

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

Before Commissioners: Shari Feist Albrecht, Chair
 Jay Scott Emler
 Dwight D. Keen

In the Matter of the Application of Kansas Gas)
Service, a Division of ONE Gas, Inc., Seeking)
Commission Approval for 2019 Ad Valorem Tax) Docket No. 19-KGSG-214-TAR
Surcharge Rider Tariff)

ORDER APPROVING AD VALOREM TAX SURCHARGE RIDER

This 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

1. On November 30, 2018, Kansas Gas Service, a Division of ONE Gas, Inc. (KGS) submitted a request for approval of its updated Ad Valorem Tax Surcharge Rider.¹ On December 12, 2018, KGS submitted an amendment to their original Ad Valorem filing that included the remaining assessments and the actual November 2018 recoveries.²

2. On December 14, 2018, after examining KGS' request, Staff filed its Report and Recommendation, which recommended approval of KGS' 2019 Ad Valorem Tax Surcharge Rider.³ Staff's Report and Recommendation is attached hereto and hereby adopted by the Commission and incorporated into this Order by reference.

¹ Tariff for Kansas Gas Service Ad Valorem Tax Surcharge Rider 2019 (Nov. 30, 2018).

² KGS Ad Valorem Filing Amendment (Dec. 12, 2018).

³ Staff's Report and Recommendation (Dec. 14, 2018).

II. DISCUSSION

3. KGS originally requested an increase of \$1,006,542, which consisted of the difference between its 2018 Ad Valorem tax assessments and the amount included in base rates established by the Commission in Docket No. 16-KGSG-491-RTS as well as a true-up provision comparing the amount of Ad Valorem Tax Surcharge revenue collected versus that intended to be collected during the year 2018.⁴ On December 12, 2018, KGS filed an amended Ad Valorem tax surcharge calculation that results in an annual increase of \$1,076,916, and a surcharge of \$0.0134/Mcf.

4. Staff conducted an on-site review of KGS 2018 Ad Valorem statements. During this review, Staff discovered that one of the Ad Valorem tax statement totals for Butler County was overstated by \$30, thereby overstating the 2018 Ad Valorem tax assessments used to calculate the surcharge by approximately the same amount.⁵ Upon correcting the total, the Ad Valorem increase amounted to \$1,076,887.⁶ However, Staff noted the amount of this adjustment was immaterial and had no effect on the final proposed surcharge.⁷ Accordingly, Staff detailed the proposed surcharge after accounting for this modification is still \$0.0134/Mcf.

5. Staff reviewed the Ad Valorem tax statements and the records supporting KGS' recovery of revenue associated with KGS' 2019 update to its Ad Valorem Surcharge Rider. As a result of this review, Staff found the information to be accurate and concluded KGS' 2019 update to its Ad Valorem Tax Surcharge Rider is properly calculated to charge the increase in Ad Valorem taxes when compared to the amount currently embedded in KGS' rates.⁸

⁴ Staff's Report and Recommendation, pg. 1 (Dec. 14, 2018).

⁵ Id. pg. 2.

⁶ Id.

⁷ Id.

⁸ Id.

6. Accordingly, Staff recommends the approval of KGS' revised Ad Valorem increase of \$1,076,887 with the following conditions:

- a. KGS shall file an updated tariff with the Commission reflecting the revised surcharge before implementing the surcharge;
- b. 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; and
- 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.⁹

III. FINDINGS AND CONCLUSION

7. 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.”

8. In Docket No. 04-KGSG-1099-TAR, the Commission approved KGS' Ad Valorem Tax Surcharge Rider.¹⁰ KGS submitted its present request in November 2018, with final updates and amendments submitted in December 2018. Accordingly, the Commission finds and concludes KGS has properly submitted its annual report to the Commission regarding changes in expense charged for Ad Valorem taxes as required by K.S.A. 66-117(f) and the Commission's July 14, 2004, Order in Docket No. 04-KGSG-1099-TAR.

⁹ Id. pg. 3.

¹⁰ Order Approving Property Tax Surcharge; KGS Required to File Ad Valorem Tax Surcharge Rider Annual True-Up in December of Each Calendar Year, pg. 3 (Jul. 14, 2004).

9. K.S.A. 66-117(f) also provides the legal standard by which the Commission should review tariffs such as KGS' ad valorem 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 charged on the books and records of the utility, or reduce an 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 filing.”

10. Upon review of Staff's Report and Recommendation and the record as a whole, the Commission finds and concludes the surcharge as calculated by KGS and reviewed by Staff substantially collects the increase in Ad Valorem tax expense charged on the books of KGS. Although Staff noted a slight overstatement on tax assessments, once corrected the effect of this overstatement had no impact on the proposed surcharge amount. Accordingly, the Commission finds and concludes substantial competent evidence exists to approve KGS' request in the instant proceeding, as conditioned in Staff's Report and Recommendation.

11. Accordingly, the Commission finds and concludes KGS' request to update its Ad Valorem Tax Surcharge Rider should be approved. KGS shall be permitted to increase its Ad Valorem tax expense \$1,076,887. KGS shall be permitted to collect revenues necessary to account for this increase in Ad Valorem tax expense via a surcharge in the amount of \$0.0134/Mcf, subject to the conditions contained within Staff's Report and Recommendation and as detailed in paragraph 7 of this Order. The Commission finds and concludes a surcharge in the amount of \$0.0134/Mcf will result in revenues sufficient to substantially collect the increase in Ad Valorem tax expense charged to KGS, and will therefore result in just and reasonable rates. The Commission finds and concludes KGS' surcharge will be applied to bills in a reasonable manner.

IT IS, THEREFORE, BY THE COMMISSION ORDERED THAT:

A. KGS' request to increase its Ad Valorem tax expense, as adjusted by Staff (\$1,076,887), is approved.

B. KGS shall be permitted to recover revenues necessary to account for this increase in Ad Valorem tax expense via a surcharge in the amount of \$0.0134/Mcf, subject to the conditions contained within Staff's Report and Recommendation and as detailed in paragraph 7 of this Order. KGS shall submit an Ad Valorem Tax Surcharge Rider indicating a surcharge of \$0.0134/Mcf prior to collecting this surcharge.

C. Any party may file and serve a petition for reconsideration pursuant to the requirements and time limits established by K.S.A. 77-529(a)(1).¹¹

D. The Commission retains jurisdiction over the subject matter and the parties for the purpose of entering such further orders as it may deem necessary and proper.

BY THE COMMISSION IT IS SO ORDERED.

Albrecht, Chairman, Emler, Commissioner, Keen, Commissioner

Dated: 12/20/2018



Lynn M. Retz
Secretary to the Commission

PZA

¹¹ K.S.A. 66-118b; K.S.A. 77-503(c); K.S.A. 77-531(b).

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SHARI FEIST ALBRECHT, CHAIR | JAY SCOTT EMLER, COMMISSIONER | DWIGHT D. KEEN, COMMISSIONER

REPORT AND RECOMMENDATION UTILITIES DIVISION

TO: Chair Shari Feist Albrecht
Commissioner Jay Scott Emler
Commissioner Dwight D. Keen

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

DATE: December 14, 2018

SUBJECT: Docket No. 19-KGSG-214-TAR – In the Matter of the Application of Kansas Gas Service, a Division of ONE Gas, Inc., Seeking Commission Approval for 2019 Ad Valorem Tax Surcharge Rider Tariff

EXECUTIVE SUMMARY:

Staff recommends approval of Kansas Gas Service's (KGS) 2019 Ad Valorem Tax Surcharge Rider. This surcharge would be in effect during the calendar year 2019 and is in addition to the Ad Valorem tax that was included in base rates during the calendar year 2018. The annual impact of the surcharge would be an increase of approximately \$0.89 per residential customer. Pursuant to K.S.A. 66-117(f), a Commission Order in this Docket is due by December 30, 2018.

BACKGROUND:

On November 30, 2018, KGS filed its 2019 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, 2018. KGS originally requested an increase of \$1,006,452, consisting of:

1. The difference between its 2018 total Ad Valorem tax assessments and the amount included in base rates established by the Commission in Docket No. 16-KGSG-491-RTS (16-491 Docket); and

2. A true-up provision comparing the amount of Ad Valorem Tax Surcharge revenue collected versus that intended to be collected during the year 2018.¹

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... 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 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 [C]ommission shall approve such tariffs within 30 days of the filing.

On December 12, 2018, KGS filed an amended Ad Valorem tax surcharge calculation that results in an annual increase of \$1,076,916 and a surcharge of \$0.0134/Mcf. The revised schedules include actual amounts recovered from ratepayers in November 2018 that were originally estimated, as well as tax statements that were originally estimated.

On December 14, 2018, Staff conducted an on-site review of KGS's 2018 Ad Valorem statements. During this review, Staff discovered that one of the Ad Valorem tax statement totals for Butler County was overstated by \$30, thereby overstating the total 2018 Ad Valorem tax assessments used to calculate the surcharge by approximately the same amount. Upon correcting this total, the Ad Valorem increase amounted to \$1,076,887.² The amount of this adjustment is immaterial in that it has no effect on the final proposed surcharge. Therefore, the surcharge after accounting for this modification is still \$0.0134/Mcf.

Staff has reviewed the Ad Valorem tax statements and the records supporting KGS's recovery of revenue associated with the 2019 Ad Valorem tax surcharge. The information reviewed was found to be accurate. As a result of this review, Staff concludes that KGS's 2019 Ad Valorem tax surcharge is properly calculated to charge the increase in Ad Valorem taxes when compared to the amount currently embedded in KGS's base rates.

¹ The initial filing contains estimated recoveries for the months of November and December 2017. *See* Tariff for Kansas Gas Service Ad Valorem Tax Surcharge Rider 2019, Docket No. 19-KGSG-214-TAR, pg. 2 (Nov. 30, 2018). Additionally, the Prior Year Surcharge Total of (\$10,896) on page 2 of this filing is a correction to the Total Recoverable Amount from last year's ad valorem surcharge filing (18-230 Docket), which was \$122,295. (This amount can be found on Staff Exhibit 1 on page 10 of the 'Order Approving Ad Valorem Tax Surcharge Rider Update' filed on December 19, 2018, in the 18-230 Docket). In the 18-230 filing, the adjustment to the December 2016 refund was calculated erroneously, thereby yielding the incorrect recoverable amount of \$122,295. KGS informed Staff of this error and amended the calculation after the Order in the 18-230 Docket was issued by the Commission. Therefore, the amended recoverable amount of (\$10,896) is incorporated into the present Docket.

² *See* Staff Exhibit 1 for a revised Ad Valorem tax surcharge calculation which incorporates this correction. Staff Exhibit 2 contains the Ad Valorem tax assessments by county including the corrected amount for Butler County.

RECOMMENDATION:

Staff recommends the Commission approve KGS's revised Ad Valorem increase of \$1,076,887 with the following conditions:

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

KANSAS GAS SERVICE
AD VALOREM TAX SURCHARGE
For the Year Ending December 31, 2018
Calculation for the 2019 Billing Year

Adjustment to Prior Year Surcharge

AMENDED V2

Prior Year Surcharge Total	(\$10,896.41)	
Late Assessments	1,595.25	
True-up of Estimated Recoveries:		
Dec-17 Estimated	(\$271,740.63)	
Actual	206,940.49	
Total Adjustments to Estimate	(\$64,800.14)	
Total Prior Year Surcharge Adjustments		(\$74,101.30)

Current Year Recoveries - 2018

January	(\$59,528.09)	
February	22,351.60	
March	16,077.56	
April	13,109.67	
May	7,000.48	
June	2,749.29	
July	2,441.23	
August	2,520.39	
September	2,575.24	
October	3,164.69	
November	9,450.59	
December	Estimated 16,929.06	
Total Recoveries		\$38,841.71
Under/(Over) Recovery to Carry Forward		(\$112,943.01)

Current Year Assessments

Ad Valorem Tax Assessments	\$22,143,837.92	
Less: Amount included in Base Rates	*1 (20,954,008.00)	
Recoverable Current Year Taxes		\$1,189,829.92
Total Recoverable Amount		\$1,076,886.91

Annual Billing Determinants

Billing Determinants	*2 80,570,937 Mcf	80,570,937 Mcf
Ad Valorem Tax Surcharge Rate:	Surcharge of	\$0.0134 /Mcf

*1 Docket 16-KGSG-491-RTS: Unanimous Settlement Agreement, Section 18 (page 6)

*2 Docket 16-KGSG-491-RTS: Unanimous Settlement Agreement, Appendix B

NOTE: The calculation of this rider is detailed in the KGS Tariff, section 48.1

KANSAS GAS SERVICE AD VALOREM TAX SURCHARGE 2017 AND 2018 TAXES				
County	Total Tax Payments		Increase(Decrease)	
	2017 Taxes	2018 Taxes	\$\$	%
KANSAS				
Allen	\$181,551.86	188,523.76	\$6,971.90	3.84%
Anderson	121,316.98	129,977.36	\$8,660.38	7.14%
Atchinson	266,636.84	285,406.64	\$18,769.80	7.04%
Barber	94,848.44	101,153.32	\$6,304.88	6.65%
Barton	480,252.26	495,563.90	\$15,311.64	3.19%
Bourbon	236,359.36	245,664.60	\$9,305.24	3.94%
Brown	148,379.10	156,796.58	\$8,417.48	5.67%
Butler	734,221.12	769,042.18	\$34,821.06	4.74%
Chautauqua	1,190.58	335.42	(\$855.16)	-71.83%
Cherokee	295,156.64	318,173.26	\$23,016.62	7.80%
Clark	79,366.15	84,057.22	\$4,691.07	5.91%
Clay	124,884.44	132,580.22	\$7,695.78	6.16%
Cloud	181,659.66	187,778.32	\$6,118.66	3.37%
Coffey	13,514.82	13,947.32	\$432.50	3.20%
Comanche	57,408.66	60,518.00	\$3,109.34	5.42%
Cowley	336,816.98	354,620.06	\$17,803.08	5.29%
Crawford	505,223.52	530,230.30	\$25,006.78	4.95%
Dickinson	225,314.76	237,252.04	\$11,937.28	5.30%
Doniphan	89,803.02	89,068.10	(\$734.92)	-0.82%
Douglas	74,122.12	76,569.88	\$2,447.76	3.30%
Edwards	153,252.76	160,318.32	\$7,065.56	4.61%
Elk	40,266.20	42,135.26	\$1,869.06	4.64%
Ellis	22,497.72	23,861.74	\$1,364.02	6.06%
Ellsworth	80,455.10	84,914.02	\$4,458.92	5.54%
Ford	50,983.62	52,699.71	\$1,716.09	3.37%
Franklin	279,339.29	292,475.91	\$13,136.62	4.70%
Geary	314,051.94	328,898.04	\$14,846.10	4.73%
Grant	719.24	737.43	\$18.19	2.53%
Gray	13,369.52	13,776.68	\$407.16	3.05%
Greenwood	21,270.64	21,884.44	\$613.80	2.89%
Harper	57,816.96	60,550.28	\$2,733.32	4.73%
Harvey	280,531.38	298,548.30	\$18,016.92	6.42%
Haskell	32,439.46	33,680.77	\$1,241.31	3.83%
Jackson	94,588.46	97,622.50	\$3,034.04	3.21%
Jefferson	145,297.50	147,289.10	\$1,991.60	1.37%
Jewell	64,515.50	64,993.36	\$477.86	0.74%
Johnson	2,700,750.91	2,837,374.25	\$136,623.34	5.06%
Kingman	190,337.82	196,199.50	\$5,861.68	3.08%
Kiowa	80,760.76	83,922.96	\$3,162.20	3.92%
Labette	359,656.08	379,252.90	\$19,596.82	5.45%
Leavenworth	435,033.25	440,548.70	\$5,515.45	1.27%
Lincoln	64,773.64	64,476.48	(\$297.16)	-0.46%
Linn	14,856.84	15,430.20	\$573.36	3.86%
Lyon	313,116.92	328,149.24	\$15,032.32	4.80%
Marion	35,707.17	36,958.61	\$1,251.44	3.50%
Marshall	180,701.96	187,190.70	\$6,488.74	3.59%
McPherson	375,410.99	392,172.86	\$16,761.87	4.46%
Meade	33,643.90	34,182.76	\$538.86	1.60%
Miami	144,970.10	151,632.90	\$6,662.80	4.60%
Mitchell	141,320.14	146,850.10	\$5,529.96	3.91%
Montgomery	119,675.00	127,967.26	\$8,292.26	6.93%
Morris	13,256.46	13,896.86	\$640.40	4.83%
Morton	1,148.49	1,321.89	\$173.40	15.10%
Nemaha	88,725.08	91,086.42	\$2,361.34	2.66%
Neosho	172,255.28	181,976.48	\$9,721.20	5.64%

KANSAS GAS SERVICE AD VALOREM TAX SURCHARGE 2017 AND 2018 TAXES				
County	Total Tax Payments		Increase(Decrease)	
	2017 Taxes	2018 Taxes	\$\$	%
Osage	135,070.16	140,182.32	\$5,112.16	3.78%
Osborne	69,088.08	73,867.76	\$4,779.68	6.92%
Ottawa	66,267.96	68,809.46	\$2,541.50	3.84%
Pawnee	123,707.74	129,019.82	\$5,312.08	4.29%
Pottawatomie	184,814.44	197,311.20	\$12,496.76	6.76%
Pratt	307,902.22	336,205.66	\$28,303.44	9.19%
Reno	869,420.72	904,390.14	\$34,969.42	4.02%
Republic	43,852.62	43,756.37	(\$96.25)	-0.22%
Rice	91,879.12	96,297.80	\$4,418.68	4.81%
Riley	462,412.44	503,633.16	\$41,220.72	8.91%
Rooks	0.00		\$0.00	0.00%
Rush	67,070.53	70,240.01	\$3,169.48	4.73%
Russell	147,907.04	151,347.42	\$3,440.38	2.33%
Saline	555,846.98	602,277.54	\$46,430.56	8.35%
Sedgwick	3,243,549.33	3,432,391.90	\$188,842.57	5.82%
Seward	5,844.74	6,150.38	\$305.64	5.23%
Shawnee	2,032,303.06	2,119,427.94	\$87,124.88	4.29%
Smith	73,437.12	74,056.14	\$619.02	0.84%
Stafford	122,034.76	129,652.10	\$7,617.34	6.24%
Stanton	1,093.62	982.44	(\$111.18)	-10.17%
Stevens	0.00		\$0.00	0.00%
Sumner	247,151.70	255,662.20	\$8,510.50	3.44%
Wabaunsee	13,090.10	13,620.06	\$529.96	4.05%
Washington	107,360.85	111,364.87	\$4,004.02	3.73%
Wilson	0.00		\$0.00	0.00%
Woodson	8,432.78	8,793.68	\$360.90	4.28%
Wyandotte	1,231,201.92	1,247,131.86	\$15,929.94	1.29%
Total Kansas	\$21,576,263.42	\$22,608,807.64	\$1,032,544.22	
OKLAHOMA				
30176 Grant (Medford, OK)	50,122.00	37,672.00	(\$12,450.00)	-24.84%
18387 Woods (Alva, OK)	423.00	489.00	\$66.00	15.60%
Total Oklahoma	\$50,545.00	\$38,161.00	(\$12,384.00)	
Total Taxes	\$21,626,808.42	\$22,646,968.64	\$1,020,160.22	
Less Taxes Charged to Other Balance Sheet Accounts:				
Acct 163: Inventory		\$ 106,655.67		Key no assets estimate corrected
Acct 184: Fleet Clearing		396,475.04		
Total Current Year Ad Valorem Expense		\$22,143,837.92		

Acct 163: Inventory Rate
Acct 184: Fleet Clearing Rate

0.00470949
0.01750676

Ratios were calculated by accounting:
and filed in the 10R KS Dept of Rev filing

CERTIFICATE OF SERVICE

19-KGSG-214-TAR

I, the undersigned, certify that the true copy of the attached Order has been served to the following parties by means of electronic service on 12/20/2018.

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/S/ DeeAnn Shupe
DeeAnn Shupe
