

**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 Prairie Land)
Electric Cooperative, Inc. Seeking the)
Commission's Approval of the 2019 Property Tax) Docket No. 19-PLCE-245-TAR
Surcharge 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 December 21, 2018, Prairie Land Electric Cooperative, Inc. (Prairie Land) submitted a request for approval of its updated Ad Valorem Tax Surcharge.¹ Prairie Land is a member-owner of Mid-Kansas Electric Company, LLC.²

2. On January 10, 2019, after examining Prairie Land's request, Staff submitted its Report and Recommendation, which recommended approval of Prairie Land's 2019 Property Tax Surcharge adjustments.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 Prairie Land Electric Cooperative, Inc. for 2019 Ad Valorem Tax Surcharge Rider Tariff (Dec. 21, 2018).

² Id.

³ Staff's Report and Recommendation (Jan 10, 2019).

II. DISCUSSION

3. In May 2014, the Commission received and approved Prairie Land's notice of deregulation for retail operations under K.S.A. 66-104d. While the Commission does not presently oversee Prairie Land's retail operations, the Commission retained jurisdiction over Prairie Land's transmission delivery service pursuant to K.S.A. 66-104d(f). Accordingly, the calculation of Prairie Land's tax surcharge for Prairie Land's wholesale Local Access Charge customers remains subject to Commission jurisdiction.

4. Prairie Land initially requested a Property Tax surcharge increase in the amount of \$60,703 for its Local Access Charge customers; this amount is comprised of the difference between Prairie Land's 2018 total property tax assessments and the amount embedded in the base rates established in Prairie Land's most recent rate case (Docket No. 09-MKEE-969-RTS), along with a true-up provision comparing the amount of Property Tax surcharge revenue actually collected versus that intended to be collected during the year 2018.⁴

5. Staff performed an audit of Prairie Land's 2018 Property Tax assessments. Staff conducted a review of the statements and concurred with the total amount of 2018 property tax expense claimed by Prairie Land in its Application.⁵ However, from January 2018 to December 2018, Prairie Land over-recovered 2018 property taxes from Local Access Charge customers by \$2,190. Therefore, Staff determined the total amount of property taxes to be recovered from Prairie Land's Local Access Charge customers for 2018 is \$60,703.⁶

⁴ Id. pg. 2.

⁵ Id.

⁶ Id. pg. 3.

Accordingly, the Commission finds and concludes Prairie Land 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 August 27, 2013, Order in Docket No. 14-MKEE-084TAR.

9. K.S.A. 66-117(f) also provides the legal standard by which the Commission should review tariffs such as Prairie Land'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 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 Prairie Land and reviewed by Staff substantially collects the Ad Valorem tax expense charged on the books of Prairie Land. Accordingly, the Commission finds and concludes substantial competent evidence exists to approve Prairie Land's request in the instant proceeding, as conditioned in Staff's Report and Recommendation.

11. The Commission finds and concludes Prairie Land's request to update its Property Tax Surcharge should be approved. Prairie Land shall be permitted to recover its Ad Valorem Tax Surcharge increase of \$60,703, which equates to a revised surcharge of \$0.16229/kW for Local Access Charge customers.⁹ Prairie Land may implement this surcharge for its Local Access Charge customers subject to the conditions contained within Staff's Report and Recommendation and as detailed in paragraph 6 of this Order.

⁹ Staff's Report and Recommendation, pg. 3.

12. The Commission finds and concludes a surcharge in the amount of \$0.16229/kW for Local Access Charge customers will result in revenues sufficient to substantially collect the Ad Valorem tax expense charged to Prairie Land for which the Commission exercises jurisdiction, and will therefore result in just and reasonable rates. The Commission finds and concludes Prairie Land's Tax Surcharge will be applied to bills in a reasonable manner.

IT IS, THEREFORE, BY THE COMMISSION ORDERED THAT:

A. Prairie Land's request to recover \$60,703 via its Property Tax Surcharge for Local Access Charge customers is approved.

B. Prairie Land shall be permitted to recover its Ad Valorem tax surcharge of \$60,703 from its Local Access Charge customers, which equates to a surcharge of \$0.16229/kW, subject to the conditions contained within Staff's Report and Recommendation and as detailed in paragraph 6 of this Order.

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).¹⁰

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: 01/17/2019



Lynn M. Retz
Secretary to the Commission

PZA

¹⁰ K.S.A. 66-118b; K.S.A. 77-503(c); K.S.A. 77-531(b).

STATE OF KANSAS



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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: January 10, 2019

SUBJECT: Docket No. 19-PLCE-245-TAR – Tariff for Prairie Land Electric Cooperative, Inc. for Seeking the Commission’s Approval of the 2019 Property Tax Surcharge Tariff.

EXECUTIVE SUMMARY:

Staff recommends approval of the Prairie Land Electric Cooperative, Inc. – Mid-Kansas Division (Prairie Land Mid-Kansas) 2019 Property Tax Surcharge of \$60,703 for wholesale local access delivery service, which equates to a Property Tax Local Access Charge (LAC) rate of \$0.16229 per kW, a 3.45% increase when compared to the 2018 rate. This surcharge will be in effect from February 2019 through January 2020 and is in addition to the property tax expense that is embedded in base rates from Prairie Land’s most recent rate case. Pursuant to K.S.A. 66-117(f), an Order is due in this matter by January 21, 2018.

BACKGROUND:

On December 21, 2018, Prairie Land Mid-Kansas filed a Property Tax Surcharge request with the Kansas Corporation Commission (Commission). 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.

Prairie Land Mid-Kansas' Property Tax Surcharge was filed in accordance with K.S.A. 66-117(f) which provides for a utility to refund or collect differences in its property taxes above or below the amount currently embedded in base rates. The statute also requires the issuance of a Commission Order within 30 days of the filing date which, in this Docket, is by January 21, 2019.¹

On May 29, 2014, the Commission approved Prairie Land Electric Cooperative's Deregulation Notice for retail operations under K.S.A. 66-104d.² The Commission retained jurisdictional authority of transmission delivery service per subsection (f) of K.S.A. 66-104d. Prairie Land Mid-Kansas has included retail Property Tax Surcharge calculations in the present Docket for informational purposes only.

In the current filing, Prairie Land Mid-Kansas is requesting a surcharge amount of \$60,703 for LAC customers. The property tax surcharge consists of:

1. The difference between its 2018 total property tax assessments and the amount embedded in the base rates established in Prairie Land's most recent rate case.³
2. A true-up provision comparing the amount of Property Tax Surcharge revenue actually collected versus that intended to be collected during the year 2018.⁴

ANALYSIS:

Prairie Land Mid-Kansas requested a total increase of \$571,753 in the filing, of which \$60,703 is related to LAC customers. At Staff's request, Prairie Land Mid-Kansas made a couple of amendments to the original filing to correct errors in the monthly billing demand totals. The original surcharge amount (and the portion related to LAC customers) did not change as a result of these amendments. However, total 2018 billing demand for LAC customers increased from 371,441 kW to 374,046 kW as a result of the amendments, thereby reducing the original proposed LAC rate from \$0.16342/kW to \$0.16229/kW.⁵

¹ The 30-day deadline is January 20, 2019, which is a Sunday. Therefore, the actual deadline for the issuance of an Order is the following business day, Monday, January 21, 2019.

² See Docket No. 14-PLCE-466-DRC.

³ See Docket No. 09-MKEE-969-RTS (09-969 Docket).

⁴ The filing contains estimated recoveries for the month of December 2018, which will be trued up in next year's Property Tax Surcharge filing.

⁵ In calculating the monthly billing demand totals, Prairie Land Mid-Kansas inadvertently omitted the monthly billing demand for Kansas Power Pool for the period of January through June 2018. And in calculating the monthly billing demand for the Full Requirement Cities (i.e., Cawker City, Glen Elder, and Mankato), Prairie Land Mid-Kansas accidentally carried the August 2018 coincident peak demand for the City of Cawker City over to September, October and November 2018. Prairie Land Mid-Kansas corrected these errors by adding the KPP monthly billing demand for January through June 2018 to the billing determinants and including the correct monthly coincident peak totals for the City of Cawker City for the months of September, October and November 2018. See Staff Exhibit 1 for the revised surcharge calculation and Staff Exhibit 1a for the corrected version of Exhibit 4 of the Application, which now contains the updated 2018 LAC billing demand in the amount of 374,046 kW.

Staff performed an audit of Prairie Land Mid-Kansas' 2018 property tax statements, which were submitted electronically. Staff has reviewed the statements and concurs with the total amount of 2018 property tax expense claimed by Prairie Land Mid-Kansas in Exhibit 2 of the Application. The 2018 property tax statements totaled \$2,483,013, with \$1,307,463 of that total allocated to the Prairie Land Mid-Kansas Division. The amount of property tax embedded in base rates is \$735,710, resulting in a difference of \$571,753 to be collected. Local access customers are allocated \$62,893 or 11% of the total property tax difference.⁶ From January 2018 through December 2018, Prairie Land Mid-Kansas over-recovered 2018 property taxes from LAC customers by \$2,190;⁷ therefore, the total amount of property taxes to be recovered from LAC customers for 2018 is \$60,703.

RECOMMENDATION:

Staff recommends the Commission approve Prairie Land Mid-Kansas' Property Tax Surcharge increase of \$60,703, which equates to a revised surcharge of \$0.16229/kW for local access customers, with the following conditions:

1. Prairie Land Mid-Kansas shall file an updated tariff reflecting the revised surcharge before implementing the surcharge. Staff shall review Prairie Land Mid-Kansas' revised Surcharge Rider to ensure that the surcharge is applied in a reasonable manner and is calculated to substantially collect the increase in property taxes;
2. Staff will ensure that the annual true-up of amounts collected versus the actual amount of increase or reduction in property taxes will be reflected in the subsequent year Property Tax Surcharge calculation;
3. Prairie Land shall include a true-up of the December 2018 estimated recoveries in the subsequent year Property Tax Surcharge calculation; and
4. Staff recommends that Prairie Land Mid-Kansas file its Property Tax Surcharge Rider annual true-up in December of each calendar year.

⁶ See Exhibit 3 of the Application in Docket No. 14-MKEE-084-TAR for the calculations of the allocators used to split total property taxes between retail and LAC users. These calculations were based on the Class Cost of Service study from Prairie Land's most recent rate case (09-969 Docket).

⁷ This amount is also based on estimated recoveries for December 2018 which will be trued-up in next year's Property Tax Surcharge filing.

EXHIBIT 1
Prairie Land Electric Cooperative
Property Tax Surcharge Adjustment - MKEC Division
Revised Summary and Surcharge Calculation

<u>Total Amount</u>		
Property Tax Levied in 2018 - see Exhibit 2	\$	1,307,463
Subtract: Property Tax Included in Base Rates (09-MKEE-969-RTS)	\$	735,710
Difference	\$	571,753
Add: Portion Due From Retail ¹		
Under/(Over)-Recovery from 2018 - see Exhibit 3	\$	508,860
Total Amount to be Recovered in 2019 Surcharge Adjustment	\$	(11,256)
	\$	497,603 ²
Add: Portion Due From Third Party LAC ¹		
Under/(Over)-Recovery from 2018 - see Exhibit 4	\$	62,893
Total Amount to be Recovered in 2019 Surcharge Adjustment	\$	(2,190)
	\$	60,703
<u>Sales</u>		
2018 kWh Retail Sales - see Exhibit 3		278,181,325 kWh
2018 kW 3rd Party LAC - see Exhibit 4		374,046 kW
<u>Proposed Per Unit Surcharge Calculations</u>		
Retail per kWh Surcharge ²	\$	0.00179 /kWh
3rd Party LAC per kW Surcharge	\$	0.16229 /kW

¹ For calculation of the allocators, see Prairie Land - MKEC Division Exhibit 3 in the Application under the 14-MKEE-084-TAR Docket.

² Prairie Land is deregulated for rates to its members (retail) under K.S.A. 66-104d, see Docket No. 14-PLCE-466-DRG.

Exhibit 4 - UPDATED
Prairie Land Electric Cooperative
Property Tax Surcharge Adjustment - MKEC Division
2018 Recovery Tracking - LAC

Mo/Yr	Demand KW ¹	2018 Property Tax Surcharge Recovery ¹	2018 Property Tax Surcharge Rate(s) ²	Accumulated Under/(Over) Recovery ³	Calculated Property Tax Surcharge
				57,387.00	
Jan-18	31,119	5,737.50	0.18437	51,649.50	5,737.45
Feb-18	25,144	3,944.51	0.15688	47,705.00	3,944.58
Mar-18	21,586	3,386.49	0.15688	44,318.50	3,386.48
Apr-18	24,053	3,773.36	0.15688	40,545.15	3,773.41
May-18	34,842	5,466.13	0.15688	35,079.02	5,466.06
Jun-18	38,825	6,090.91	0.15688	28,988.11	6,090.91
Jul-18	40,423	6,341.59	0.15688	22,646.51	6,341.57
Aug-18	35,160	5,556.96	0.15688	17,089.55	5,515.84
Sep-18	36,005	5,648.27	0.15688	11,441.29	5,648.39
Oct-18	27,247	4,274.64	0.15688	7,166.65	4,274.54
Nov-18	27,641	4,336.39	0.15688	2,830.26	4,336.31
Dec-18	32,001	5,020.32	0.15688	(2,190.05)	5,020.32
Totals	<u>374,046</u>	59,577.05		<u>(2,190.05)</u>	59,535.86

¹ December 2018 actual data is unavailable. Based on December 2017 demand (kW) values from 17-PLCE-274-TAR Docket taking into account two FRC actual CP demand charges for Dec 2017

² From 16-PLCE-311-TAR Dockets. Order approving Ad Valorem Tax Surcharge Rider in the last annual update filed in Docket 18-PLCE-269-TAR was issued January 25, 2018, with the corresponding new rates applied beginning with February 1, 2018. Hence, for January 2018, the 17-PLCE-311-TAR rates still applied.

³ Compared to the total PTS amount approved for recovery from Third Party LAC customers in 18-PLCE-269-TAR.

CERTIFICATE OF SERVICE

19-PLCE-245-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 01/17/2019.

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