

THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

Before Commissioners: Jay Scott Emler, Chairman
Shari Feist Albrecht
Pat Apple

In the Matter of the Application of Kansas)
Gas Service, a Division of ONE Gas, Inc.,)
Seeking Commission Approval for 2017) Docket No. 17-KGSG-224-TAR
Ad Valorem Tax Surcharge Rider Tariff.)

ORDER APPROVING PROPERTY TAX SURCHARGE TARIFF

NOW, the above-captioned matter comes before the State Corporation Commission of the State of Kansas (Commission) for consideration and decision. Having reviewed its files and records and being duly advised in the premises, the Commission makes the following findings:

I. Background

A. Procedural History

1. On November 30, 2016, Kansas Gas Service, a Division of ONE Gas, Inc. (KGS) filed a request for approval of its updated property tax surcharge tariff.

2. Commission Staff (Staff) has submitted a Report and Recommendation (R&R) analyzing and recommending approval of KGS's 2017 property tax surcharge, as revised by Staff.¹ Staff's R&R, dated December 15, 2016, is attached hereto and made a part hereof by reference. In its R&R, Staff noted that it performed an on-site review of KGS's 2016 ad valorem tax statements.² At that time, KGS provided Staff actual ad valorem statements and an updated surcharge calculation. Also, during the review, Staff discovered an error in KGS's

¹ Staff Report & Recommendation, December 15, 2016, p. 1 (Staff R&R, p. 1)

² Staff R&R, pp. 2-3.

surcharge calculation. After correcting the error, Staff revised KGS's surcharge calculations and recommended a decrease in the property tax surcharge in the amount of \$1,770,726.³ This amount results in an approximate refund rate of \$0.0221/Mcf.⁴ The proposed surcharge factor would decrease residential bills by approximately \$1.67 annually.⁵

3. Staff also recommended approval of KGS's property tax surcharge be subject to the following conditions:

- A. KGS shall file updated tariffs with the Commission reflecting the revised surcharge before implementing the surcharge.
- B. Staff will ensure that the annual true-up of amounts collected vs. actual amount of increase or reduction in Ad Valorem taxes will be reflected in the subsequent year Ad Valorem tax surcharge calculation.
- C. K.S.A. 66-117(f) requires the annual true-up of this surcharge once established. Accordingly, KGS shall file its Ad Valorem Tax Surcharge Rider annual true-up in December of each calendar year.⁶

B. Jurisdiction & Legal Standards

4. With regard to jurisdiction, K.S.A. 66-117(f) provides, in pertinent part:

Whenever, after the effective date of this act, an electric public utility, a natural gas public utility or a combination thereof, files tariffs reflecting a surcharge on the utility's bills for utility service designed to collect the annual increase in expense charged on its books and records for ad valorem taxes, such utility shall report annually to the state corporation commission the changes in expense charged for ad valorem taxes.

5. K.S.A. 66-117(f) also provides the legal standard by which the Commission should review tariffs such as KGS's property tax surcharge:

Upon a showing that the surcharge is applied to bills in a reasonable manner and is calculated to substantially collect the increase in ad valorem tax expense

³ Staff R&R, p. 2.

⁴ Staff R&R, p. 2.

⁵ Staff R&R, p. 1.

⁶ Staff R&R, pp. 2-3.

charged on the books and records of the utility, or reduce any existing surcharge based upon a decrease in ad valorem tax expense incurred on the books and records of the utility, the commission shall approve such tariffs within 30 days of the filing.

II. Findings and Conclusions

6. Upon review of the record as a whole, the Commission agrees with Staff's recommendation to approve KGS's ad valorem tax reduction of \$1,770,726, subject to Staff's recommended conditions set forth in paragraph 3 above. The Commission finds KGS's surcharge will be applied to bills in a reasonable manner and is calculated to reduce the surcharge based upon a decrease in ad valorem tax expense incurred on the books and records of KGS.

IT IS, THEREFORE, BY THE COMMISSION ORDERED THAT:

A. The ad valorem tax expense reduction of \$1,770,726 is approved, subject to the conditions listed in paragraph 3 above.

B. The parties have fifteen (15) days, plus three (3) days if service of this order is by mail, in which to petition the Commission for reconsideration of any issue or issues decided herein.⁷

C. The Commission retains jurisdiction over the subject matter and parties for the purpose of issuing such further order, or orders, as it may deem necessary.

BY THE COMMISSION IT IS SO ORDERED.

Emler, Chairman; Albrecht, Commissioner; Apple, Commissioner

Dated: _____

Amy L. Green
Secretary to the Commission

JF

⁷ K.S.A. 66-118b; K.S.A. 77-529(a)(1).

**REPORT AND RECOMMENDATION
UTILITIES DIVISION**

TO: Chairman Jay Scott Emler
Commissioner Shari Feist Albrecht
Commissioner Pat Apple

FROM: Tim Rehagen, Senior Auditor
Justin Grady, Chief of Accounting and Financial Analysis
Jeff McClanahan, Director of Utilities

DATE: December 15, 2016

SUBJECT: Docket No. 17-KGSG-224-TAR – In the Matter of the Application of Kansas Gas Service, a Division of ONE Gas, Inc., Seeking Commission Approval for 2017 Ad Valorem Tax Surcharge Rider Tariff.

EXECUTIVE SUMMARY:

Staff recommends approval of Kansas Gas Service's (KGS) 2017 Ad Valorem Tax Surcharge Rider. This surcharge would be in effect during the calendar year 2017 and is in addition to the Ad Valorem tax that was included in base rates from KGS's 2011 rate case. The annual impact of the surcharge would be a reduction of approximately \$1.67 per residential customer. Pursuant to K.S.A. 66-117(f), a Commission Order in this Docket is due by December 30, 2016.

BACKGROUND:

On November 30, 2016, KGS filed its 2017 Ad Valorem tax surcharge request with the Kansas Corporation Commission (Commission). The surcharge request was filed in accordance with K.S.A. 66-117(f), which provides for a utility to collect increases in its Ad Valorem taxes that exceed amounts currently embedded in base rates. The statute also requires a Commission Order within 30 days of the filing date which, in this Docket, is by December 30, 2016. KGS originally requested a decrease of \$1,756,576, consisting of:

1. The difference between its 2016 total Ad Valorem tax assessments and the amount included in base rates established by the Commission in Docket No. 12-KGSG-835-RTS (12-835 Docket)¹; and

¹ Per the Commission Order in Docket No. 16-KGSG-491-RTS (16-491 Docket), KGS shall use the Ad Valorem expense agreed to in the 12-835 Docket for its 2016 Ad Valorem filing to calculate its 2017 surcharge as the rates resulting from the 16-491 Docket will not be implemented until January 1, 2017. See Order Approving Unanimous Settlement Agreement, 16-491 Docket, p. 6 ¶18 (Nov. 29, 2016).

2. A true-up provision comparing the amount of Ad Valorem Tax Surcharge revenue collected versus that intended to be collected during the year 2016.²

ANALYSIS:

The Commission derives its authority to review Ad Valorem tariffs from K.S.A. 66-117(f), which states in part:

Whenever, after the effective date of this act, an electric public utility, a natural gas public utility or a combination thereof, files tariffs reflecting a surcharge on the utility's bills for utility service designed to collect the annual increase in expense charged on its books and records for ad valorem taxes, such utility shall report annually to the state corporation commission the changes in expense charged for ad valorem taxes.

On December 12, 2016, KGS filed an amended Ad Valorem tax surcharge calculation that results in an annual reduction of \$1,766,549 and a refund rate of \$0.0221/Mcf. The revised schedules include actual amounts recovered from ratepayers in November 2016 that were originally estimated, as well as tax statements that were originally estimated.

On December 13, 2016, Staff conducted an on-site review of KGS's 2016 Ad Valorem statements. During this review, KGS informed Staff that two Ad Valorem tax statements for Franklin County and Haskell County were inadvertently double counted, thereby overstating the total 2015 Ad Valorem tax assessments used to calculate the refund rate by \$4,177. Upon removing these totals from the total assessments, the annual reduction amounted to \$1,770,726.³ It should be noted that the amount of this adjustment is ultimately immaterial in that it has no effect on the final proposed refund rate. Therefore, the refund rate after accounting for this modification is still \$0.0221/Mcf.

Staff has reviewed the Ad Valorem tax statements and the records supporting KGS's recovery of revenue associated with the 2016 Ad Valorem tax surcharge. The information reviewed was found to be accurate. As a result of this review and the aforementioned amendments, Staff concludes that KGS's 2017 Ad Valorem tax surcharge is properly calculated to refund the reduction in Ad Valorem taxes when compared to the amount currently embedded in KGS's base rates.

RECOMMENDATION:

Staff recommends the Commission approve KGS's revised Ad Valorem reduction of \$1,770,726 with the following conditions:

1. KGS shall file updated tariffs with the Commission reflecting the revised surcharge before implementing the surcharge.

² The initial filing contains estimated recoveries for the months of November and December 2016. See Tariff for Kansas Gas Service Ad Valorem Tax Surcharge Rider 2017, Docket No. 17-KGSG-224-TAR, p. 2 (Nov. 30, 2016).

³ See Staff Exhibit I for a revised Ad Valorem tax surcharge calculation which incorporates this correction. Staff Exhibit 1(a) contains the Ad Valorem tax assessments by county including the corrected amounts for the Franklin and Haskell counties.

2. Staff will ensure that the annual true-up of amounts collected versus the actual amount of increase or reduction in Ad Valorem taxes will be reflected in the subsequent year Ad Valorem surcharge calculation.
3. K.S.A. 66-117(f) requires the annual true-up of this surcharge once established. Accordingly, KGS shall file its Ad Valorem Tax Surcharge Rider annual true-up in December of each calendar year.

Draft

**KANSAS GAS SERVICE
 AD VALOREM TAX SURCHARGE
 For the Year Ending December 31, 2016
 Calculation for the 2017 Billing Year**

Adjustment to Prior Year Surcharge

Prior Year Surcharge Total		(\$1,599,347.15)	
Late Assessments		348.36	
True-up of Estimated Recoveries:			
Dec-15 Estimated	(\$570,197.91)		
Actual	<u>328,544.49</u>		
Total Adjustments to Estimate			<u>(\$241,653.42)</u>
Total Prior Year Surcharge Adjustments			(\$1,840,652.21)

Current Year Recoveries

January	(\$323,886.80)		
February	(250,537.37)		
March	(153,522.05)		
April	(107,380.12)		
May	(69,133.53)		
June	(54,676.65)		
July	(46,636.61)		
August	(47,237.84)		
September	(49,916.31)		
October	(47,946.15)		
November	(70,104.97)		
December	Estimated	<u>(262,727.00)</u>	
Total Recoveries			<u>(\$1,483,705.40)</u>
Under/(Over) Recovery to Carry Forward			<u>(\$356,946.81)</u>

Current Year Assessments

Ad Valorem Tax Assessments		\$21,057,408.50	
Less: Amount included in Base Rates	*1	<u>(22,471,188.00)</u>	
Recoverable Current Year Taxes			<u>(\$1,413,779.50)</u>
Total Recoverable Amount			(\$1,770,726.31)

Annual Billing Determinants

Billing Determinants	*2	79,976,560 Mcf	79,976,560 Mcf
Ad Valorem Tax Surcharge Rate:		Refund of	<u><u>(\$0.0221) /Mcf</u></u>

*1 Docket 12-KGSG-835-RTS: Stipulated Settlement Agreement, Section C, Paragraph 16
 *2 Docket 12-KGSG-835-RTS: Stipulated Settlement Agreement, Appendix B
 NOTE: The calculation of this rider is detailed in the KGS Tariff, section 48.1

**KANSAS GAS SERVICE
 2017 AD VALOREM TAX SURCHARGE
 2015 AND 2016 TAXES**

County	Total Tax Payments		Increase(Decrease)	
	2015 Taxes	2016 Taxes	\$\$	%
KANSAS				
Allen	\$174,122.44	\$175,977.90	\$1,855.46	1.07%
Anderson	176,947.50	136,578.50	(40,369.00)	-22.81%
Atchinson	265,013.18	256,889.32	(8,123.86)	-3.07%
Barber	82,686.20	96,129.54	13,443.34	16.26%
Barton	465,256.90	466,360.54	1,103.64	0.24%
Bourbon	222,277.38	228,615.92	6,338.54	2.85%
Brown	155,227.72	146,941.25	(8,286.47)	-5.34%
Butler	679,383.66	698,996.24	19,612.58	2.89%
Chautauqua	2,166.30	1,409.18	(757.12)	-34.95%
Cherokee	279,506.29	273,379.82	(6,126.47)	-2.19%
Clark	78,397.26	83,193.00	4,795.74	6.12%
Clay	120,502.00	125,512.55	5,010.55	4.16%
Cloud	174,779.00	178,700.76	3,921.76	2.24%
Coffey	12,835.30	13,185.84	350.54	2.73%
Comanche	47,636.40	56,789.52	9,153.12	19.21%
Cowley	322,808.62	317,750.20	(5,058.42)	-1.57%
Crawford	471,619.92	485,033.72	13,413.80	2.84%
Dickinson	232,503.56	238,436.38	5,932.82	2.55%
Doniphan	87,203.32	87,182.66	(20.66)	-0.02%
Douglas	70,052.48	71,087.04	1,034.56	1.48%
Edwards	149,529.97	153,507.70	3,977.73	2.66%
Elk	58,651.90	43,560.72	(15,091.18)	-25.73%
Ellis	22,203.52	21,622.30	(581.22)	-2.62%
Ellsworth	76,390.28	76,544.32	154.04	0.20%
Ford	113,651.90	117,741.20	4,089.30	3.60%
Franklin	266,780.59	269,894.71	3,114.12	1.17%
Geary	301,215.51	315,011.81	13,796.30	4.58%
Grant	4,543.68	7,578.65	3,034.97	66.80%
Gray	16,649.92	17,828.94	1,179.02	7.08%
Greenwood	20,170.96	20,121.20	(49.76)	-0.25%
Harper	52,138.33	57,043.01	4,904.68	9.41%
Harvey	248,087.45	261,557.43	13,469.98	5.43%
Haskell	25,074.46	36,693.75	11,619.29	46.34%
Jackson	87,028.48	90,294.94	3,266.46	3.75%
Jefferson	146,069.72	142,423.90	(3,645.82)	-2.50%
Jewell	66,042.30	65,369.54	(672.76)	-1.02%
Johnson	2,736,853.89	2,749,032.24	12,178.35	0.44%
Kingman	195,082.93	202,128.30	7,045.37	3.61%
Kiowa	72,617.88	81,161.38	8,543.50	11.77%
Labette	356,823.52	344,613.86	(12,209.66)	-3.42%
Leavenworth	423,592.43	427,951.67	4,359.24	1.03%
Lincoln	64,147.00	61,114.84	(3,032.16)	-4.73%
Linn	14,288.64	14,764.14	475.50	3.33%
Lyon	295,548.92	311,997.72	16,448.80	5.57%
Marion	35,382.81	36,766.56	1,383.75	3.91%
Marshall	167,107.48	175,918.37	8,810.89	5.27%
McPherson	377,451.30	381,096.62	3,645.32	0.97%
Meade	27,996.18	35,884.12	7,887.94	28.18%
Miami	136,552.08	140,580.32	4,028.24	2.95%
Mitchell	130,897.31	136,933.72	6,036.41	4.61%
Montgomery	154,132.38	127,330.92	(26,801.46)	-17.39%
Morris	12,020.90	12,177.10	156.20	1.30%
Morton	1,436.15	1,392.50	(43.65)	-3.04%
Nemaha	87,377.78	89,649.04	2,271.26	2.60%

KANSAS GAS SERVICE 2017 AD VALOREM TAX SURCHARGE 2015 AND 2016 TAXES				
County	Total Tax Payments		Increase(Decrease)	
	2015 Taxes	2016 Taxes	\$\$	%
Neosho	162,246.02	161,489.70	(756.32)	-0.47%
Osage	121,231.90	125,938.40	4,706.50	3.88%
Osborne	64,767.90	66,775.42	2,007.52	3.10%
Ottawa	62,068.12	64,255.58	2,187.46	3.52%
Pawnee	120,241.22	122,683.76	2,442.54	2.03%
Pottawatomie	173,501.60	181,540.22	8,038.62	4.63%
Pratt	327,254.12	324,748.32	(2,505.80)	-0.77%
Reno	863,672.12	879,871.80	16,199.68	1.88%
Republic	48,725.12	49,384.65	659.53	1.35%
Rice	132,465.38	124,064.40	(8,400.98)	-6.34%
Riley	438,971.70	445,148.40	6,176.70	1.41%
Rooks	120.94	130.54	9.60	7.94%
Rush	64,854.25	64,980.37	126.12	0.19%
Russell	133,563.08	145,221.88	11,658.80	8.73%
Saline	546,156.90	538,978.48	(7,178.42)	-1.31%
Sedgwick	3,219,618.90	3,203,645.72	(15,973.18)	-0.50%
Seward	5,754.00	5,682.34	(71.66)	-1.25%
Shawnee	2,087,399.80	2,066,522.32	(20,877.48)	-1.00%
Smith	77,120.52	76,473.20	(647.32)	-0.84%
Stafford	123,215.32	123,420.90	205.58	0.17%
Stanton	2,377.09	2,642.51	265.42	11.17%
Stevens	0.00	0.00	0.00	0.00%
Sumner	231,661.60	236,239.78	4,578.18	1.98%
Wabaunsee	11,911.18	11,968.20	57.02	0.48%
Washington	110,982.55	110,610.18	(372.37)	-0.34%
Wilson	0.00	0.00	0.00	0.00%
Woodson	9,468.30	8,652.78	(815.52)	-8.61%
Wyandotte	1,170,106.18	1,195,746.70	25,640.52	2.19%
Total Kansas	\$21,373,919.79	\$21,502,253.97	\$128,334.18	
OKLAHOMA				
30176 Grant (Medford, OK)	\$61,014.00	52,862.00	(\$8,152.00)	-13.36%
18387 Woods (Alva, OK)	917.00	460.00	(\$457.00)	-49.84%
Total Oklahoma	\$61,931.00	\$53,322.00	(\$8,609.00)	
Total Taxes	\$21,435,850.79	\$21,555,575.97	\$119,725.18	
Less Taxes Charged to Other Balance Sheet Accounts:				
Acct 163: Inventory		106,173.50		Key
Acct 184: Fleet Clearing		391,993.97		no assets
Total Current Year Ad Valorem Expense		\$21,057,408.50		estimate
				corrected

Acct 163: Inventory Rate	0.00492557
Acct 184: Fleet Clearing Rate	0.01818527