expenditures for property and miscellaneous taxes while ensuring
14 compliance with all tax laws, regulations and ordinances.

15 **Q: Please describe your education, experience and employment history.**

16 A: I graduated from University of Missouri - Columbia in 1983 with a Bachelor of Science
17 Degree in Accounting and passed the Certified Public Accountant examination in 1986. I
18 was first employed at Aquila, Inc. in June 2000 as a Manager of Property and Transaction
19 Taxes. Prior to my career at KCP&L, I was employed by Sprint, in various Tax and

1 Accounting positions from 1986 to 2000. Prior to joining Sprint I was employed as an
2 Auditor with the Missouri Department of Revenue.

3 **Q: Have you previously testified in a proceeding before the Missouri Public Service**
4 **Commission (“Commission” or “MPSC”)?**

5 A: I have not testified before the MPSC, but I have testified before the Kansas Corporation
6 Commission.

7 **Q: What is the purpose of your testimony?**

8 A: The purpose of this testimony is to describe the property tax expense adjustments CS-126
9 for the MPS and L&P jurisdictions, included in Schedules JPW-3 and JPW-4 for each
10 jurisdiction attached to the direct testimony of Company witness John P. Weisensee.

11 **Q: Please explain adjustment CS-126.**

12 A: The Company annualized the real estate and personal property tax expense and
13 payments-in-lieu-of-taxes (“PILOT”) that will be paid based on plant in service balances.

14 **Q: How was annualized property tax expense determined?**

15 A: Each GMO jurisdiction used a property tax ratio of the jurisdiction’s property tax
16 expense for 2011 divided by the jurisdiction’s plant in-service as of January 1, 2011.
17 This ratio was then applied to that jurisdiction’s January 1, 2012 plant original cost to
18 project the 2012 property tax expense. For the MPS jurisdiction, the annual PILOT
19 payments for the South Harper and Crossroads generating stations are then added to the
20 projected property tax expense to determine the Company’s total annualized property tax
21 amount.

1 **Q: Why was the actual January 1, 2012 original plant cost used?**

2 A: The property taxes paid for 2012 will be based on the plant balances at January 1, 2012.
3 However, the property taxes paid for 2013, the first year that the new rates in this case
4 will be in effect, will be based on plant balances as of January 1, 2013. The Company
5 will adjust the amount included in cost of service to reflect the projected property tax
6 expense associated with plant at August 31, 2012, the anticipated True Up date in this
7 case.

8 **Q: Please explain how the Iatan 2 property tax deferral was addressed in this**
9 **calculation.**

10 A: Since GMO utilized construction accounting for Iatan 2 from its in-service date (August
11 26, 2010) through the effective date of new rates in Case No. ER-2010-0356 (June 25,
12 2010) as discussed by Mr. Weisensee in this direct testimony (adjustment RB-26/CS-
13 112), GMO capitalized \$1.3 million of property taxes in 2011 that will be classified as
14 expense in future periods. This \$1.3 million in capitalized property taxes was added back
15 by jurisdiction to the property tax expense for 2011 in order to capture all of the property
16 tax expenses that will be incurred in future periods and to calculate the correct 2011
17 ratios for each jurisdiction to be applied to 2012 plant balance.

18 **Q: Do the various components of the real estate and personal property tax adjustment**
19 **discussed above take into effect tax amounts allocated to vehicles and charged to**
20 **accounts other than property tax expense and the amounts allocated to non-utility**
21 **plant?**

22 A: Yes, these components have been excluded from both the plant in service and property
23 taxes paid components of the calculation.

1 **Q: Please explain the PILOT adjustment.**

2 A: The Company has placed in-service two generation facilities in its MPS jurisdiction that
3 were built under Chapter 100 financing. Due to the nature of chapter 100 financing both
4 of these facilities have PILOT agreements in place. South Harper has an annual payment
5 due of \$241,832 and Crossroads has an annual payment of \$258,000.

6 **Q: Do you expect future property tax expense to increase, decrease or remain the same
7 for future periods?**

8 A: Based on the prior four years, GMO's property tax expense has continued to increase; in
9 2008 GMO's total property tax expense was \$14.2 million and in 2011 GMO's total
10 property tax expense was \$23.0 million. In each of the prior years the Company's total
11 property tax expense has increased over the prior year; see Schedule HSS-1, a 4-year
12 summary of GMO property taxes. Based upon this history of increase in property tax
13 expense in each of the last four years I expect property taxes to continue to increase
14 during the next few years. I have only provided four years of history for GMO since
15 prior to 2008 GMO was Aquila Inc. and the property tax valuation included operations
16 that are not part of GMO.

17 **Q: Does that conclude your testimony?**

18 A: Yes, it does.

KCP&L Greater Missouri Operations Company

Summary of Recent Property Taxes By Calendar Year
MPSC Filings

GMO		
Charged By Calendar Year		
2011	2010	2009

22,457,639	21,455,436	17,757,116	13,726,242
499,832	499,832	499,832	499,832
22,957,471	21,955,268	18,256,948	14,226,074

Total Property Taxes:

Total Property Taxes (excluding PILOTs)

Payments in Lieu of Taxes (PILOTs)

Total Property Taxes

NA	#0131R (Part 3)	#0131R (Part 3)	#131.1
NA	Feb 2011	Feb 2011	Oct 2010