

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

JOINT PETITION OF OHIO VALLEY GAS)
CORPORATION AND OHIO VALLEY GAS, INC.)
FOR (1) AUTHORITY TO INCREASE THEIR RATES) CAUSE NO. 44891
AND CHARGES FOR GAS UTILITY SERVICE; (2))
APPROVAL OF NEW SCHEDULES OF RATES AND)
CHARGES; AND (3) APPROVAL OF CHANGES TO) APPROVED: OCT 17 2017
THEIR GENERAL RULES AND REGULATIONS)
APPLICABLE TO GAS UTILITY SERVICE)

ORDER OF THE COMMISSION

Presiding Officers:

David E. Ziegner, Commissioner

David E. Veleta, Senior Administrative Law Judge

On December 15, 2016, Ohio Valley Gas Corporation ("OVGC") and its wholly-owned subsidiary Ohio Valley Gas, Inc. ("OVGI") (collectively, "OVG" or "Joint Petitioners") filed their Petition in this Cause. Joint Petitioners filed the testimony and exhibits constituting their case-in-chief on December 21, 2016 and January 13, 2017.

Pursuant to notice duly published as required by law, on April 3, 2017, the Indiana Utility Regulatory Commission ("Commission") conducted a field hearing at Connersville High School Auditorium in Connersville, Indiana at which OVG and the only other party to this Cause, the Indiana Office of Utility Consumer Counselor ("OUCC") appeared. No members of the public appeared at the field hearing.

The OUCC filed its responsive testimony and exhibits on April 20, 2017, and OVG filed its rebuttal case on May 24, 2017. The parties subsequently submitted a Stipulation and Settlement Agreement ("Settlement") in principle on all but one of the issues in this proceeding - whether OVG should be permitted to amortize and include in its revenue requirement its defined benefit pension plan termination expense. Accordingly, the parties did not settle on the total revenue requirement. They filed their partial settlement on June 22, 2017, and the next day each party filed settlement testimony in support of the partial settlement. On July 5, 2017, the OUCC filed a Motion to Strike portions of the rebuttal testimony of OVG witness S. Mark Kerney, which was denied at the evidentiary hearing.

A public evidentiary hearing was conducted in this Cause on 9:30 a.m. on July 7, 2017 in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Joint Petitioners and the OUCC appeared and presented their cases. No members of the public participated at the hearing. On September 8, 2017, the OUCC filed *OUCC's Motion to Strike Portions of Petitioners' Reply to the OUCC's Proposed Order and Post-Hearing Brief* ("Motion"). Post-hearing briefs and proposed orders are not evidence and therefore are not part

of the evidentiary record on which the Commission may rely for support of its findings. Thus, we deny the OUCC's Motion as it is moot.

Having considered the evidence of record and the applicable law, the Commission now finds that:

1. **Notice and Jurisdiction.** Notice of the time and place of the hearings conducted by the Commission in this Cause were given as provided by law. OVGC and OVGI are both public utilities as defined in Ind. Code § 8-1-2-1 and are subject to the Commission's jurisdiction under Ind. Code ch. 8-1-2. Accordingly, the Commission has jurisdiction over Joint Petitioners and the subject matter of this Cause.

2. **Joint Petitioners' Characteristics.** OVGC is a corporation duly organized and existing under the laws of the State of Indiana. OVGC has its principal office at 111 Energy Park Drive, Winchester, Indiana. OVGC is engaged in rendering natural gas utility service to the public in portions of Dubois, Jay, Randolph, Spencer, and Wayne counties in Indiana, and owns, operates, manages, and controls plant and equipment used for the distribution and furnishing of such services.

OVGI is a corporation duly organized and existing under the laws of the State of Indiana. OVGI has its principal office at 111 Energy Park Drive, Winchester, Indiana. OVGI is engaged in rendering natural gas utility service to the public in portions of Greene, Knox, Pike, Sullivan, and Vigo counties in Indiana and owns, operates, manages and controls plant and equipment used for the distribution and furnishing of such services.

3. **Relief Requested.** Joint Petitioners request authority to change their current rates, charges, tariffs, rules, and regulations based on a test year ending at June 30, 2016, adjusted for fixed, known, and measurable changes, including to its utility plant-in-service through September 30, 2016.

4. **Joint Petitioners' Case-in-Chief.** OVG filed testimony from five witnesses to make the case for its request for relief: Scott A. Williams, S. Mark Kerney, Bradley K. Jones Adrien M. McKenzie, and Kerry A. Heid.

A. **Mr. Williams.** Mr. Williams, OVG's Executive Vice president and General Manager, summarized the many changes made to the Joint Petitioners' rate design approved in their previous general rate case, Cause No. 44147, including developing their rates and charges from the combined costs of service of OVGC and OVGI, while continuing to propose volumetric rates unique to the customers of each of their three pipeline service areas; combining their multiple tariffs into a single tariff; removing all gas costs from their base rates and including such costs in their three Gas Cost Adjustment ("GCA") filings, to be subsequently combined into a single quarterly GCA filing; expanding the application of their Normal Temperature Adjustment mechanism to those public school customers electing transportation service; and replacing OVG's revenue test with a revenue margin test to govern customer contributions to the cost of a main extension.

Mr. Williams described OVG's need for additional revenue arising from its significant investments in utility plant and increases in its operating costs since its last rate case, making its current rates insufficient, unjust, and confiscatory. He testified that as of September 30, 2016, OVG had invested in utility plant additions totaling approximately \$18.8 million since June 30, 2011, the rate base valuation date of OVG's last rate case, including several significant projects to add new customers and to expand and upgrade existing facilities. Mr. Williams explained that the Joint Petitioners were authorized in their last rate case to earn a Utility Operating Income ("UOI") of \$3,667,036; however, OVG's unadjusted UOI for the 12 months ended June 30, 2016 was only \$2,596,961. When adjusted for fixed, known, and measurable adjustments, it was slightly greater.

Mr. Williams also discussed the changes in OVG's senior management personnel since its last rate filing.

His exhibits included the Joint Petition as well as a redlined version of the proposed combined tariff for the Joint Petitioners.

B. Mr. Kerney. Mr. Kerney, OVG's Vice President and Chief Administrative Officer, provided the financial detail in support of OVG's proposed revenue requirement based on the Joint Petitioners' combined cost of service ("COS"). Using a test year ending June 30, 2016 and a rate base valuation date of September 30, 2016, he sponsored OVG's balance sheet and income statement and numerous schedules prepared under his supervision or personally reflecting adjustments to test-year revenues and expenses and setting forth various calculations necessary to determine the proposed new revenue requirement of \$22,502,702.

As part of his testimony, Mr. Kerney discussed the reasons for and costs associated with the termination of OVG's defined benefit pension plan, complete distribution of the participants' earned benefits under the plan, and implementation of OVG's successor employee retirement plan and related pro forma test-year costs. OVG incurred expenses of \$1,182,315 during its test year and following adjustment period to terminate the plan. Amortizing those expenses over a five-year period, OVG included \$236,463 of the expenses in its revenue requirement.

C. Mr. Jones. Mr. Jones, Consulting Principal with McCreedy and Keene, Inc. of Indianapolis, Indiana and lead actuary for the termination of OVG's defined benefit pension plan, provided actuarial support for the test-year contribution required to fully fund the 2016 distribution of participants' earned benefits in 2016. His testimony included a brief description of how the participants' earned plan termination benefits were calculated and an explanation of how and why the plan's cost to liquidate a participant's earned benefit by purchasing an annuity contract is greater than paying the benefit as a lump sum. He also explained how the defined benefit plan's liability (obligation to pay benefits earned) as an ongoing plan differs from the liability of a terminated plan.

D. Mr. McKenzie. Mr. McKenzie, Vice President of FINCAP, Inc., testified as to the rate of return this Commission should authorize OVG to earn on its common equity capital. He described a variety of considerations he relied on in developing the regulated rate of return he recommended should be applied to OVG's rate base and included with operating costs

to be recovered through regulated rates. He reviewed OVG's operations and finances and current conditions in the capital markets and their implications in evaluating a fair return for OVG. He analyzed OVG's particular capital structure, including its lack of long-term debt due to the utilization of its internally generated funds and significant income tax benefits to fund its construction program, as well as risk factors applicable to gas utilities generally and for OVG specifically, due its relatively small size. He performed analyses using five industry-standard methods of assessing the cost of equity: discounted cash flow, capital asset pricing model, empirical form of capital asset pricing model, equity risk premium, and expected earned rates of return for gas utilities. Mr. McKenzie recommended a rate of 11.1% to adequately compensate OVG's investors for the use of their capital.

E. Mr. Heid. Mr. Heid, Heid Rate and Regulatory Services, an independent rate consultant, prepared OVG's COS study, which distributed the required revenues among OVG's rate classes and calculated the rates and charges applicable to each rate class. In addition to adjustments to OVG's volumetric Distribution Charges, he proposed increases to OVG's fixed monthly Facilities Charges, last adjusted in 2007. His testimony included an overview of the Joint Petitioners' rate schedules that formed the basis of his COS study. Mr. Heid explained why it was more reasonable for OVG to continue its gradual transition to single-tariff pricing instead of attempting to complete the transition in this proceeding and discussed the concept of single-tariff pricing and why it is beneficial to OVG's ratepayers. Mr. Heid also provided the reasons for his proposed elimination of OVG's Rate Schedule 3 for interruptible rate service.

5. OUCC's Case-in-Chief. The OUCC filed testimony from Mark H. Grosskopf, Debra K. Wilcox, Farheen Ahmed, Bradley E. Lorton, and Brien R. Krieger.

A. Mr. Grosskopf. Mr. Grosskopf, a Senior Utility Analyst at the OUCC, addressed certain elements of OVG's request for a rate increase, incorporating the recommendations and pro forma adjustments of the other OUCC witnesses. Additionally, he sponsored adjustments to Joint Petitioners' public utility fee, Indiana utility receipts tax, and state and federal income tax expenses. His testimony demonstrated that the OUCC accepted most of OVG's proposed pro forma adjustments to its unadjusted test-year revenues and operating expenses. Mr. Grosskopf prepared and sponsored the financial schedules the OUCC used to calculate its recommended total pro forma revenue requirements and resulting rate increase.

After applying the OUCC's various changes to OVG's pro forma test-year operating revenues and expenses and elements of its rate base and accepting Mr. Lorton's recommended rate of return for OVG's common equity capital, Mr. Grosskopf recommended an annual revenue increase of \$1,458,354, which represented an increase of 7.66% over OVG's current non-gas cost revenues or revenue margin. Mr. Grosskopf's adjustments to OVG's public utility fee and Indiana utility receipts tax expenses reflect Ms. Wilcox's changes to OVG's pro forma gas sales revenues. His adjustments to OVG's state and federal income taxes, and working capital included in the rate base calculation were due to the OUCC's proposed changes made to various expenses and revenues, where applicable. Additionally, Mr. Grosskopf used a 6.00% Indiana income tax rate, effective July 1, 2017, to calculate OVG's state income taxes and revenue conversion factor, whereas OVG used in its filing the 6.25% rate in effect during the 12 months following the end of its test-year.

B. Ms. Wilcox. Ms. Wilcox, Utility Analyst II at the OUCC, testified on her review of the Joint Petitioners' pro forma operating revenues for large customer changes and pro forma operating expenses for transportation depreciation as well as OVG's rate base and capital structure. Ms. Wilcox proposed several corrections to OVG's large customer sales revenues related to adjustments for customer changes, increasing pro forma revenues by \$5,289. She also proposed several corrections to OVG's calculation of annualized transportation equipment depreciation adjustment related to fully depreciated vehicles, decreasing OVG's pro forma operating expenses by \$14,738.

Ms. Wilcox agreed with the amount of OVG's net plant included in its rate base at September 30, 2016, but determined that the 13-month average cost of OVG's materials and supplies inventory was understated by \$3,018, and included that amount in the OUCC's rate base calculation. She also noted that the working capital amount included in the OUCC's rate base reported in Mr. Groskopf's financial schedules reflected the OUCC's changes to applicable OVG's operating expenses. She verified the accuracy of the amounts of OVG's capital structure components, finding no discrepancies.

C. Ms. Ahmed. Ms. Ahmed, Utility Analyst II at the OUCC, testified on the results of her review of OVG's pro forma payroll, payroll taxes, pension plan termination, 401(k) retirement benefits, employee group insurance, employee dependent scholarship program, and miscellaneous operating expenses included in OVG's revenue requirement.

She proposed a \$14,215 reduction to OVG's payroll expense adjustment included in its filing. Ms. Ahmed revised the related payroll tax expense adjustment downward by \$1,077 and decreased the 401(k) retirement benefit expense adjustment by an additional \$4,789. She also reduced the employee group insurance expense adjustment by \$15,646 and removed various small test-year expenses totaling \$7,579.

Ms. Ahmed eliminated OVG's pro forma operating expense of \$60,800 for secondary education scholarships offered to its employees' children on the grounds that OVG's ratepayers receive no benefit from such expense.

Ms. Ahmed also removed an additional \$236,463 for the amortized pension plan termination expense adjustment included in OVG's revenue requirement because she believed OVG had already recovered the costs of its 2016 plan termination through rates established in its previous general rate case, Cause No. 44147, which utilized a test year ending June 30, 2011, stating "this results in an over collection of pension expense from ratepayers of \$1,496,069."

D. Mr. Lorton. Mr. Lorton, a Utility Analyst at the OUCC, testified as to what rate of return OVG should be allowed to earn on its common equity capital. His analysis led him to recommend a rate of 9.0%.

E. Mr. Krieger. Mr. Krieger, a Utility Analyst II at the OUCC, testified regarding OVG's COS, rate design, and proposed tariff. Mr. Krieger disagreed with Mr. Heid's testimony with respect to the use of Number of Customers as one of his three allocators used for

assigning the cost of transmission mains. Mr. Krieger did not object to any other assumption reflected in Mr. Heid's COS or rate design, including the proposed increases to OVG's fixed monthly Facilities Charges and the elimination of its Rate Schedule 3 interruptible rate service.

6. Joint Petitioners' Rebuttal Case.

A. Mr. Heid. Mr. Heid rebutted Mr. Krieger's criticism of his COS design evidence regarding his use of Number of Customers as one of his three allocators for assigning the cost of transmission mains. Mr. Heid noted that although Mr. Krieger agreed with his zero-intercept main study, which encompassed both transmission and distribution mains, Mr. Krieger did not agree that the zero-intercept mains study should be applied to transmission mains. Mr. Heid reiterated that contrary to Mr. Krieger's assertions, residential and large volume customers use transmission mains either directly or indirectly. Mr. Heid also noted in his rebuttal that the Commission has previously been presented with and rejected a similar OUCC argument. Mr. Heid also noted that Mr. Krieger's opposition to his COS design penalizes OVG's large volume customers unreasonably and inappropriately benefits its small volume customers.

B. Mr. McKenzie. Mr. McKenzie stated that Mr. Lorton's proposed 9.0% rate of return on common equity ("ROE") for OVG is extreme and unreasonably low. Mr. McKenzie disagreed with Mr. Lorton's opinion that OVG's lack of long-term debt implies that OVG's risks are lower than those of other gas utilities, and he disputed Mr. Lorton's failure to include any adjustment to his recommended ROE to account for the higher risks associated with OVG's size. Mr. McKenzie identified numerous technical flaws in Mr. Lorton's ROE analysis and explained why his 9.0% rate recommendation is not directly supported by the results of his analysis. Mr. McKenzie explained why his proposed 11.1% ROE rate was more reasonable.

C. Mr. Kerney. Mr. Kerney rebutted certain adjustments to the Joint Petitioners' pro forma operating expenses proposed by the OUCC witnesses. Disagreeing with Ms. Ahmed's proposed removal of all of OVG's requested recovery of its costs to terminate its defined benefit pension plan, Mr. Kerney argued that she had ignored a prevailing ratemaking principle that OVG's new rates in the current proceeding are to be set based on its pro forma operating expenses of its test-year ending June 30, 2016, and not determined by whether OVG has recovered its current test-year expenses through rates approved in its previous rate case based on a test-year ending some six years ago. Although he disagreed with Ms. Ahmed's use of a reconciliation approach to determine whether the pension plan termination expenses should be recovered, he demonstrated that an accurate reconciliation would show OVG's pension plan termination expenses as being under-recovered by more than \$1.2 million, not over-recovered by approximately \$1.5 million as Ms. Ahmed testified.

Mr. Kerney argued that Ms. Ahmed's proposed adjustments to reduce OVG's payroll, payroll tax, and 401(k) expenses were based on updated information not available to OVG when preparing and filing its case. If the OUCC's proposed changes were to be made, then he claimed OVG should be allowed to increase its property tax and uncollectible account expenses using the same approach. He also disagreed with her proposed elimination of OVG's \$60,800 of pro forma employee benefit expense for dependent scholarships, which she believes does not benefit OVG's ratepayers and is unnecessary for the provision of gas utility service. Mr. Kerney agreed

to remove \$4,233 of miscellaneous operating expenses from OVG's annual revenue requirement for various reasons, but he did not accept her proposal to remove \$3,346 of additional costs.

Mr. Kerney agreed with Ms. Wilcox that OVG's calculation of its pro forma annualized depreciation on transportation equipment excluded three vehicles becoming fully depreciated. However, he argued that the amount of the annual depreciation adjustment thereon prepared by the OUCC was overstated due to including more than 12 months of depreciation in the calculation. Mr. Kerney agreed with the methodology of Mr. Grosskopf's accounting schedules included in his revenue requirements model except for his use of 6.00% as the Indiana income tax rate in calculating OVG's pro forma state income tax expense and revenue conversion factor. He argued that the 6.00% rate would not be effective until July 1, 2017, more than 12 months after OVG's test-year end.

7. **Stipulation and Settlement Agreement.** After the parties filed their respective direct cases and OVG filed its rebuttal case, the parties reached a settlement on all but one of the issues in this proceeding – whether OVG should be permitted to amortize and include its defined benefit pension plan termination expense in its revenue requirement. Accordingly, the parties did not settle on the total revenue requirement. As such, the settlement testimony filed by each party included the revenue requirement calculation incorporating all settled issues but reflecting each party's position with respect to OVG's proposed recovery of its defined benefit pension plan termination expense as set forth in its case-in-chief. The Settlement and the accompanying respective settlement testimony from OUCC witness Ms. Poole and OVG witness Mr. Kerney set forth the terms of their compromise. Specifically, the parties have agreed to the following:

A. **Return on Equity and Authorized Return.** OVG's weighted cost of capital should be calculated with a return of 10.00% on shareholder's equity. The parties acknowledge that this return on equity falls between the values recommended by the parties, but it is within the range supported by the evidence. The parties also agreed to a capital structure and overall cost of capital for purposes of this Settlement as shown in Schedule 8 of each party's respective revenue requirement schedules attached to its settlement testimony.

Based on OVG's capital structure, the parties agreed that it is entitled to and should be authorized to earn an overall rate of return of 7.99% on its original cost rate base as set forth in Schedule 4 of each party's respective revenue requirement schedules, which for settlement purposes the parties agreed represents the fair value of OVG's used and useful property, plant, and equipment. Because OVG included its requested recovery of pension plan termination expenses in its calculation of working capital, and the OUCC did not, the parties did not agree on a value for OVG's working capital investment.

B. **Depreciation Rates.** The depreciation rate will remain 2.92%, as established in OVG's previous rate case, Cause No. 44147.

C. **Revenue and Expense Adjustments.** Except for OVG's pension plan termination expense recovery adjustment and the other adjustments affected by that pension expense recovery adjustment, all issues related to the parties' respective pro forma adjustments were resolved in the Settlement. The mutually acceptable pro forma adjustments to OVG's test-

year operating income that differ from OVG's direct or rebuttal testimony are set forth in schedules 6 and 7 of the settlement testimony of the respective parties.

D. Revenue Requirement. The parties agreed that OVG's adjusted test-year total operating revenues are \$19,034,208. The parties also agree that OVG shall be authorized to increase its present base rates for gas utility service to produce additional annual operating revenues but could not settle on the amount of that increase. Each party's settlement testimony includes the revenue requirement calculation schedules utilizing all settled issues and the respective party's proposed amount of OVG's pension plan termination expense to be recovered. OVG did not request an adjustment to its test-year miscellaneous operating revenues, and those revenues were not changed in the revenue requirement schedules.

E. Cost-of-Service. The Settlement reflects the parties' compromise and proposed resolution of the single COS issue in this Cause.

F. Rate Design, Facilities Charges and Tariff. The parties agreed that OVG's current Facilities Charges for each of its rate classes should be increased from the present levels to the amounts proposed in OVG's case-in-chief, including the \$14.75 monthly Facilities Charge for OVG's Rate 1 residential and other smaller-volume customers. The parties also agreed that the Joint Petitioners should continue to combine their previously separate costs of service and tariffs and retain such other changes previously made to reflect their common operations as authorized by the Commission in Cause No. 44147. Because a settlement was not reached on the revenue requirement for this proceeding, a revised tariff for OVG could not be provided with the Settlement. No changes to OVG's General Rules and Regulations Applicable to Gas Service were proposed by either of the parties.

8. Evidence in Support of the Settlement. The OUCC and OVG jointly sponsored the Settlement. The OUCC and OVG also sponsored testimony from Ms. Poole and Mr. Kerney, respectively, which supported the Settlement. Because the parties did not reach a settlement of all issues of the rate case, Ms. Poole's testimony and Mr. Kerney's testimony each included financial schedules necessary to determine the respective party's revenue requirement for OVG, which differ only by the impacts of the respective party's treatment of pension plan termination expense included therein. Ms. Poole and Mr. Kerney each reviewed in detail all of the settlement adjustments and described the financial schedules attached to their testimony.

The settlement testimony of Ms. Poole and Mr. Kerney demonstrated that the Settlement was the product of arm's-length negotiations between OVG and the OUCC, reflecting through compromise a balanced resolution in the best interest of OVG's ratepayers. The parties agreed that OVG should be allowed to adjust its present monthly Facilities Charges to the amounts proposed in OVG's case-in-chief filing. As proposed by the OUCC, OVG's rate base was slightly increased for the understatement of its materials and supplies inventory. OVG accepted the OUCC's proposed adjustment to increase its test-year large customer sales revenues. OVG accepted the OUCC's proposed reduction to its pro forma transportation equipment depreciation expense after modification of the OUCC's proposed adjustment amount. OVG also accepted the OUCC's proposed elimination of its employee dependent scholarship program expenses and certain miscellaneous expenses. The OUCC agreed to allow an increase in OVG's test-year operating expenses to reflect the increase in the Indiana gasoline tax effective July 1, 2017. OVG

accepted the use of the lower 6.00% rate for its state income tax expense and revenue conversion factor calculations.

9. Commission Discussion and Findings.

A. Settlement. Settlements presented to the Commission are not ordinary contracts between private parties. *United States Gypsum, Inc. v. Indiana Gas Co.*, 735 N.E.2d 790, 803 (Ind. 2007). When the Commission approves a settlement, that settlement “loses its status as a strictly private contract and takes on a public interest gloss.” *Id.* Thus, the Commission “may not accept a settlement merely because the private parties are satisfied, rather [the Commission] must consider whether the public interest will be served by accepting the settlement.” *Citizens Action Coalition v. PSI Energy*, 664 N.E.2d 401, 406 (Ind. Ct. App. 1996). Furthermore, any Commission decision, ruling or order including the approval of a settlement must be supported by specific findings of fact and sufficient evidence. *U.S. Gypsum*, 735 N.E.2d at 795. The Commission’s own procedural rules require that settlements be supported by probative evidence. 170 IAC 1-1.1-17(D). Therefore, before the Commission can approve the Settlement, we must determine whether the evidence in this Cause sufficiently supports the conclusions of the Settlement as reasonable, just, and consistent with the purposes of Ind. Code ch. 8-1-2, and that such agreement serves the public interest.

Our review of the reasonableness of the Settlement is aided by the parties’ agreement on the rate base, except for the parties’ differing amounts of working capital, and rate of return to be used in determining the revenue requirement. The parties agreed on each pro forma adjustment, except for those related to the recovery of OVG’s pension plan termination expenses, made to OVG’s test-year results used to determine the adjusted financial results based on OVG’s present rates. The agreed-upon pro forma adjustments are supported by record evidence.

The parties have spent significant time reviewing each other’s cases and negotiating this settlement in an effort to minimize time-consuming and costly litigation. OVG has agreed to accept a lower return on shareholders’ equity and other adjustments to its case-in-chief to limit litigation so its new rates are in effect for the upcoming winter heating season. The resulting Settlement has reduced OVG’s filed request for a rate increase. Approval of the Settlement reduces the risks, uncertainty, and amount of time and other resources that would otherwise be required in a fully-litigated proceeding and resolves various disputed issues.

The parties agree that the terms of their Settlement should not be used as precedent in any other proceeding for any purpose other than to implement or enforce its terms. With regard to future citation of the Settlement, we find that our approval should be construed in a manner consistent with our Order in *Richmond Power & Light*, Cause No. 40434 (Ind. Util. Reg. Comm’n, March 19, 1997.)

B. Pension Plan Termination Expenses. As noted above, the one issue the parties were unable to settle concerns OVG’s recovery of its costs to terminate its defined-benefit pension plan (“Plan”).

OVG terminated the Plan during the test year for this cause and incurred expenses of \$1,182,315, which included a required final contribution to the Plan of \$1,009,357 in May 2016 as well as pro forma consulting expenses and filing fees which totaled \$172,958. OVG proposed to amortize these non-recurring expenses over five years, the same period as for its non-recurring rate case expenses. One fifth of the \$1,182,315 total is \$236,463. Including only this amount in OVG's annual revenue requirement results in a proposed adjustment to its test-year expenses of (\$901,804), which is based on subtracting \$236,463 from the \$1,138,267 of termination expenses recorded during the 12-month test year.¹

The OUCC objected to any rate recovery of OVG's cost to terminate the Plan. According to OUCC witness Farheen Ahmed, "[t]he pension expense for termination costs that OVG is trying to include in rates has already been recovered." She recommended that instead of reducing OVG's test-year expenses by \$901,804, as proposed by OVG, those expenses should be reduced by the entire \$1,138,267.

On cross-examination, Mr. Kerney acknowledged that OVG's claimed total of \$172,958 in consulting expenses and filing fees reflected no allocation of this expense to OVG's parent company. As noted in his direct testimony, however, \$76,674 of its total \$1,086,031 final contribution to the Plan was applicable to parent company participants. In its post-hearing brief and proposed order, OVG advocated for a commensurate reduction of 7.1% of its total expense for consultants and filing fees, or \$12,211. When amortized over five years, this results in a further reduction of its annual revenue requirement of \$2,442. In Mr. Kerney's settlement testimony, he indicates that \$2,342 of office supplies and travel expense related to the Plan termination should be included with the total proposed pension plan termination expense. When amortized over five years, this results in an additional annual revenue requirement of \$468.

The purpose of ratemaking in the context of a base rate case is to determine an appropriate level of rate recovery going forward. The evidence shows that OVG's pension termination costs are non-recurring. As a non-recurring expense, it does not reflect typical operating conditions or otherwise provide a reliable guide for fixing rates. Therefore, the expenses should be removed from OVG's test-year operating expenses. This results in a reduction of OVG's test-year operating expenses of \$1,182,315. There is no evidence that OVG's decision to terminate the Plan in favor of a defined-contribution 401(k) retirement benefit was anything other than reasonable and prudent. Further, we accept the explanation presented by Mr. Kerney concerning the growing cost uncertainty and changing employee preferences for more flexible retirement benefits than available from the defined-benefit pension plan offered by OVG for nearly 60 years. Accordingly, we find that OVG's decision to terminate the Plan and replace it with enhanced 401(k) benefits was both reasonable and prudent, and the expenses OVG incurred to terminate the Plan during the test year and adjustment period in this case should be reflected in its revenue requirement.

We further agree with OVG that, given the non-recurring nature of its costs to terminate the Plan, it is appropriate to amortize the cost over the anticipated five-year timeframe for the

¹ The difference between \$1,182,315 and \$1,138,267 is due to the fact that \$44,048 of consulting expense relating to the Plan's termination was incurred during the 12-month adjustment period from the end of the test year to June 30, 2017.

rates to be determined in this case. We specifically find that OVG's test year expenses should be reduced by \$903,778. This amount is derived by taking the \$236,463 that OVG has proposed as the amortized amount to be recovered, adding \$468 of office supplies and travel expenses associated with the termination of the Plan, subtracting \$2,442 of consulting fees for the amount attributable to its parent company, and then subtracting the \$1,138,267 of test-year expenses. After OVG fully amortizes the cost to terminate the Plan at the end of the five-year period, OVG shall file a revised tariff sheet reflecting the removal of the expense.

Based upon the evidence of record, we find that Joint Petitioners' current rates and charges are insufficient and must be increased. Therefore, Joint Petitioners are authorized to increase their rates and charges in order to produce additional operating revenue of \$2,410,816 to provide an opportunity to earn a net operating income of \$4,131,611. This reflects the opportunity for Joint Petitioners to earn 7.99% on their original cost rate base of \$51,709,777, which represents a 12.52% increase in Joint Petitioners' total revenues.

C. Pro Forma Revenue Requirement. Having considered the evidence of record, we find Joint Petitioners' current rates and charges are insufficient to allow Joint Petitioners appropriate funds for the safe and reliable operation of the utility and earn a reasonable return on its investment in utility rate base. A summary of the above findings, including other revenue requirements not in dispute in this Cause, are illustrated in the following table:

Net Original Cost Rate Base	\$ 51,709,777
Rate of Return	7.99%
Authorized Net Operating Income	\$4,131,611
Pro Forma Net Operating Income	\$2,664,906
Increase in Net Operating Income	\$1,466,705
Revenue Conversion Factor	1.64369
Required Revenue Increase	\$2,410,816
Percentage Increase	12.52%

IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:

1. The Stipulation and Settlement Agreement between the Joint Petitioners and the OUCC filed in this case on June 22, 2016, and attached hereto, shall be and is hereby approved.
2. The Joint Petitioners are authorized to include in their adjusted test-year operating expenses \$234,489 as the amount of the five-year amortization of their defined benefit pension plan termination expense as proposed in Joint Petitioners' case-in-chief and post-hearing filings.
3. The Joint Petitioners shall file a revised tariff sheet reflecting the removal of the plan termination expense once OVG fully amortizes the cost to terminate the Plan at the end of the five-year period. The revised tariff sheet shall be filed with the Commission's Energy Division under this Cause.

4. The Joint Petitioners are authorized to implement the rates and charges for gas utility service and revise various non-rate provisions of their rate schedules as identified in the revised redlined version of their tariff to be filed as soon as possible following the approval date of this Order, upon filing a non-redlined version of the tariff with the Commission's Energy Division under this Cause.

5. This Order shall be effective on and after the date of its approval.

ATTERHOLT, FREEMAN, HUSTON, WEBER, AND ZIEGNER CONCUR:

APPROVED: OCT 17 2017

**I hereby certify that the above is a true
and correct copy of the Order as approved.**



Mary M. Becerra
Secretary of the Commission

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

JOINT PETITION OF OHIO VALLEY GAS)	
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OF CHANGES TO THEIR GENERAL RULES AND)	
REGULATIONS APPLICABLE TO GAS UTILITY)	
SERVICE)	

STIPULATION AND PARTIAL SETTLEMENT AGREEMENT

This stipulation and partial settlement agreement ("Settlement Agreement") is entered into by the Indiana Office of Utility Consumer Counselor ("OUCC") and the petitioners in this cause, Ohio Valley Gas Corporation ("OVGC") and its wholly-owned subsidiary, Ohio Valley Gas, Inc. ("OVGI") (collectively, "OVG"). OVG and the OUCC are collectively referred to herein as the "Parties." In the interest of efficiency and in order to consider a number of issues raised in OVG's and the OUCC's respective testimony, the Parties have devoted significant time to the review of data and discussion of issues, and have succeeded in reaching an agreement on all but one of the issues in this proceeding, and stipulate and agree to the terms and conditions set forth below.

The Parties did not reach an agreement with respect to whether OVG should be permitted to amortize and include in its revenue requirement its defined-benefit pension plan termination expense. Accordingly, the Parties have not settled on the total revenue requirement. As such, settlement testimony filed by each Party includes the revenue requirement calculation incorporating all settled issues but reflecting each Party's position with respect to OVG's proposed recovery of its defined-benefit pension plan termination expense as set forth in its case-in-chief. Along with the presentation of settlement testimony and this

stipulation, the sole unsettled issue of amortization of pension plan termination expense by OVG will be presented to the Indiana Utility Regulatory Commission ("Commission") for hearing on July 7, 2017.

In this proceeding, this Settlement Agreement follows the initial filings of OVG's case-in-chief, the OUCC's responsive testimony and exhibits, and OVG's rebuttal thereof, all filed in advance of the evidentiary hearing to be conducted by the Commission. Those filings have framed the discussions between the Parties and formed the basis for the Parties' agreement on the terms reflected in this Settlement Agreement.

Each Party has agreed to certain terms and conditions to which each may not have otherwise agreed but for the overall result produced by this Settlement Agreement. As set forth below and in the attached Exhibit SA-1, the Parties' resolution of the settled issues encompasses OVG's rate design as well as nearly all components of its revenue requirement. With few exceptions (transportation equipment depreciation, transportation equipment expense, and other miscellaneous expenses), the agreed-upon adjustments to the test year proposed in this case reflect either the testimonial positions of OVG or the OUCC, and they are thus grounded upon documented positions that are recorded in this proceeding. The terms of the Settlement Agreement are as follows:

1. Return on Equity Capital. OVG's weighted cost of capital shall be calculated assuming a return of 10.00% on shareholders' equity. While this rate is less than the rate requested by OVG in its case-in-chief and rebuttal, and is greater than the rate advocated by the OUCC in its case, it is within the range of reasonable return on equity levels generally endorsed by the Parties' witnesses in this cause. The Parties also agree to a capital structure and overall cost of capital for purposes of this settlement as shown in Schedule 8 of each Party's respective revenue requirement schedules attached to its settlement testimony.
2. Authorized Return. The Parties agree, for the purposes of this Settlement Agreement, that OVG is authorized to earn a return of 7.99% on its original cost rate base as

set forth in Schedule 4 of each Party's revenue requirement schedules. The Parties agree solely for the purposes of settlement that this represents a fair return on the fair value of OVG's investment in used and useful property, plant and equipment. (Because OVG has included its requested amortization of defined-benefit pension plan termination expense in its calculation of working capital, and the OUCC did not, the parties have not agreed on a value for Petitioner's working capital investment. (See each Party's Schedule 4.))

3. Depreciation Rates. The Parties agree that the depreciation rate applicable to all of OVGC and OVGI's depreciable plant other than transportation, office and communications equipment, should remain unchanged at 2.92%. All other depreciation rates of OVGC and OVGI will also remain unchanged.

4. Revenue and Expense Adjustments. Except for OVG's pension plan termination expense recovery adjustment and the other adjustments affected by that pension expense recovery adjustment, all issues related to the Parties' respective pro forma adjustments are resolved in this Settlement Agreement. The Parties agree these settled adjustments shall be explained further in the testimony offered in support of this Settlement Agreement, and all agreed-upon revenue and expense adjustments differing from OVG's direct or rebuttal testimony shall be set forth in Schedules 6 and 7 of the settlement testimony of the respective Parties.

5. Revenue Requirement. The Parties agree that OVG's adjusted test year total operating revenues are \$19,034,208. The Parties also agree that OVG shall be authorized to increase its present base rates for gas utility service to produce additional annual operating revenues, but could not settle on the amount of that increase. Each Party's settlement testimony includes the revenue requirement calculation schedules utilizing all settled issues and the respective Party's proposed amount of OVG's pension plan termination expense to be recovered. OVG did not request an adjustment to its test year miscellaneous operating revenues, and those revenues were not changed in the revenue requirement schedules.

6. Cost-of-Service. This Settlement Agreement reflects the Parties' compromise and proposed resolution of the single COS issue in this Cause, more fully discussed in the Parties' testimony.

7. Facilities Charges. The Parties agree that OVG's current Facilities Charges for each of its rate classes should be increased from the present levels to the amounts proposed in OVG's case-in-chief, including the \$14.75 monthly Facilities Charge for OVG's Rate 1 residential and other smaller-volume customers.

8. Tariff. The Parties agree that the Joint Petitioners, OVGC and OVGI, should continue to combine their previously separate costs of service and tariffs and retain such other changes previously made to reflect their common operations as authorized by the Commission in OVG's previous general rate case, IURC Cause No. 44147. Because settlement was not reached on the revenue requirement for this proceeding, a revised Tariff for OVG cannot be provided at this time. No changes to OVG's General Rules and Regulations Applicable to Gas Service were proposed by either of the Parties in their prefiled evidence in this cause.

9. Request for Prompt Approval by the Commission. The Parties acknowledge that a significant motivation for OVG to enter into this Settlement Agreement of all but one issue is the expectation that an order will be issued more promptly by the Commission authorizing increases in its rates than if all of the previously contested issues were litigated before the Commission. The Parties have spent significant time reviewing each other's cases and negotiating this settlement in an effort to minimize time-consuming and costly litigation. OVG has agreed to accept a lower rate of return on shareholders' equity and other adjustments to its case-in-chief to limit litigation so that its new rates are in effect for the upcoming winter heating season. The resulting partial settlement has reduced OVG's filed request for a rate increase. Under these circumstances, OVG asks that this proposed resolution of OVG's request for rate relief be promptly considered and approved by the Commission along with its resolution of the

sole unsettled issue. The OUCC does not object to OVG's request being stated in the Stipulation and Settlement Agreement.

10. Sufficient Evidence to Support Settlement Agreement. The Parties intend that this Settlement Agreement will be filed with the Commission in this cause along with settlement testimony exhibits. The Parties agree that, together with their prefiled direct and rebuttal evidence, the settlement testimony and exhibits constitute substantial evidence forming a sufficient basis for the Commission to accept the Parties' Settlement Agreement and to enter findings of fact and conclusions of law necessary for the Commission to issue an order adopting and approving this Settlement Agreement on less than all issues.

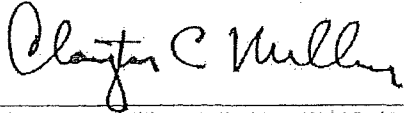
11. Stipulation, Effect, Scope and Approval. The Parties acknowledge and agree that (i) this Settlement Agreement is conditioned upon and subject to its acceptance and approval by the Commission in its entirety without any change or condition that is unacceptable to either party; (ii) each term of this Settlement Agreement is the result of negotiation in the settlement process and the agreement to any particular term shall not constitute an admission or waiver by any party in any other proceeding; (iii) the Settlement Agreement shall not be used as a precedent in any other proceeding or for any other purposes except to the extent provided for herein or to the extent necessary to implement or enforce its terms; (iv) the communications and discussions of materials produced and exchanged during negotiation of the Settlement Agreement relate to the offers of settlement and are privileged, confidential, and inadmissible.

12. Parties Authorized to Execute Settlement agreement. The undersigned represent and agree that each is fully-authorized to execute this Settlement Agreement on behalf of their designated clients, who will be bound thereby.

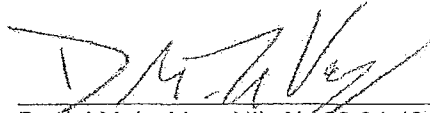
ACCEPTED AND AGREED this 22nd day of June, 2017.

OHIO VALLEY GAS, INC. and
OHIO VALLEY GAS CORPORATION

INDIANA OFFICE OF UTILITY
CONSUMER COUNSELOR



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