

Exhibit No.:
Issue: Property Tax
Witness: Patricia Gaskins
Sponsoring Party: MoPSC Staff
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Case No.: ER-2012-0174
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MISSOURI PUBLIC SERVICE COMMISSION

**REGULATORY REVIEW DIVISION
UTILITY SERVICES - AUDITING**

REBUTTAL TESTIMONY

OF

PATRICIA GASKINS

Staff Exhibit No. 215
Date 10/17/12 Reporter MM
File No. ER-2012-0174

**KANSAS CITY POWER & LIGHT COMPANY
GREAT PLAINS ENERGY, INC.**

CASE NO. ER-2012-0174

Jefferson City, Missouri
September 2012

1 Company (KCPL) and Staff disagree with property taxes for additional plant and when the
2 taxes should be included as an expense for rate determination.

3 **EXECUTIVE SUMMARY**

4 Q. Please summarize Staff's position with how property tax is calculated.

5 A. KCPL is billed by each taxing authority that has jurisdiction over the
6 assessment and taxing of KCPL's property. The actual property taxes are assessed on plant
7 costs and construction costs KCPL owns on January 1 of any given year. The property taxes
8 related to plant costs are expensed on KCPL's books, while those taxes related to
9 construction costs are capitalized and recovered through depreciation expense over the life of
10 the asset.

11 In this case, the test year is the 12 month period ending September 30, 2011, with an
12 update period through March 31, 2012. Currently, a true-up period of August 31, 2012, is
13 planned to accommodate new plant additions and any other material changes to the revenue
14 requirement for increased and decreased costs. Based on this timeline, Staff included
15 expense for property taxes on all plant identified as Plant in Service owned by KCPL on
16 January 1, 2012—the period the taxing authorities assessed this property. In most cases, the
17 taxes are due by the end of the year that the plant was assessed. Any additional plant
18 added after January 1, 2012, would not be assessed by the taxing authorities as Plant in
19 Service until January 1, 2013, and KCPL would not have to pay those property taxes until
20 December 31, 2013.

21 For the direct filing, Staff used a tax ratio based on 2011 property tax payment to
22 January 1, 2011 plant and applied that ratio to January 1, 2012 plant. KCPL's Plant in
23 Service will not be assessed again until January 1, 2013 and will not be paid until December

1 2013 which is well beyond the true up period in this case. Consequently, Staff's annualized
2 level of property tax expense included in its direct case will need no further update.

3 **PROPERTY TAX**

4 Q. How does KCPL and Staff position differ?

5 A. According to Steve "Harold" Smith's direct testimony, KCPL will adjust the
6 amount included in cost of service to reflect the projected property tax expense associated
7 with plant at August 31, 2012, the anticipated True-Up date in this case. KCPL uses this
8 method to calculate property taxes for plant additions through the Updated Period and
9 eventually the True-Up period.

10 KCPL's proposal to include plant additions in this case for property taxes does not
11 meet the known and measurable standard used to develop rates in this state. According to
12 Mr. Smith's direct testimony, page 2, lines 20-23, and page 3, lines 1-2, "However, the
13 property taxes paid for 2013, the first year that the new rates in this case will be in effect, will
14 be based on plant balances as of January 1, 2013. The Company will adjust the amount
15 included in cost of service to reflect the projected property tax expense associated with plant
16 at August 31, 2012, the anticipated True Up date in this case." KCPL uses this method to
17 calculate property taxes for plant additions through the update period and eventually the true-
18 up period. KCPL's proposal to include plant additions in this case for property taxes does
19 not meet the known and measurable standard used to develop rates in this state.

20 Staff does not include plant additions that are placed in service after the January 1
21 assessment date. Consistent with the Commission's past practice, Staff used a property tax
22 ratio based on the plant balance effective January 1, 2011, and the related property taxes paid
23 as of December 31, 2011. This ratio or composite rate was applied to the plant balance
24 effective January 1, 2012. Both KCPL and Staff compare the computed annualized property

1 taxes to the amount of property taxes recorded in the test year to make their respective
2 adjustments for property tax expense.

3 Q. Has the Commission ruled on this issue previously?

4 A. Yes. The Commission decided this issue in KCPL's 2006 rate case — Case
5 No. ER-2006-0314. The test year in that case was calendar year 2005 with an update of
6 June 30, 2006, and true-up of September 30, 2006. Staff included an amount of property
7 taxes in the 2006 rate case based on the property taxes assessment date of January 1, 2006,
8 and developed a ratio similar to the method used in this current case. In the 2006 rate case,
9 Staff compared the amount of January 1, 2005 plant to the related property taxes paid as of
10 December 31, 2005 to develop the ratio that was applied to the January 1, 2006 plant
11 balance. The property taxes in the 2006 rate case were reflected in the rates that were
12 effective January 1, 2007. Any plant that was under construction on January 1 but was
13 completed January 2 and later was assessed January 1, 2007 and paid by December 31, 2007.

14 Because of the way property taxes are assessed and the timing of when they are paid
15 for, Staff, with the support of the Commission has used method in this case consistently for
16 number of years.

17 The Commission has decided the property tax method in several other cases as
18 follows:

- 19 • KCPL Case No. ER-2006-0314
- 20 • MGE Case No. GR-95-285
- 21 • Empire Case No. ER-2001-0299
- 22 • St Louis County Water Co. Case No. WR-2000-844

23 In the 2001 Empire rate case, an excerpt from the Report and Order for Case No.
24 ER-2001-0299 states:

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1 The Commission finds that the arguments of Staff and Praxair
2 regarding the property tax issue are persuasive. Staff's estimate of
3 property taxes is based upon known and measurable factors and
4 preserves appropriate matching of all revenue requirements, and is
5 consistent with the Commission's past practice. Empire's position is
6 not based upon known and measurable factors. In addition, it would
7 be unreasonable for the Company to start charging ratepayers...for
8 (estimated) costs that the Company will not start paying... The
9 Commission determines that it will not increase the total company
10 revenue requirement to account for property taxes on the additional
11 plant in service.
12 [page 27 of the Order in Case No. ER-2001-0299]

13 In the 1996 MGE rate case GR-96-285:

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

19 In the 2000 St. Louis County Water Company, currently known as Missouri American Water
20 Company, Case No. WR-2000-844:

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

31 Q. Has KCPL presented this issue before in prior rate cases?

32 A. Yes. KCPL wanted to include property taxes for plant additions past the
33 January 1 assessment date in its 2006 rate case, Case No. ER-2006-0314 and in Case No.
34 ER-2009-0089. In Case No. ER-2006-0314, using a true-up date of September 30, 2006,

1 KCPL wanted to include the 2006 assessments and levies, which would have included plant
2 additions after the January 1, 2006, assessment date Staff used. The property taxes for those
3 post-January 1 assessment date additions were not actually paid until December 31, 2007,
4 which was the day before the effective date of rates in the second rate case filed by KCPL
5 (Case No. ER-2007-0291). Had the Commission used KCPL's methodology to compute
6 property taxes on plant additions in the 2006 rate case, the actual taxes would not have been
7 actually paid until the effective date of the second case, forcing the customers to pay those
8 taxes a full year in advance of those taxes.

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

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

12 Staff recommends that the Commission calculate property tax expense
13 by multiplying the January 1, 2006 plant-in- service balance by the
14 ratio of the January 1, 2005 plant-in-service balance to the amount of
15 property taxes paid in 2005. KCPL wants the property tax cost of
16 service updated to include 2006 assessments and levies.

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

31 [pages 68-69 of the Order in Case No. ER-2006-0314]

1 Q. How did KCPL treat property taxes in Case No. ER-2009-0089?

2 A. Similarly, in Case No. ER-2009-0089, using a true-up date of April 30, 2009,
3 KCPL wanted to include the 2009 assessments and levies which would have included plant
4 additions after the January 1, 2009 assessment date Staff used. The property taxes for those
5 post-January 1 assessment date additions were not due until December 31, 2010, which is
6 approximately 16 months after the effective rate increase date of September 1, 2009. As was
7 the case in the 2006 KCPL rate case, KCPL requested plant additions based on in-service
8 dates after January 1 assessment dates that would result in customers having to pay for
9 property taxes well in advance of the actual payments of those taxes. Using KCPL's
10 approach to calculate property taxes, customers will pay in rates, determined in future rate
11 cases, for those taxes on post-January 1 assessed plant additions even though those taxes will
12 not be paid until December of the following year at the earliest.

13 Q. How did KCPL treat property taxes in Case No. ER-2010-0355

14 A. In Case No. ER-2012-0355 the true-up period was December 31, 2010. Plant
15 in Service as of December 31, 2010 is the same as January 1, 2011. Since the true-up period
16 for that case was December 31, 2010, the issue of including plant additions beyond the
17 January 1 assessment date did not apply. However, had a true-up not been ordered by the
18 Commission, KCPL rates would have been excessive because it would have collected in rates
19 for overstated plant assessments would not have been reflected in property taxes until the
20 following year.

21 Consistent with the Commission's past practices, the Commission should reject
22 KCPL's methodology to include property taxes for plant additions placed in service after the
23 January 1 assessment date.

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1 Q. If the Commission rejects KCPL's method in determining the proper level
2 for property taxes, how will the taxes paid for non-Plant in Service as of the January 1
3 assessment date be treated?

4 A. Any amount of non-Plant in Service, or plant still under construction is
5 assessed by taxing authorities on January 1, but these taxes are capitalized as part of the
6 construction costs of the plant construction. As such, the taxes are identified as costs to
7 construct the plant and like other construction costs are captured in the construction work
8 order. All the construction costs, including the capitalized property taxes are included in the
9 Plant in Service amounts when construction is completed and the plant is deemed in service.
10 KCPL will recover the costs to construct this plant, including the capitalized property taxes,
11 over the life of the plant through depreciation.

12 Q. Does this conclude your rebuttal testimony?

13 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & Light)
Company's Request for Authority to)
Implement A General Rate Increase for)
Electric Service)

Case No. ER-2012-0174

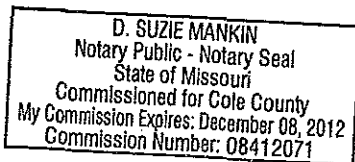
AFFIDAVIT OF PATRICIA GASKINS

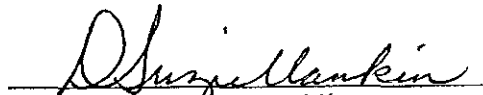
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Patricia Gaskins, 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 8 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.


Patricia Gaskins

Subscribed and sworn to before me this 5th day of September, 2012.




Notary Public