

# STATE OF KANSAS



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Senator Rob Olson  
Chair, Senate Utilities Committee  
State Capitol, Room 236-E  
Topeka, Kansas 66612

Senator Olson:

This letter is in response to your list of questions dated February 23, 2018, regarding KCC Staff's process to address Tax Cuts and Jobs Act. The KCC's answers are noted after each question submitted.

1. Does the KCC have a process in place for utilities to return federal tax refunds to customers?

Yes the KCC issued an Order on January 18, 2018 in Docket No. 18-GIMX-248-GIV requiring public utilities in Kansas to calculate and record to a regulatory liability account the portion of the utility's current rate revenue that resulted from an assumed federal income tax rate of 35% vs. the new rate of 21%.

2. Are utilities collecting the excess federal tax funds now and maintaining in a separate account?

Utilities are currently collecting the excess tax funds and they are accumulating these funds in a separate regulatory liability account, with interest at the rate being paid currently for customer deposits.

3. Has the process to return federal tax refunds by utilities been done before?

Yes the Commission undertook a similar process in response to the Tax Reform Act of 1986.

4. Do current statutes allow KCC to complete the return process?

The KCC's authority to order deferral accounting to a regulatory liability and impose refunds if need be has not been challenged to date, and we do not believe such a challenge would be successful. In the Commission's Order opening general investigation and ordering the tax savings into a regulatory liability, the Commission referred to its authority under K.S.A. 66-101b; K.S.A. 66-1,202; K.S.A. 66-1,189; K.S.A. 66-1,232; and K.S.A. 66-122. These are the statutes that require the Commission to maintain just and reasonable rates, and that allow the Commission to require specific accounting treatment.

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5. Are new statutes required for KCC to complete the return process?

We do not believe any new statutory authority is necessary.

6. Will new statutes delay the process compared to what is in place now?

That is possible. If a statute was passed, we would likely stop the process that we are working on right now to agree on a path to pass these savings on to customers. Instead, we would devote those resources to complying with the statute or seeking Commission waivers of a one-size-fits-all solution in instances where the solution was unworkable or not suited to the particular circumstances of each utility.

7. How long will the process to return federal tax refunds take?

We expect the ultimate timing and solution arrived at to pass these savings back to customers will differ by utility. In response to the Tax Reform Act of 1986, some regulatory solutions took up to two years to resolve. We do not expect that to be the case in this instance, except for perhaps the smallest and least material examples. Some utilities have already filed a rate case or are preparing those cases now. Those cases will need to be carefully reviewed, because they are likely to contain requests to update all other costs of service. The standard rate case procedure in Kansas takes 240 days. In other instances we are working with utilities now to begin to pass through these cost savings in a line item surcharge or credit, instead of changing base rates. This activity is of utmost importance and priority to us right now. We expect to have a solution identified for all major utilities, and implemented for most if not all major utilities within a year of the passage of Tax Reform. While due process takes place, the tax savings are accumulating in a deferred revenue account with interest.

8. What is a rough average of the expected rate of refunds for the different retail groups?

Please see the table below. These are our current estimates of the tax savings associated with changing the federal income tax rate from 35% to 21% in each of the major utilities' last base rate case before the Commission. These numbers are subject to change and further verification.

	Customers	Rev Req			
		Impact	Residential	Commercial	Industrial
Westar	708,000	\$ 61,731,691	\$ 25,779,772	\$ 23,252,573	\$ 12,699,346
KCP&L	247,100	\$ 31,766,554	\$ 15,785,059	\$ 14,720,967	\$ 1,260,528
KGS	635,000	\$ 13,821,775	\$ 10,126,100	\$ 2,585,925	\$ 1,109,749
Black Hills	113,000	\$ 1,718,203	\$ 1,081,661	\$ 397,623	\$ 238,919
Atmos	135,000	\$ 3,002,568	\$ 2,136,939	\$ 579,155	\$ 286,474

Please note: These are our current estimates of the annual impact of Tax Reform to these Utilities and generalized rate classes from the last base rate case of each. Actual result may vary.