

**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 Southern)
Pioneer Electric Company Seeking Commission)
Approval for Ad Valorem Tax Surcharge Rider) Docket No. 19-SPEE-236-TAR
Tariff Adjustments for 2019)

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 19, 2018, Southern Pioneer Electric Company (Southern Pioneer) submitted a request for approval of its updated Ad Valorem Tax Surcharge Rider.¹
2. On January 10, 2019, after examining Southern Pioneer's request, Staff submitted its Report and Recommendation which recommended approval of Southern Pioneer's 2019 Ad Valorem Tax Surcharge Rider adjustments.² Staff's Report and Recommendation is attached hereto and hereby adopted by the Commission and incorporated into this Order by reference.

II. DISCUSSION

3. Southern Pioneer is requesting a surcharge amount of \$2,165,718, consisting of the difference between Southern Pioneer's 2018 total ad valorem tax assessments and the amount included in the base rates from Southern Pioneer's last rate case (12-MKEE-380-RTS), along

¹ Application of Southern Pioneer for Ad Valorem Tax Surcharge Rider Tariff Adjustments for 2019 (Dec. 19, 2018).

² Staff's Report and Recommendation (Jan. 4, 2019).

with a true-up provision comparing the Ad Valorem Tax Surcharge revenue collected versus that intended to be collected during the year 2018.³

4. Staff performed an audit of Southern Pioneer's 2018 Ad Valorem tax statements; as part of that audit, Southern Pioneer provided Staff with an update to December 2018 kWh sales and billed property taxes for the residential customer class.⁴ Staff concurred with the total amount of property taxes claimed by Southern Pioneer, which incorporates the actual kWh sales and billed property taxes for December 2018. After calculating the difference between Ad Valorem expenses collected in base rates with actual tax assessments, and incorporating a property tax true-up of over-recovered Ad Valorem expense, Staff determined the total amount to be recovered by Southern Pioneer's 2019 Ad Valorem Tax Surcharge is \$2,165,718.⁵

5. Accordingly, Staff recommended the approval of Southern Pioneer's Ad Valorem Surcharge of \$2,165,718, with the following conditions:

- a. Southern Pioneer shall file an updated tariff with the Commission reflecting the revised surcharge before implementing the surcharge. Staff shall review Southern Pioneer's surcharge rider to ensure the surcharge is applied in a reasonable manner and is calculated to substantially collect the decrease in ad valorem taxes;
- 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

³ Staff's Report and Recommendation, pg. 2.

⁴ Id.

⁵ Id.

- c. K.S.A. 66-117(f) requires the annual true-up of this surcharge once established.

Accordingly, Southern Pioneer shall file its Ad Valorem Tax Surcharge Rider annual true-up in December of each calendar year.⁶

III. FINDINGS AND CONCLUSION

6. 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.”

7. In Docket No. 13-MKEE-695-TAR, the Commission approved Southern Pioneer’s Ad Valorem Tax Surcharge.⁷ Southern Pioneer submitted its present request in December 2018. Accordingly, the Commission finds and concludes Southern Pioneer 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 June 13, 2013, Order in Docket No. 13-MKEE-695-TAR.

8. K.S.A. 66-117(f) also provides the legal standard by which the Commission should review tariffs such as Southern Pioneer’s 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.”

9. Upon review of Staff’s Report and Recommendation and the record as a whole, the Commission finds and concludes the surcharge as calculated by Southern Pioneer and

⁶ Id. pg. 3.

⁷ Order Approving Ad Valorem Property Tax Surcharge and Granting Kansas Electric Power Cooperative’s Petition to Intervene, Docket No. 13-MKEE-695-TAR, p. 4 (Jun. 13, 2013).

reviewed by Staff substantially collects Ad Valorem tax expense charged on the books of Southern Pioneer. Accordingly, the Commission finds and concludes substantial competent evidence exists to approve Southern Pioneer's request in the instant proceeding, as conditioned in Staff's Report and Recommendation.

10. The Commission finds and concludes Southern Pioneer's request to update its Ad Valorem Tax Surcharge Rider should be approved. Southern Pioneer shall be permitted to recover its Ad Valorem tax expense \$2,165,718, which equates to a surcharge of \$0.005859/kWh for retail customers; \$0.000068/kWh for sub-transmission retail customers; and \$0.664872/kW for local access charge customers.⁸ Southern Pioneer may implement surcharges for its customer class in the above mentioned amounts, subject to the conditions contained within Staff's Report and Recommendation and as detailed in paragraph 5 of this Order. The Commission finds and concludes a surcharge in the amount of \$0.005859/kWh for retail customers; \$0.000068/kWh for sub-transmission customers; and \$0.664872/kW for local access charge customers will result in revenues sufficient to substantially collect the Ad Valorem tax expense charged to Southern Pioneer, and will therefore result in just and reasonable rates. The Commission finds and concludes Southern Pioneer's surcharge will be applied to bills in a reasonable manner.

IT IS, THEREFORE, BY THE COMMISSION ORDERED THAT:

A. Southern Pioneer's request to recover its Ad Valorem tax surcharge, as adjusted by Staff, is approved.

B. Southern Pioneer shall be permitted to recover its Ad Valorem tax surcharge of \$2,165,718, which equates to a surcharge of \$0.005859/kWh for retail customers; \$0.000068/kWh for sub-transmission customers; and \$0.664872/kW for local access charge

⁸ Staff's Report and Recommendation, pg. 3.

customers, subject to the conditions contained in Staff's Report and Recommendation and as detailed in paragraph 5 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).⁹

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

⁹ 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: Kristina Luke Fry, Managing Auditor
Justin Grady, Chief of Accounting and Financial Analysis
Jeff McClanahan, Director of Utilities

DATE: January 4, 2019

SUBJECT: Docket No. 19-SPEE-236-TAR: In the Matter of the Application of Southern Pioneer Electric Company Seeking Commission Approval for Ad Valorem Tax Surcharge Rider Tariff Adjustments for 2019.

EXECUTIVE SUMMARY:

Staff recommends approval of Southern Pioneer Electric Company's (Southern Pioneer) 2019 Ad Valorem Tax Surcharge Rider. This surcharge would be in effect during the calendar year of 2019 and is in addition to the ad valorem tax that was included in base rates from Southern Pioneer's most recent rate case. Based on an average usage of 777 kWh per month, Southern Pioneer's proposed Ad Valorem Tax Surcharge Rider results in an approximate monthly increase of \$0.64 per month or \$7.68 per year for the average residential customer. Pursuant to K.S.A. 66-117(f), a Commission Order is due in this matter by January 19, 2019.

BACKGROUND:

Southern Pioneer filed an Ad Valorem Tax Surcharge request on December 20, 2018, 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.

Southern Pioneer is requesting a surcharge amount of \$2,165,718¹ consisting of:

1. The difference between its 2018 total ad valorem tax assessments of \$3,521,673 and the amount included in the base rates of \$1,294,469, established in Southern Pioneer's last rate case.²
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, which resulted in the over-recovery of \$61,486.

ANALYSIS:

The Company's Ad Valorem Tax Surcharge was filed in accordance with K.S.A. 66-117(f), which states that:

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.

Staff performed an audit of Southern Pioneer's 2018 ad valorem tax statements, which were provided electronically. As part of the audit, Southern Pioneer provided Staff with an update to December 2018 kWh sales and billed property taxes for the residential customer class found in Southern Pioneer's Exhibit 3 of the Application. These items were estimated at the time of the filing date. Staff concurs with the total amount of property tax expense claimed by Southern Pioneer in Exhibit 1, which incorporates the actual kWh sales and billed property taxes for December of 2018. The 2018 property tax statements totaled \$3,521,673, of which \$1,294,469 was property tax embedded in base rates. The difference of \$2,227,204 will be collected by Southern Pioneer's surcharge rider in 2019. This total has been allocated to three separate customer classes: \$1,917,623 was allocated to retail customers; \$37,862 to sub-transmission retail customers (STR); and \$271,719 to local access charge (LAC) customers.

In total for the 2018 calendar year, Southern Pioneer over-recovered its 2017 property taxes by \$61,486. The total property tax true-up resulted from an over-recovery of \$51,660 for retail customers, an over-recovery of \$3,705 from retail STR customers, and over-recovery of \$6,121 from third-party LAC customers. After incorporating the 2018 property tax true-up, the total amount to be recovered by the 2019 Ad-Valorem Tax Surcharge Rider is \$2,165,718.

RECOMMENDATION:

Staff recommends that the Commission approve Southern Pioneer's Ad Valorem Tax Surcharge of \$2,165,718, which equates to a surcharge of \$0.005859/kWh for retail customers; \$0.000068/kWh for STR customers; and \$0.664872/kW for LAC customers, with the following conditions:

¹ See Staff Exhibit for a detailed breakdown of the Ad Valorem Tax Surcharge Adjustment.

² See Docket No. 12-MKEE-380-RTS.

1. Southern Pioneer shall file updated Tariffs reflecting the revised surcharge before implementing the surcharge. Staff shall review Southern Pioneer's surcharge rider to ensure that the surcharge is applied in a reasonable manner and is calculated to substantially collect the decrease in ad valorem taxes.
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's Ad Valorem Tax Surcharge calculation.
3. Staff requests that Southern Pioneer file its Ad Valorem Tax Surcharge Rider annual true-up in December of each calendar year.

2019 Property Tax Surcharge Adjustment
Summary and Surcharge Calculation

Total Amount To be Recovered in 2019

Property Tax Levied in 2018 -- See Exhibit 2		\$ 3,521,673
Less: Property Tax Included in Base Rates ¹		\$ (1,294,469)
Less: BOTA Property Tax Adjustment recognized in 2018 ²		\$ -
Difference		\$ 2,227,204
Portion of Difference Due From Retail ³	0.861	\$ 1,917,623
Add: Property Tax Surcharge Under / (Over) Recovery from Prior Period - see Exhibit 3		\$ (51,660)
Total Amount To Be Recovered From Retail		<u>\$ 1,865,962</u>
Portion of Difference Due From STR ³	0.017	\$ 37,862
Add: Property Tax Surcharge Under / (Over) Recovery from Prior Period - see Exhibit 4		\$ (3,705)
Total Amount To Be Recovered from STR		<u>\$ 34,157</u>
Portion of Difference Due From 3rd Party LAC ³	0.122	\$ 271,719
Add: Property Tax Surcharge Under / (Over) Recovery from Prior Period - see Exhibit 5		\$ (6,121)
Total Amount To Be Recovered from LAC		<u>\$ 265,598</u>

2018 Sales

2018 kWh Retail Sales - see Exhibit 3	318,497,745 kWh
2018 kWh STR - see Exhibit 4	504,464,945 kWh
2018 kW 3rd Party LAC - see Exhibit 5	399,473 kW

2019 Proposed Per Unit Surcharge Calculations

Retail per kWh Surcharge	\$ 0.005859 /kWh
STR per kWh Surcharge	\$ 0.000068 /kWh
3rd Party LAC per kW Surcharge	\$ 0.664872 /kW

¹ From 12-MKEE-380-RTS.

² Not applicable this year.

³ Allocators calculated by Staff in Staff Exhibit 2, Docket 13-MKEE-695-TAR (Order issued in that Docket on 6-13-2013).

CERTIFICATE OF SERVICE

19-SPEE-236-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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