

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

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

In the Matter of the Application of Kansas)
Gas Service, a Division of ONE Gas, Inc.,)
Seeking Commission Approval for 2018 Ad) Docket No. 18-KGSG-230-TAR
Valorem Tax Surcharge Rider Tariff.)

ORDER APPROVING AD VALOREM TAX SURCHARGE RIDER UPDATE

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 and conclusions:

I. BACKGROUND

1. On November 30, 2017, Kansas Gas Service, a Division of ONE Gas, Inc. (KGS) submitted a request for approval of its updated Ad Valorem Tax Surcharge Rider.¹ KGS indicated it would submit additional information on remaining assessments and actual November 2017 recoveries prior to Commission Staff (Staff) completing its audit.² KGS submitted this information on December 11 and December 12, 2017.³

2. Staff has prepared a Report and Recommendation (R&R) analyzing and recommending approval of KGS's 2018 property tax surcharge with conditions. Staff's R&R dated December 13, 2017, is attached hereto as "Attachment A" and is hereby adopted by the Commission and incorporated into this Order by reference.

¹ Tariff for Kansas Gas Service Ad Valorem Tax Surcharge Rider 2018 (Nov. 30, 2017). Note: A confidential version of this filing was also submitted.

² See *id.* at p. 1.

³ Kansas Gas Service Amended 2018 Ad Valorem Tax Surcharge (Dec. 11, 2017). Note: A confidential version of this filing was also submitted.

II. DISCUSSION

3. KGS originally requested an increase of \$157,405, which consisted of the difference between KGS's 2017 total 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 2017.⁴ This requested increase was revised to an annual increase of \$122,315 (requiring a surcharge of \$0.0015/Mcf) upon receiving KGS's December 11, 2017 amendment.⁵

4. Staff conducted an on-site review of KGS's 2017 Ad Valorem statements. During this review, Staff discovered that two Ad Valorem tax statements (one for McPherson County and the other for Reno County) were overstated collectively by approximately \$20, thereby overstating the total 2017 Ad Valorem tax assessments used to calculate the surcharge.⁶ Upon correcting these totals, the Ad Valorem increase amounted to \$122,295.⁷ However, Staff noted the amount of this adjustment was immaterial and had no effect on the final proposed surcharge.⁸ Accordingly, Staff detailed the proposed surcharge after accounting for this modification remained \$0.0015/Mcf.⁹

5. Staff reviewed Ad Valorem tax statements and records supporting KGS's recovery of revenue associated with KGS's 2018 update to its Ad Valorem Tax Surcharge Rider. As a result of this review, Staff found the information to be accurate and concluded KGS's 2018 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's base rates.¹⁰

⁴ See Staff's Report and Recommendation, pp. 1 (Dec. 13, 2017) (Staff R&R).

⁵ See *id.* at p. 2.

⁶ See *id.*

⁷ See *id.*

⁸ See *id.*

⁹ See *id.*

¹⁰ See Staff R&R, p. 2.

6. Accordingly, Staff recommended approval of KGS's revised Ad Valorem increase of \$122,295 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.¹¹

III. FINDINGS AND CONCLUSIONS

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's Ad Valorem Tax Surcharge Rider.¹² KGS submitted its present request in November 2017, with final updates and amendments submitted in December. 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.

¹¹ See *id.* at p. 3.

¹² Order Approving Property Tax Surcharge; KGS Required to File Ad Valorem Tax Surcharge Rider Annual True-Up in December of Each Calendar Year, p.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'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 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.

10. Upon review of Staff's R&R 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's request in the instant proceeding, as conditioned in Staff's R&R.

11. Accordingly, the Commission finds and concludes KGS's request to update its Ad Valorem Tax Surcharge Rider should be approved. KGS shall be permitted to increase its Ad Valorem tax expense \$122,295. 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 \$0.0015/Mcf, subject to the conditions contained within Staff's R&R and as detailed in paragraph 6 of this Order. The Commission finds and concludes a surcharge in the amount of \$0.0015/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's surcharge will be applied to bills in a reasonable manner.

IT IS, THEREFORE, BY THE COMMISSION ORDERED THAT:

A. KGS's request to increase its Ad Valorem tax expense, as adjusted by Staff (\$122,295), 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 \$0.0015/Mcf, subject to the conditions contained within Staff's R&R and as detailed in paragraph 6 of this Order. KGS shall submit an Ad Valorem Tax Surcharge Rider indicating a surcharge of \$0.0015/Mcf prior to collecting this surcharge.

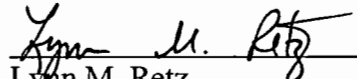
C. Parties have 15 days, plus three days if service is by mail, from the date of service of this Order to petition the Commission for reconsideration or request a hearing, as provided in K.S.A. 77-542.¹³

D. 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.

Apple, Chairman; Albrecht, Commissioner; Emler, Commissioner

Dated: DEC 19 2017


Lynn M. Retz
Secretary to the Commission

REV

Order Mailed Date
DEC 20 2017

¹³ See also K.S.A. 66-118b; K.S.A. 77-529(a)(1).

ATTACHMENT "A"

**REPORT AND RECOMMENDATION
UTILITIES DIVISION**

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

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

DATE: December 13, 2017

SUBJECT: Docket No. 18-KGSG-230-TAR – In the Matter of the Application of Kansas Gas Service, a Division of ONE Gas, Inc., Seeking Commission Approval for 2018 Ad Valorem Tax Surcharge Rider Tariff.

EXECUTIVE SUMMARY:

Staff recommends approval of Kansas Gas Service's (KGS) 2018 Ad Valorem Tax Surcharge Rider. This surcharge would be in effect during the calendar year 2018 and is in addition to the Ad Valorem tax that was included in base rates from KGS's 2016 rate case. The annual impact of the surcharge would be an increase of approximately \$0.11 per residential customer. Pursuant to K.S.A. 66-117(f), a Commission Order in this Docket is due by December 30, 2017.

BACKGROUND:

On November 30, 2017, KGS filed its 2018 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, 2017. KGS originally requested an increase of \$157,405, consisting of:

1. The difference between its 2017 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 2017.¹

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 11, 2017, KGS filed an amended Ad Valorem tax surcharge calculation that results in an annual increase of \$122,315 and a surcharge of \$0.0015/Mcf. The revised schedules include actual amounts recovered from ratepayers in November 2017 that were originally estimated, as well as tax statements that were originally estimated.

On December 12, 2017, Staff conducted an on-site review of KGS's 2017 Ad Valorem statements. During this review, Staff discovered that two Ad Valorem tax statements (one for McPherson County and the other for Reno County) were overstated collectively by approximately \$20, thereby overstating the total 2017 Ad Valorem tax assessments used to calculate the surcharge by this amount. Upon correcting these totals, the Ad Valorem increase amounted to \$122,295.² 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 \$0.0015/Mcf.

Staff has reviewed the Ad Valorem tax statements and the records supporting KGS's recovery of revenue associated with the 2018 Ad Valorem tax surcharge. The information reviewed was found to be accurate. As a result of this review, Staff concludes that KGS's 2018 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.

RECOMMENDATION:

Staff recommends the Commission approve KGS's revised Ad Valorem increase of \$122,295 with the following conditions:

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 2018, Docket No. 18-KGSG-230-TAR, pg. 2 (Nov. 30, 2017).

² See Staff Exhibit 1 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 McPherson and Reno counties.

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, 2017
Calculation for the 2018 Billing Year

Adjustment to Prior Year Surcharge

AMENDED

Prior Year Surcharge Total	\$ (1,770,726.31)	
Late Assessments	(300.22)	
True-up of Estimated Recoveries:		
Dec-16 Estimated	\$ 262,727.00	
Actual	(196,131.21)	
Total Adjustments to Estimate	\$ 66,595.79	
Total Prior Year Surcharge Adjustments		\$ (1,704,430.74)

Current Year Recoveries - 2017

January	\$ (321,405.82)	
February	(253,910.95)	
March	(169,364.28)	
April	(129,440.23)	
May	(86,275.38)	
June	(58,957.29)	
July	(51,776.84)	
August	(54,701.92)	
September	(54,381.66)	
October	(55,694.61)	
November	(128,456.82)	
December	Estimated (271,740.63)	
Total Recoveries		\$ (1,636,106.43)
Under/(Over) Recovery to Carry Forward		\$ (68,324.31)

Current Year Assessments

Ad Valorem Tax Assessments	\$ 21,144,627.48	
Less: Amount included in Base Rates	*1 (20,954,008.00)	
Recoverable Current Year Taxes		\$ 190,619.48
Total Recoverable Amount		\$ 122,295.17

Annual Billing Determinants

Billing Determinants	*2 80,570,937 Mcf	80,570,937 Mcf
Ad Valorem Tax Surcharge Rate:	Surcharge of	\$ 0.0015 /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
2016 AND 2017 TAXES**

County	Total Tax Payments		Increase(Decrease)	
	2016 Taxes	2017 Taxes	\$	%
KANSAS				
Allen	\$175,977.90	181,551.86	\$5,573.96	3.17%
Anderson	136,578.50	121,316.98	(\$15,261.52)	-11.17%
Atchinson	256,889.32	266,636.84	\$9,747.52	3.79%
Barber	96,129.54	94,848.44	(\$1,281.10)	-1.33%
Barton	466,360.54	480,252.26	\$13,891.72	2.98%
Bourbon	228,615.92	236,359.36	\$7,743.44	3.39%
Brown	146,941.25	148,379.10	\$1,437.85	0.98%
Butler	698,996.24	734,221.12	\$35,224.88	5.04%
Chautauqua	1,409.18	1,190.58	(\$218.60)	-15.51%
Cherokee	273,379.82	295,156.64	\$21,776.82	7.97%
Clark	83,193.00	79,366.15	(\$3,826.85)	-4.60%
Clay	125,512.55	124,884.44	(\$628.11)	-0.50%
Cloud	178,700.76	181,659.66	\$2,958.90	1.66%
Coffey	13,185.84	13,514.82	\$328.98	2.49%
Comanche	56,789.52	57,408.66	\$619.14	1.09%
Cowley	317,750.20	336,816.98	\$19,066.78	6.00%
Crawford	485,033.72	505,223.52	\$20,189.80	4.16%
Dickinson	238,436.38	225,314.76	(\$13,121.62)	-5.50%
Doniphan	87,182.66	89,803.02	\$2,620.36	3.01%
Douglas	71,087.04	74,122.12	\$3,035.08	4.27%
Edwards	153,507.70	153,252.76	(\$254.94)	-0.17%
Elk	43,560.72	40,266.20	(\$3,294.52)	-7.56%
Ellis	21,622.30	22,497.72	\$875.42	4.05%
Ellsworth	76,544.32	80,455.10	\$3,910.78	5.11%
Ford	117,741.20	50,983.62	(\$66,757.58)	-56.70%
Franklin	269,894.71	279,339.29	\$9,444.58	3.50%
Geary	315,011.81	314,051.94	(\$959.87)	-0.30%
Grant	7,578.65	719.24	(\$6,859.41)	-90.51%
Gray	17,828.94	13,369.52	(\$4,459.42)	-25.01%
Greenwood	20,121.20	21,270.64	\$1,149.44	5.71%
Harper	57,043.01	57,816.96	\$773.95	1.36%
Harvey	261,557.43	280,531.38	\$18,973.95	7.25%
Haskell	36,693.75	32,439.46	(\$4,254.29)	-11.59%
Jackson	90,294.94	94,588.46	\$4,293.52	4.75%
Jefferson	142,423.90	145,297.50	\$2,873.60	2.02%
Jewell	65,369.54	64,515.50	(\$854.04)	-1.31%
Johnson	2,749,032.24	2,700,750.91	(\$48,281.33)	-1.76%
Kingman	202,128.30	190,337.82	(\$11,790.48)	-5.83%
Kiowa	81,161.38	80,760.76	(\$400.62)	-0.49%
Labette	344,613.86	359,656.08	\$15,042.22	4.36%
Leavenworth	427,951.67	435,033.25	\$7,081.58	1.65%
Lincoln	61,114.84	64,773.64	\$3,658.80	5.99%
Linn	14,764.14	14,856.84	\$92.70	0.63%
Lyon	311,997.72	313,116.92	\$1,119.20	0.36%
Marion	36,766.56	35,707.17	(\$1,059.39)	-2.88%
Marshall	175,918.37	180,701.96	\$4,783.59	2.72%
McPherson	381,096.62	375,410.99	(\$5,685.63)	-1.49%

Meade	35,884.12	33,643.90	(\$2,240.22)	-6.24%
Miami	140,580.32	144,970.10	\$4,389.78	3.12%
Mitchell	136,933.72	141,320.14	\$4,386.42	3.20%
Montgomery	127,330.92	119,675.00	(\$7,655.92)	-6.01%
Morris	12,177.10	13,256.46	\$1,079.36	8.86%
Morton	1,392.50	1,148.49	(\$244.01)	-17.52%
Nemaha	89,649.04	88,725.08	(\$923.96)	-1.03%
Neosho	161,489.70	172,255.28	\$10,765.58	6.67%
Osage	125,938.40	135,070.16	\$9,131.76	7.25%
Osborne	66,775.42	69,088.08	\$2,312.66	3.46%
Ottawa	64,255.58	66,267.96	\$2,012.38	3.13%
Pawnee	122,683.76	123,707.74	\$1,023.98	0.83%
Pottawatomie	181,540.22	184,814.44	\$3,274.22	1.80%
Pratt	324,748.32	307,902.22	(\$16,846.10)	-5.19%
Reno	879,871.80	869,420.72	(\$10,451.08)	-1.19%
Republic	49,384.65	43,852.62	(\$5,532.03)	-11.20%
Rice	124,064.40	91,879.12	(\$32,185.28)	-25.94%
Riley	445,148.40	462,412.44	\$17,264.04	3.88%
Rooks	130.54		(\$130.54)	-100.00%
Rush	64,980.37	67,070.53	\$2,090.16	3.22%
Russell	145,221.88	147,907.04	\$2,685.16	1.85%
Saline	538,978.48	555,846.98	\$16,868.50	3.13%
Sedgwick	3,203,645.72	3,243,549.33	\$39,903.61	1.25%
Seward	5,682.34	5,844.74	\$162.40	2.86%
Shawnee	2,066,522.32	2,032,303.06	(\$34,219.26)	-1.66%
Smith	76,473.20	73,437.12	(\$3,036.08)	-3.97%
Stafford	123,420.90	122,034.76	(\$1,386.14)	-1.12%
Stanton	2,642.51	1,093.62	(\$1,548.89)	-58.61%
Stevens			\$0.00	0.00%
Sumner	236,239.78	247,151.70	\$10,911.92	4.62%
Wabaunsee	11,968.20	13,090.10	\$1,121.90	9.37%
Washington	110,610.18	107,360.85	(\$3,249.33)	-2.94%
Wilson			\$0.00	0.00%
Woodson	8,652.78	8,432.78	(\$220.00)	-2.54%
Wyandotte	1,195,746.70	1,231,201.92	\$35,455.22	2.97%
Total Kansas	<u>\$21,502,253.97</u>	<u>\$21,576,263.42</u>	<u>\$74,009.45</u>	

OKLAHOMA

30176 Grant (Medford, OK)	52,862.00	50,122.00	(\$2,740.00)	-5.18%
18387 Woods (Alva, OK)	460.00	423.00	(\$37.00)	-8.04%
Total Oklahoma	<u>\$53,322.00</u>	<u>\$50,545.00</u>	<u>(\$2,777.00)</u>	

Total Taxes	<u>\$21,555,575.97</u>	<u>\$21,626,808.42</u>	<u>\$71,232.45</u>
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Less Taxes Charged to Other Balance Sheet Accounts:

Acct 163: Inventory	109,498.69
Acct 184: Fleet Clearing	372,682.25

Total Current Year Ad Valorem Expense	<u>\$21,144,627.48</u>
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Key

no assets
estimate
corrected

CERTIFICATE OF SERVICE

18-KGSG-230-TAR

I, the undersigned, certify that the true copy of the attached Order has been served to the following parties by means of first class mail/hand delivered on DEC 19 2017.

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EMAILED

DEC 19 2017

/s/ DeeAnn Shupe
DeeAnn Shupe

Order Mailed Date

DEC 20 2017