

Direct Testimony and Schedule  
Mark E. Kissinger

Before the Minnesota Public Utilities Commission  
State of Minnesota

In the Matter of the Application of Minnesota Energy Resources Corporation for Authority to  
Increase Rates for Natural Gas Service in Minnesota

Docket No. G011/GR-17-563

Exhibit \_\_\_\_

**Property Tax**

October 13, 2017

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1 **I. INTRODUCTION AND QUALIFICATIONS**

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A. My name is Mark E. Kissinger. My business address is WEC Energy Group, Inc.  
4 (“WEC”), 200 East Randolph Street, Chicago, IL 60601.  
5

6 Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR BUSINESS POSITION?

7 A. My title is Manager – Tax Administration, and I am employed by WEC Business  
8 Services, LLC. I manage tax administration for WEC and its subsidiaries including the  
9 Minnesota Energy Resources Corporation (“MERC” or the “Company”) property tax  
10 compliance process.  
11

12 Q. PLEASE SUMMARIZE YOUR QUALIFICATIONS AND EXPERIENCE.

13 A. I graduated from Indiana University, Bloomington, Indiana, with a Bachelor of Science  
14 degree in finance. I received my Master of Business Administration from Butler  
15 University, Indianapolis, Indiana; my Juris Doctor from The John Marshall Law School,  
16 Chicago, Illinois; and my Master of Science in Taxation from DePaul University,  
17 Chicago, Illinois. I have been employed by WEC or its predecessors since 2008 in the  
18 Tax Department.  
19

20 Q. FOR WHOM ARE YOU PROVIDING TESTIMONY?

21 A. I am providing testimony on behalf of MERC.  
22

1 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

2 A. I present and support MERC's test year property tax expense and provide an update  
3 regarding the status of MERC's Minnesota property tax appeals, in compliance with the  
4 Commission's decision in MERC's last rate case, Docket No. G011/GR-15-736.

5  
6 Q. ARE YOU SPONSORING ANY EXHIBITS IN CONNECTION WITH YOUR  
7 TESTIMONY IN THIS PROCEEDING?

8 A. Yes, I am sponsoring one exhibit, Exhibit \_\_\_\_ (MEK-1), which is a calculation of  
9 MERC's 2016-2018 property tax obligations by taxing authority.

10

11 Q. WAS THIS EXHIBIT PREPARED BY YOU OR UNDER YOUR DIRECT  
12 SUPERVISION?

13 A. Yes, it was.

14

15 **II. MERC'S 2018 PROPERTY TAX OBLIGATIONS**

16 Q. PLEASE EXPLAIN MERC'S 2018 TEST YEAR PROPERTY TAX EXPENSE.

17 A. MERC is filing the instant general rate case proceeding with an estimated property tax  
18 expense of \$11,464,000 for the 2018 test year, inclusive of \$360,000 of Kansas property  
19 taxes associated with storage gas. The \$11,464,000 represents an inflationary increase in  
20 MERC's Minnesota property tax expense, consistent with what MERC has experienced  
21 over the last decade. Exhibit \_\_\_\_ (MEK-1) shows the calculation of MERC's proposed  
22 property tax expense.

23

1 Q. PLEASE SUMMARIZE EXHIBIT \_\_\_\_ (MEK-1).

2 A. MERC's Minnesota estimated property tax expense will be approximately \$11,104,000 in  
3 the 2018 test year. MERC's estimated tax expense for Kansas ad valorem taxes related to  
4 gas storage is \$360,000, which is based on the 2017 assessed value of \$2,623,833 and the  
5 2016 composite tax rate of 13.5693 percent.

6

7 Q. HOW DID MERC CALCULATE THE PROJECTED INCREASE IN MINNESOTA  
8 PROPERTY TAX EXPENSE FOR THE TEST YEAR?

9 A. For MERC's centrally-assessed property, the 0.603235 Apportionment Factor included in  
10 the 2017 Preliminary Market Value Assessment issued by the Minnesota Department of  
11 Revenue ("MNDOR") on July 5, 2017, was applied to the Total Original Value Reported  
12 in 2017 for year-end 2016 balances to arrive at the Total Apportionable Value by  
13 MNDOR Property ID. The effective property tax rate by MNDOR Property ID based on  
14 actual Minnesota property taxes paid in 2017 was increased by one percent and then  
15 applied to the Total Apportionable Value by MNDOR Property ID to arrive at an  
16 estimated property tax to be paid in 2018.

17

18 For MERC's locally-assessed property, the values as assessed per actual Minnesota  
19 property taxes paid in 2017 were increased by a three percent inflation factor to arrive at  
20 an estimate of locally-assessed value for property taxes to be paid in 2018. The  
21 respective tax rates applied per actual taxes paid in 2017 were increased by one percent  
22 and then applied to estimated assessed value in arriving at a total of \$247,460 for locally-  
23 assessed property taxes to be paid in 2018.

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The total estimated Minnesota property taxes to be paid in 2018 equals the sum of the centrally-assessed component of \$9,874,890 and the locally-assessed component of \$247,460 to arrive at total 2018 estimated property tax to be paid in 2018 of \$10,122,350. For purposes of this testimony, this amount was rounded down to \$10,100,000, with \$9,853,000 representing the centrally-assessed estimated amount and \$247,000 representing the locally-assessed estimated amount.

The property taxes payable in 2019 are based on the estimated property taxes to be paid in 2018 increased by ten percent for both the centrally-assessed and locally-assessed components. This ten percent increase is based on the historical increase in Total Apportionable Value.

**Q. WHAT STEPS HAS THE COMPANY TAKEN TO MITIGATE INCREASING PROPERTY TAX EXPENSE IN MINNESOTA?**

**A.** As discussed in MERC’s 2010, 2013, and 2015 rate cases, Docket Nos. G007,011/GR-10-977, G011/GR-13-617, and G011/GR-15-736, MERC’s property assessments dramatically increased beginning in 2008, resulting in significant increases in 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, and 2017 property tax amounts. In response to these significant increases, MERC protested its taxes for these years.

1 Q. WHAT WAS THE OUTCOME OF THESE PROTESTS?

2 A. None of these protests have been completely resolved. In November of 2016, the  
3 Minnesota Supreme Court issued its opinion for the years 2008-2012 and remanded the  
4 case back to the Minnesota Tax Court to address specific issues. MERC submitted an  
5 update regarding the decision of the Minnesota Supreme Court on November 21, 2016, in  
6 Docket No. G011/GR-15-736. The tax court issued its opinion on remand in April of  
7 2017. In June of 2017, MERC appealed the decision of the tax court back to the supreme  
8 court. Protests for 2013, 2014, 2015, and 2016 have been stayed by the Minnesota Tax  
9 Court pending resolution of the 2008-2012 tax years. The Minnesota Supreme Court has  
10 not yet set a date for when MERC's appeal will be heard. MERC does not expect a  
11 decision prior to 2018.

12  
13 While the 2008-2012 tax years have not been completely resolved, certain issues were  
14 adjudicated by the Minnesota Supreme Court and were favorable to MERC. However,  
15 the Commissioner of Revenue negated the favorable outcome of these issues by assigning  
16 zero weighting to the income approach and 100 percent weighting to the cost approach  
17 for the 2016 and 2017 tax years.

18  
19 MERC has also now filed a protest regarding its 2017 property taxes which is pending.  
20 The Company commits to updating the Commission during the course of this proceeding  
21 regarding the status and any resolution of its property tax appeals.

22

1 Q. HOW DID MERC CALCULATE ITS TEST YEAR KANSAS AD VALOREM TAX  
2 EXPENSE?

3 A. MERC has estimated its 2018 test year Kansas ad valorem tax expense based on 2017  
4 assessed value and the 2016 composite tax rate.

5

6 Q. IN DOCKET NO. G011/M-16-87, MERC REQUESTED, AND THE COMMISSION  
7 APPROVED, A VARIANCE TO ALLOW THE COMPANY TO RECOVER THE  
8 2009-2014 LUMP SUM ASSESSED KANSAS AD VALOREM PROPERTY TAX OF  
9 \$154,147 ASSOCIATED WITH FORMER INTERSTATE POWER AND LIGHT  
10 LIABILITY THROUGH THE PURCHASED GAS ADJUSTMENT. IS THE ALBERT  
11 LEA KANSAS TAX NOW INCLUDED IN MERC'S OVERALL PROPERTY TAX  
12 EXPENSE?

13 A. Yes. MERC requested and received approval for recovery of only past Kansas ad  
14 valorem tax related to MERC-Albert Lea customers. MERC's 2018 test year Kansas tax  
15 expense is based on 2016 actual Kansas ad valorem tax for all MERC customers based on  
16 total MERC storage volumes.

17

18 **III. MERC'S PROPERTY TAX APPEALS**

19 Q. IN MERC'S PREVIOUS RATE CASE, DOCKET NO. G011/GR-15-736, THE  
20 COMMISSION REQUIRED MERC TO MAKE A COMPLIANCE FILING UPON  
21 RESOLUTION OF THE MINNESOTA PROPERTY TAX APPEAL; TO REFUND  
22 THE AMOUNT OF MINNESOTA PROPERTY TAXES COLLECTED FROM  
23 CUSTOMERS FOR THE YEARS UNDER APPEAL LESS THE AMOUNT



**Minnesota Energy Resources Corporation**  
**Summary of Annual Assessments**  
**Calculations per MERC**

Minnesota Energy Resources Corporation  
Docket No. G011/GR-17-563  
Exhibit \_\_ (MEK-1) Page 1 of 1

Accrual Expense Year	2018	2017	2016
<u>Bill Date (Paid in Dec and May following AY)</u>	<u>2019*</u>	<u>2018*</u>	<u>2017</u>
MN Taxes Paid - Centrally Assessed	\$ 10,832,000	\$ 9,853,000	\$ 8,888,211
MN Taxes Paid - Locally Assessed	\$ 272,000	\$ 247,000	\$ 237,882
Total MN Property Taxes Paid	\$ 11,104,000	\$ 10,100,000	\$ 9,126,093
Imputed Avg Mill Rate - Centrally Assessed	38.43758	37.6839	36.945
<b>*Proposed Values, Bills Not as yet Received.</b>			
<b>\$ Increase (Decrease)</b>	\$ 1,004,000	\$ 973,907	\$ 1,378,517
<b>% Increase</b>	9.9%	10.7%	17.8%
<b>3 Year Average % Increase</b>	12.80%		

Accrual Expense Year	2018 Estimated	2017 Estimated	2016
<u>Bill Date</u>	<u>2019</u>	<u>2018*</u>	<u>2017</u>
Expense Accrual for MN Per Payments	\$ 11,104,000	\$ 10,100,000	\$ 9,126,093
Kansas Expense Accrual	\$ 360,000	\$ 360,000	\$ 360,000
<b>Total Expense Accrual</b>	<b>\$ 11,464,000</b>	<b>\$ 10,460,000</b>	<b>\$ 9,486,093</b>

**\*Per Assessed Values, Bills Not as yet Received.**