

**BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

REBUTTAL TESTIMONY

OF

STEVE SMITH

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

**IN THE MATTER OF THE APPLICATION OF
KANSAS CITY POWER & LIGHT COMPANY
TO MODIFY ITS TARIFFS TO CONTINUE THE
IMPLEMENTATION OF ITS REGULATORY PLAN**

DOCKET NO. 07-KCPE-905-RTS

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

2 A. My name is Steve Smith. My business address is 1201 Walnut, Kansas City,
3 Missouri 64106.

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

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

7 **Q. What are your responsibilities?**

8 A. As Manager, Property and Miscellaneous Taxes, I have primary responsibility to
9 minimize KCPL's cash expenditures for property and miscellaneous taxes while
10 ensuring compliance with all tax laws, regulations and ordinances.

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

12 A. I graduated from University of Missouri - Columbia in 1983 with a Bachelor of
13 Science Degree in Accounting and became a Certified Public Accountant in 1986. I

1 was first employed at KCPL in 2007 as Manager, Property and Miscellaneous Taxes.
2 Prior to my career at KCPL, I was employed by Aquila Inc. as Senior Manager
3 Property and Transaction Taxes from 2000 – 2007. Prior to Aquila, I was employed
4 by Sprint in various tax and accounting positions from 1986 to 2000.

5 **Q. What is the purpose of your rebuttal testimony?**

6 A. The purpose of my rebuttal testimony is to respond to Kansas Corporation
7 Commission (“Commission”) Staff witness George Rohrer and Citizens’ Utility
8 Ratepayer Board (“CURB”) witness Andrea C. Crane, specifically regarding their
9 proposals relating to property taxes.

10 **STAFF’S PROPERTY TAX ADJUSTMENT**

11 **Q. What adjustment did Staff propose for property tax expense?**

12 A. Mr. Rohrer's IS-19 adjustment of \$2,486,808 (\$1,138,237 Kansas jurisdictional)
13 eliminates most of the \$2,816,808 (\$1,267,397) property tax increase that the
14 Company included in its filed case. The only component of the Company’s
15 adjustment that Mr. Rohrer did not eliminate was a \$330,000 (total company)
16 Payment in Lieu of Tax (“PILOT”) related to the new wind generating facility located
17 in Ford County, Kansas.

18 **Q. Do you agree with Mr. Rohrer’s IS-19 adjustment?**

19 A. No, I do not. Staff witness George Rohrer disallowed most of KCPL’s annualized
20 property tax adjustment because he concluded that the increases over and above the
21 test year expense are not “known and measurable.” The Company considers these
22 increases to be known and measurable, as I will discuss later in this testimony.
23 Mr. Rohrer also indicated that if KCPL’s property tax expenses increase, it has the

1 option of requesting a surcharge under K.S.A. 66-117(f) to recover additional tax
2 expense above the test year amount, an option with which I am concerned.

3 **Q. Is Mr. Rohrer incorrect in stating that the Company has this option to recover**
4 **its increasing property tax expense?**

5 A. The Kansas Legislature enacted the property tax surcharge in 1997 as an optional way
6 for public utilities to recover rising property taxes without the need for the costs of a
7 formal rate proceeding. It is an optional method to recover such expenses and should
8 not be viewed by the Commission as the preferred vehicle to recover known and
9 measurable increases in test year expense in the context of a formal rate proceeding.

10 Given that we are addressing this issue within the context of this rate case, it is not
11 appropriate to use a property tax expense known to be too low or to force KCPL to
12 implement the surcharge in order to recover these expenses. The correct property tax
13 expense to use in this rate proceeding is the test year expense, plus known and
14 measurable changes.

15 **Q. Are there any other reasons why the Property Tax Surcharge should not be**
16 **used?**

17 A. Yes, there is one additional reason. Surcharges should only be used when absolutely
18 necessary and when rate cases are infrequent. KCPL filed rate cases in 2006 and
19 2007, has the option under the Regulatory Plan in Docket No. 04-KCPE-1025-GIE
20 (“Regulatory Plan”) to file in 2008, and must file in 2009 under that Regulatory Plan.

21 **Q. Can you briefly explain how property taxes are determined for utility property**
22 **in Missouri and Kansas?**

1 A. Property taxes for utility property located in Missouri and Kansas are determined by
2 applying the tax levy rates as imposed by the applicable local taxing jurisdictions
3 such as the state, county, school district, etc. to the assessed value of the taxable
4 property, as of the beginning of the calendar year.

5 **Q. Please discuss why you believe the Company’s proposed property tax**
6 **adjustment should be allowed, and Staff’s adjustment rejected.**

7 A. The Company’s adjustment should be allowed because the increase is necessary to
8 reflect rising property tax expense and because each component of this increase is
9 known and measurable. The components, excluding the PILOT that is not at issue,
10 include: (1) the 2007 property tax assessments, (2) 2007 tax levy increases, and
11 (3) the effect of 2007 plant additions. Each of these components is shown on
12 Schedule SS-1, which is an update to the comparable schedule included in the
13 Company’s filing in this rate proceeding.

14 **Q. Please explain why the first component represents a known and measurable**
15 **change.**

16 A. This first component, shown as “2007 Tax Based on 2007 Assessments & 2006
17 Levies” on Schedule SS-1, includes the effect of final 2007 property tax assessments
18 KCPL received from its state and local assessing authorities in Missouri and Kansas.
19 KCPL’s combined Missouri and Kansas taxable assessed values increased from
20 \$701,885,630 in 2006 to \$714,405,530 in 2007.

21 **Q. Please explain why the second component represents a known and measurable**
22 **change.**

1 A. The second component, shown as “Levy Adjustment” on Schedule SS-1, includes the
2 effect of tax levy increases. The Company has experienced overall tax levy increases
3 for at least the last ten years. The average overall tax levy increase during this time
4 period has been 1.67%, with no overall tax levy decreases. Therefore, the Company
5 considers the 1.67% tax levy rate increase used in its property tax adjustment to be
6 reasonable.

7 **Q. Will the Company know its actual 2007 tax levy increases by the time revised**
8 **rates become effective in this rate proceeding.**

9 A. Yes, it will. The Company will receive most of its 2007 tax statements by early
10 October 2007, and all statements should be received by November 1.

11 **Q. Please explain why the third and final item represents a known and measurable**
12 **change.**

13 A. The third component, shown as “Tax on Jan.-Sept. Additions” on Schedule SS-1,
14 includes the effect of 2007 plant additions. The 2007 rate case schedule pursuant to
15 the Stipulation and Agreement in the Regulatory Plan indicated that KCPL may
16 include new investment in plant that it anticipates to be in service by December 31,
17 2007. To be consistent, annualized property taxes on these plant additions should be
18 considered as part of this case. The projected property tax on the 2007 plant additions
19 included in the Company’s property tax adjustment is known and measurable based
20 on the use of an acceptable tax to plant ratio.

21 **Q. Have you quantified the effects of the known and measurable changes discussed**
22 **above?**

1 A. Yes, the effects of these known and measurable changes were included in the
2 Company's rate filing in this proceeding, as more fully discussed in Company witness
3 John Weisensee's Direct Testimony. Since that time, the effects have changed
4 slightly as a result of updated information, in particular the actual 2007 tax
5 assessments received in the second quarter of 2007 and discussed above (first
6 component). The overall requested property tax increase, including the PILOT, has
7 gone down slightly from \$2,816,808 (total company) in the filing to \$2,703,066, as
8 reflected in Schedule SS-1.

9 **Q. Please summarize your concerns with Staff adjustment IS-19.**

10 A. Staff's adjustment IS-19 is invalid and unnecessary. It is based on the assumption
11 that the Company's adjustment to reflect 2007 tax assessments, 2007 tax levy
12 increases and 2007 plant additions includes items that are not known and measurable.
13 As discussed, these components are known and measurable and should be considered.
14 Therefore, I recommend that Staff's property tax adjustment be disallowed in its
15 entirety.

16 **CURB'S PROPERTY TAX ADJUSTMENT**

17 **Q. Did CURB witness Andrea Crane recommend an adjustment to KCPL's**
18 **proposed annualized property tax adjustment?**

19 A. Yes, as reflected on Schedule ACC-39 in Ms. Crane's testimony, an adjustment was
20 recommended to disallow the 1.67% increase in the 2007 property tax levy
21 amounting to \$991,264. The reason given was that KCPL included the effect of the
22 Company's 2007 tax levy increase twice, once in the "2007 Budgeted Property

1 Taxes”section of its property tax adjustment in its filing, and again in the “Levy
2 Adjustment” section.

3 **Q. Do you agree with this assessment?**

4 No, I do not. The “2007 Budgeted Property Taxes” section clearly indicates that the
5 calculation does not include any 2007 tax levy rate increase, as the heading states
6 “Tax Without Levy Increase”.

7 **Q. Why do you believe Ms. Crane thought the tax levy effect was double-counted in
8 the Company’s property tax adjustment?**

9 A. In our filing the section of the property tax adjustment schedule labeled as “2007 Tax
10 Based on 2007 Assessments & 2006 Levies” on the Company’s revised schedule,
11 Schedule SS-1, was labeled “2007 Budgeted Property Taxes,” because at that time we
12 had not yet received our 2007 assessments. Ms. Crane must have thought this section
13 included budgeted 2007 tax levy increases, a natural assumption if not for the fact
14 that the heading in that section indicated “Tax Without Levy Increase”.

15 **Q. If the “2007 Tax Based on 2007 Assessments & 2006” section in Schedule SS-1
16 does not include the effects of the 2007 tax levy rate increases why has the
17 composite property tax rate (tax divided by the 1/1/07 cost) changed from 2006’s
18 corresponding rate?**

19 A. The change results from recognizing the effect of the 2007 assessed valuations.

20 **Q. Do you have any other comments regarding Ms. Crane’s testimony?**

21 A. Yes, I would like to point out that her testimony includes an apparent typo in that she
22 stated on page 71 of her testimony that KCPL’s total property tax claim was
23 \$9,519,172 when the actual amount per the Company’s filing was \$59,519,172.

1 **Q. Would you care to add any additional comments or summarize your testimony?**

2 A. Yes, I would. KCPL respectfully requests the Commission reject Staff's and CURB's
3 property tax adjustments in their entirety and allow the Company a recovery of
4 known and measurable increases in its property tax expense amounting to \$2,703,066
5 above its 2006 test year (total company amount). Additionally, the Company requests
6 that the Commission not require KCPL to utilize a surcharge as a recovery
7 mechanism.

8 **Q. Does that conclude your testimony?**

9 A. Yes, it does.

Kansas City Power & Light Company

Property Taxes - Provide adjustment to annualize property taxes based on estimated plant at 9/30/07.

MPSC - Response to Data Request # 0244.1

	<u>Actual 2006 Property Taxes on 12-31-05 Plant</u>	<u>Annualized Property Taxes on 9-30-07 Plant</u>	<u>Property Tax Adjustment Required</u>
<u>Adjustment #1 -</u>			
Total Property Taxes	57,911,549	61,903,287	
Less:			
Vehicle Property Taxes Charged To Clearing Accounts	513,503	582,913	
Capitalized Property Taxes	209,875	1,401,746	
Unit Train Property Taxes Charged To Fuel Inventory	71,283	408,717	
Non-Utility Property Taxes	<u>84,524</u>	<u>104,481</u>	
O&M Property Taxes	57,032,364	59,405,430	2,373,066
<u>Adjustment #2 -</u>			
Payment In Lieu of Taxes (PILOT) on Wind Energy	<u>-</u>	<u>330,000</u>	<u>330,000</u>
Total Property Tax Annualization Adjustments	\$ 57,032,364	\$ 59,735,430	\$ 2,703,066

Kansas City Power & Light

Request - Property Taxes - Provide adjustment to annualize property taxes based on estimated plant at 9/30/07.

MPSC - Response to MPSC Data Request # 0244.1

	2006 Property Tax			2007 Tax Based on 2007 Assessments & 2006 Levies		Levy Adjustment		(H) = (G)/(D) O&M Tax as % Of Cost	Continued on page 2
	(A) Actual 1/1/06 Cost (Excluding Kansas Exempt Property)	(B) Actual 2006 Taxes Charged	(C) = (B)/(A) O&M Tax as % Of Cost	(D) Actual 1/1/07 Cost (Excluding Kansas Exempt Property)	(E) Tax Without Levy Increase	(F) = (E*1.67%) Levy Increase 1.67%	(G) = (E+F) Tax Adjusted For Levy Increase (5)		
Total System (Includes 101,105,107,121, Leased, M&S)	\$ 5,033,310,098 (1)	\$ 57,911,549 (3)	1.1506%	\$ 5,310,292,076 (4)	\$ 59,351,443 (7)	\$ 991,169	\$ 60,342,612	1.1363%	
Less: Vehicles	\$ 35,621,521 (2)	\$ 513,503 (3)	1.4416%	\$ 41,874,067 (4)	\$ 556,892 (7)	\$ 9,300	\$ 566,192	1.3521%	
Capitalized	\$ 20,560,672 (2)	\$ 209,875 (3)	1.0208%	\$ 120,476,814 (4)	\$ 1,378,721 (7)	\$ 23,025	\$ 1,401,746	1.1635%	
Unit Trains	\$ 42,629,961 (2)	\$ 71,283 (3)	0.1672%	\$ 64,822,085 (4)	\$ 402,004 (7)	\$ 6,713	\$ 408,717	0.6305%	
Non-Utility	\$ 5,183,086 (2)	\$ 84,524 (3)	1.6308%	\$ 4,792,243 (4)	\$ 102,765 (7)	\$ 1,716	\$ 104,481	2.1802%	
Total O&M	\$ 4,929,314,858	\$ 57,032,364	1.1570%	\$ 5,078,326,867 (4)	\$ 56,911,061 (7)	\$ 950,415	\$ 57,861,476	1.1394%	

Detail Of Annualized Adjustment Components

Column Reference From Above	(B) 2006 Actual	(L) 2007 Annualized For Property @ 9/30/07	(L) - (B) Annualized Adjustment	(E) - (B) 2006 w/ 12-31-06 plant (07Asmts. & 06 levies)	(G) - (E) 2007 Levy Adjustment	(L) - (G) Jan. - Sept. 2007 Net P.I.S. Change
TOTAL	\$ 57,911,549	\$ 61,903,287	\$ 3,991,738	\$ 1,439,894	\$ 991,169	\$ 1,560,675
Less:						
Vehicles	\$ 513,503	\$ 582,913	\$ 69,410 (a)	\$ 43,389	\$ 9,300	\$ 16,721
Capitalized	\$ 209,875	\$ 1,401,746	\$ 1,191,871	\$ 1,168,846	\$ 23,025	\$ -
Unit Trains	\$ 71,283	\$ 408,717	\$ 337,434 (b)	\$ 330,721	\$ 6,713	\$ -
Non-Utility	\$ 84,524	\$ 104,481	\$ 19,957	\$ 18,241	\$ 1,716	\$ -
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
O&M	\$ 57,032,364	\$ 59,405,430	\$ 2,373,066	\$ (121,303)	\$ 950,415	\$ 1,543,954
PILOTS on Wind Generation		\$330,000	\$330,000 (8)			
Total O&M Adjustment - MPSC	\$ 57,032,364	\$ 59,735,430	\$ 2,703,066			

Footnotes:

- (1) Ties to total system property on Kansas Schedule 11, less the Kansas Tax Exempt Plant Cost - See Box at Right.
- (2) The applicable cost (excluding any tax-exempt Kansas plant) used in determining the amount of property tax that will be charged to these categories for 2006.
- (3) Represents actual property taxes charged in 2006 as reflected on FERC Form 1 page 262.
- (4) The applicable cost (excluding any tax-exempt Kansas plant) used in determining the amount of property tax that will be charged to these categories for 2007.
- (5) Levy increase of 1.67% is the 3 year average of system wide increases.
- (6) Source: Projected 2007 net plant additions as submitted to regulatory, via ADJ 21 - as revised May 22, 2007
- (7) Represents the tax based on 1-1-07 plant with final 2007 actual assessments and using 2006 tax levy rates.
- (8) Per signed Tax Agreements dated June 2006.

Comments:

- (a) Taxes on vehicles are charged to account 933000, which gets allocated between O&M and capital, based on vehicle usage. Such taxes should follow the vehicle allocation and are not part of the property tax annualization adjustment.
- (b) Taxes on unit trains are charged to account 151-604 (fuel inventory) and are not reflected as part of the property tax annualization adjustment.

Kansas City Power & Light

Request - Property Taxes - Pro
property taxes based on estimate

MPSC - Response to MPSC D:

	(I) 2007 Jan. - Sept. <u>Net Additions (Cost)</u>	(J) Tax On Jan. - Sept. Additions <u>(Col. I cost x Col. H %)</u>	(K) Tax On Leased Railcars Acquired	(L) = (G)+(J)+(K) Property Tax Annualized For Projected Plant <u>@ 9/30/07</u>
Total System (Includes 101,105,107,121, Leased, M&S)	\$ 136,742,558 (6)	\$ 1,560,675	\$ -	\$ 61,903,287
Less: Vehicles	\$ 1,236,643 (6)	\$ 16,721		\$ 582,913
Capitalized				\$ 1,401,746
Unit Trains			\$ -	\$ 408,717
Non-Utility				\$ 104,481
Total O&M	\$ 135,505,915	\$ 1,543,954	\$ -	\$ 59,405,430

		<u>Total System Plant Cost Adjusted for Property Exempt from Kansas Property Taxes</u>	
Column Reference From Above		(Actual) <u>1/1/06 Plant Cost</u>	(Actual) <u>1/1/07 Plant Cost</u>
	Total System (Includes 101,105,107,121, Leased, M&S)	\$ 5,217,117,413	\$ 5,662,910,741
	Less Kansas Property Exempt from property taxes:		
	> Combustion Turbines (Becomes taxable in 2008)	155,202,567	155,324,190
	> Pollution Control CWIP (Becomes taxable in 2017)	1,696,605	33,144,857
	> Transmission Line (Becomes taxable in 2015)	3,072,427	3,533,480
	> Wind Generation (Perpetual Exemption)	23,835,716	160,616,138
	Total System Cost Excluding Kansas Tax-Exempt Plant	<u>\$ 5,033,310,098</u>	<u>\$ 5,310,292,076</u>

O&M

PILOTS on Wind Generation

Total O&M Adjustment - MPSC

Footnotes:

- (1) Ties to total system property on Kansas
- (2) The applicable cost (excluding any tax)
- (3) Represents actual property taxes charged
- (4) The applicable cost (excluding any tax)
- (5) Levy increase of 1.67% is the 3 year
- (6) Source: Projected 2007 net plant additions
- (7) Represents the tax based on 1-1-07
- (8) Per signed Tax Agreements dated June

Comments:

- (a) Taxes on vehicles are charged to account
Such taxes should follow the vehicle
- (b) Taxes on unit trains are charged to account