

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

**VERIFIED PETITION OF WESTFIELD GAS, LLC,)
D/B/A CITIZENS GAS OF WESTFIELD FOR (1))
AUTHORITY TO INCREASE RATES AND CHARGES)
FOR GAS UTILITY SERVICE AND APPROVAL OF A)
NEW SCHEDULE OF RATES AND CHARGES; (2))
APPROVAL OF CERTAIN REVISIONS TO ITS)
TERMS AND CONDITIONS APPLICABLE TO GAS)
UTILITY SERVICE; AND (3) APPROVAL PURSUANT)
TO INDIANA CODE SECTION 8-1-2.5-6 OF AN)
ALTERNATIVE REGULATORY PLAN UNDER)
WHICH IT WOULD CONTINUE ITS ENERGY)
EFFICIENCY PROGRAM PORTFOLIO AND)
ENERGY EFFICIENCY RIDER)**

CAUSE NO. 44731

VERIFIED REBUTTAL TESTIMONY
of
LATONA S. PRENTICE

On Behalf of
Citizens Gas of Westfield

Petitioner's Exhibit 7

INTRODUCTION AND BACKGROUND

1

2

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3

A. LaTona S. Prentice. My business address is 2020 North Meridian Street,
4 Indianapolis, Indiana 46202.

5

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

6

A. I am employed by the Board of Directors for Utilities of the Department of Public
7 Utilities of the City of Indianapolis d/b/a Citizens Energy Group. Citizens Energy
8 Group is the successor trustee of a trust related to the provision of energy utility
9 services and, acting by and through the Board owns, manages and controls a
10 number of utility assets. Citizens Energy Group also owns the stock of Citizens
11 By-Products Coal Company d/b/a Citizens Resources, which itself owns a number
12 of energy and utility related businesses. I currently serve as Citizens Energy
13 Group's Vice President, Regulatory & External Affairs. Citizens Westfield
14 Utilities, LLC, which is a subsidiary of Citizens Resources, owns the sole
15 membership interest of the Petitioner in this proceeding, Westfield Gas, LLC
16 d/b/a Citizens Gas of Westfield ("Petitioner" or "Citizens Gas of Westfield").

17

**Q. ARE YOU THE SAME LATONA S. PRENTICE THAT PREVIOUSLY
18 TESTIFIED IN THIS PROCEEDING?**

18

19

A. Yes, I am.

20

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY AT THIS STAGE OF
21 THE PROCEEDING?**

21

1 A. My testimony responds to Mr. Grosskopf's objections to Petitioner's proposal to
2 stabilize its revenue stream by continuing the decoupling mechanism known as
3 the Sales Reconciliation Component ("SRC"). I also address Ms. Paronish's
4 objection to Petitioner continuing its energy efficiency programs. In addition, I
5 respond to Mr. Courter's recommendations relating to Petitioner's rate case
6 expenses. Finally, I respond to Ms. Wilcox's recommendation regarding the
7 correct IURC fee adjustment and Mr. Krieger's recommendation that the
8 Commission order Petitioner to conduct a cost of service study in its next rate
9 case. Failure to address any aspect of the testimony of the foregoing witnesses or
10 of the OUCC's testimony in general does not constitute my agreement with such
11 aspects.

12 **CONTINUATION OF THE SRC**

13 **Q. WHAT DOES THE OUCC RECOMMEND WITH RESPECT TO**
14 **PETITIONER'S SRC MECHANISM?**

15 A. OUCC witness Grosskopf recommends the Commission "deny Petitioner's
16 request for continuation of the SRC mechanism." However, OUCC witness
17 Grosskopf provides nothing in support of this recommendation aside from the
18 same exact analysis that he presented to the Commission previously in Cause No.
19 44124, which was expressly rejected by the Commission.

20 **Q. PLEASE BRIEFLY DESCRIBE THE SRC.**

1 A. The SRC is a decoupling mechanism that allows Petitioner to recover its non-gas
2 costs as authorized in its most recent base rate case. The Commission authorized
3 Petitioner to implement its SRC in its last rate case Order dated March 10, 2010 in
4 Cause No. 43624.

5 **Q. WHY IS THE OUCC RECOMMENDING THE COMMISSION DENY**
6 **PETITIONER'S REQUEST TO CONTINUE THE SRC?**

7 A. The OUCC suggests the SRC “represents a significant and excessive source of
8 revenue” for Petitioner because the revenue exceeds the amount of savings
9 customers were deemed to have achieved from energy efficiency programs
10 implemented by Petitioner. Specifically, in Attachments MHG-4 and MHG-5,
11 OUCC witness Grosskopf compares the revenues collected through the SRC
12 mechanism to the deemed savings of Petitioner’s energy efficiency programs, and
13 concludes there is a “significant difference between the benefits to Westfield from
14 decoupling and lost margins through energy efficiency programs.”

15 However, Attachments MHG-4 and MHG-5 present an analysis identical
16 to that which Mr. Grosskopf offered in Cause No. 44124. The Commission
17 specifically rejected the premise of that analysis, finding: “the SRC was not
18 designed to recover just lost margins caused by the energy efficiency program.
19 The SRC was intended to ensure full margin recovery in the wake of declining
20 ‘usage per customer.’” Mr. Grosskopf does not offer any basis in his testimony

1 for the Commission to change the policy rationale that first caused it to authorize
2 natural gas decoupling.

3 **Q. PLEASE DESCRIBE IN FURTHER DETAIL THE POLICY BASIS FOR**
4 **NATURAL GAS DECOUPLING.**

5 A. The SRC was approved because the Commission found “volumetric pricing
6 makes it difficult for an Indiana gas utility to earn its authorized return . . .
7 because usage per customer is declining” creating an “asymmetrical risk for gas
8 utilities.”¹ The Commission found declining usage per customer, regardless of
9 cause, makes it challenging for a natural gas distribution utility to “meet its
10 operational requirements, and avoid the adverse consequences for its credit
11 ratings that could result without decoupling.”² The difficulties declining usage
12 pose for natural gas utilities have not gone away since the Commission approved
13 Petitioner’s SRC in 2010. The OUCC’s recommendation, if accepted, would
14 again require Petitioner to bear the “asymmetrical risk” for declining usage
15 without regard to the adverse impact that might have on its ability to meet
16 operational requirements. Moreover, as I will discuss below, the Commission has
17 recently authorized other Indiana gas utilities to implement decoupling
18 mechanisms. Accordingly, the asymmetrical risk that Mr. Grosskopf proposed be
19 imposed would be shouldered only by Petitioner.

20 **Q. PLEASE DISCUSS FURTHER THE COMMISSION’S POLICY**

¹ Re Citizens Gas, Cause No. 42767 (Order on Reh’g approved August 29, 2007) at 20-21.

² *Id.* at 23.

1 **SUPPORTING APPROVAL OF REVENUE "DECOUPLING"**
2 **MECHANISMS FOR NATURAL GAS UTILITIES.**

3 A. The Commission first approved a revenue decoupling mechanism for an Indiana
4 natural gas utility on December 1, 2006 in *Re Petition of Indiana Gas Company,*
5 *Inc. and Southern Indiana Gas and Electric Company,* Consolidated Cause Nos.
6 42943 and 43046. In that case, the Commission described two independent bases
7 for approving the SRC: (i) to "remove [the] possible disincentive to promote
8 natural gas conservation;" and (ii) as a result of declining usage, natural gas
9 utilities were not earning their authorized returns or recovering revenues sufficient
10 to meet their statutory revenue requirements. With respect to this second element,
11 the Commission stated:

12 There are a number of important differences between the
13 volumetric gas utility rate design originally requested by the gas
14 companies and implemented by the Commission and the
15 circumstances that surround its use today. The LDC business is a
16 fixed cost business. The non-gas costs of Vectren Energy do not
17 vary with the amount of gas it sells. The recent sharp increase in
18 gas commodity costs is an important reason to reconsider the
19 appropriateness of the volumetric recovery of LDC operating
20 costs. In the past, rapidly increasing utility sales had the effect of
21 lowering average unit costs through increased economies of scale
22 without driving up commodity prices. Today, increasing gas usage
23 tends to have the opposite effect because it exerts upward pressure
24 on the market price of gas. In the past, volumetric prices afforded
25 gas utilities the opportunity to earn their authorized returns, even in
26 the face of rising costs, because sales (and hence fixed cost
27 recovery) were increasing. Today, volumetric pricing makes it
28 difficult for an Indiana gas utility to earn its authorized return
29 because usage per customer is declining. Under these conditions,

1 this form of usage-based rate design has become an asymmetrical
2 risk for the utilities.³

3
4 The Commission ultimately concluded “[t]raditional ratemaking provides utilities
5 an opportunity to earn a reasonable return. Existing volumetric rate design
6 hampers that opportunity and therefore, the [Commission found Vectren’s]
7 proposal to address this issue is reasonable.”⁴

8 **Q. IN CONSOLIDATED CAUSE NOS. 42943 AND 43046, DID THE**
9 **COMMISSION MAKE ANY OTHER FINDINGS REGARDING THE**
10 **IMPACT OF DECLINING USAGE ON NATURAL GAS UTILITIES?**

11 **A.** Yes. The Commission found that as a result of naturally occurring declines in
12 customer usage, natural gas utilities could be put in the position of having to file
13 rate cases for the sole purpose of updating the volumes used to design rates. The
14 Commission concluded that implementing a decoupling mechanism was a
15 preferable alternative:

16 We note that [CAC witness] Mr. Chernick agreed that the
17 “[v]olumetric rate design, during periods of dramatic reduction in
18 Average Use Per Customer presents challenges for the utility in
19 earning its target return.” Mr. Benkert testified that historically
20 Vectren Energy experienced annual usage reductions per customer
21 of approximately 0.75%, but as reported by Moody’s, this usage
22 decline has escalated nationally in the last two years to 3% to 4%,
23 and for Vectren Energy may be as high as 8% to 10% in 2006. Mr.
24 Benkert explained that the risk of volumetric pricing has increased
25 considerably since the Vectren North and Vectren South rate cases.
26 Mr. Chernick suggests that this impact could be addressed by

³ *Re Petition of Indiana Gas Company, Inc. and Southern Indiana Gas and Electric Company*, Cause No. 42934 and 43046 (Dec. 1, 2006) at 39 (emphasis in original).

⁴ *Id.* at 44.

1 “fil[ing] rate cases frequently.” However, even if we did not have
2 the statutory 15 month moratorium, we do not see a material public
3 benefit in frequent rate cases for the sole purpose of updating the
4 volumes used to design rates. We find it more appropriate to
5 reduce the impact of sales volumes on fixed cost recovery.⁵
6

7 **Q. COULD ACCEPTANCE OF THE OUCC’S PROPOSAL IN THIS CASE**
8 **HAVE THE EFFECT OF REQUIRING PETITIONER TO FILE RATE**
9 **CASES MORE FREQUENTLY FOR THE SOLE PURPOSE OF**
10 **UPDATING THE VOLUMES USED TO DESIGN RATES?**

11 A. Yes. Public’s Attachment MHG-5 shows that over the approximate five-year
12 period beginning in Fiscal Year 2010, Petitioner has been authorized to recover
13 approximately \$2.4 million through the SRC. This means that Petitioner’s
14 traditional volumetric rates were under-collecting by approximately \$2.4 million
15 as a result of declining usage. The under-collection of revenues necessary to
16 cover Petitioner’s non-gas costs places the utility in a financially precarious
17 situation.

18 **Q. DO VECTREN NORTH AND VECTREN SOUTH (COLLECTIVELY**
19 **“VECTREN”) STILL HAVE SRCS?**

20 A. Yes. On August 18, 2011 the Commission approved a Settlement Agreement
21 entered into between Vectren and the OUCC authorizing Vectren to extend the
22 application of its SRC through December 31, 2015. In Cause No. 44019, the

⁵ *Id.* at 44-45 (citations omitted).

1 OUCG witness testified that decoupling remains “an appropriate rate design to
2 promote the energy efficiency efforts of Vectren Energy Gas” because it “enables
3 a utility . . . to pursue reductions in customer usage, while ensuring recovery of
4 appropriate operating costs.”⁶

5 Thereafter, the Commission approved the extension of the Vectren SRCs
6 through 2019 in Cause No. 44598. Mr. Grosskopf said that “the SRC will
7 continue to be used to calculate and recover the differences between actual
8 margins and adjusted order granted margins for the applicable rate schedules.”⁷
9 In addition, Mr. Grosskopf indicated that the OUCG had agreed to eliminate the
10 4% cap on amounts recovered through the Vectren SRCs during the extension.
11 Mr. Grosskopf explained: “the OUCG reasonably believes that volatility of SRC
12 recovery will not be an issue during the extension period, and has agreed to
13 eliminate the recovery cap applicable to Vectren's SRC.”⁸ The Commission
14 approved the continuation of the SRCs finding them to be “working as intended,”
15 but rejected Vectren’s and the OUCG’s agreement to remove the 4% cap.⁹

16 **Q. IS THERE A CAP ON THE AMOUNT PETITIONER CAN RECOVER**
17 **THROUGH THE SRC?**

18 A. Yes. The residential margin differences eligible for recovery in the SRC annually
19 are capped at 8% of adjusted order granted residential margins applicable to the

⁶ Cause No. 44019, Public’s Exh. BJB-1 at 11.

⁷ Cause No. 44598, Public’s Exh. 1-S at 5-6.

⁸ *Id.* at 6.

⁹ *Re Vectren*, Cause No. 44598 (approved September 9, 2015) at 8.

1 previous year.

2 **Q. HAS PETITIONER PROPOSED TO ELIMINATE THAT CAP?**

3 A. No. Petitioner intends to continue the cap to protect customers from volatility.

4 **Q. HAS THE COMMISSION ISSUED ANY OTHER ORDERS DESCRIBING**
5 **THE POLICY RATIONALE BEHIND NATURAL GAS DECOUPLING?**

6 A. Yes. On October 21, 2009, the Commission issued an Order in *Re Investigation*
7 *into Rate Design Alternatives and Energy Efficiency Measures for Natural Gas*
8 *Utilities*, Cause No. 43180. In its Order in Cause No. 43180, the Commission
9 found that “[r]ate design alternatives to traditional volumetric rate design offer
10 solutions to declining usage and increasing demand for energy efficiency and
11 conservation.”¹⁰

12 **Q. DID THE OUCC OFFER ANY COMMENTS RELATIVE TO**
13 **DECOUPLING IN CAUSE NO. 43180?**

14 A. Yes. In Cause No. 43180, the OUCC recognized the importance of providing
15 natural gas utilities the opportunity to fully recover their Commission-approved
16 revenue requirements. The OUCC commented that “[d]ecoupling enables gas
17 utilities to recover fixed costs with much greater certainty even in a market with
18 declining sales volumes. To the extent this increased certainty reduces the utility’s
19 business risk, ratepayers will see benefits in the form of reduced cost of capital.”¹¹

20 **Q. HAS THE COMMISSION APPROVED DECOUPLING MECHANISMS**

¹⁰ Order in Cause No. 43180 at 10.

¹¹ March 14, 2007 OUCC Comments in Cause No. 43180 at ¶ 2.

1 **FOR OTHER GAS UTILITIES?**

2 A. Yes. By Order dated November 30, 2011 in Cause No. 43995, the Commission
3 authorized the following utilities to implement mechanisms similar to the SRCs
4 implemented by Vectren, Citizens Gas and Petitioner: Midwest Natural Gas
5 Corporation, Indiana Utilities Corporation, South Eastern Indiana Natural Gas
6 Company, Inc., Fountaintown Gas Company, Inc., Community Natural Gas
7 Company, Inc., Boonville Natural Gas Corporation, Indiana Natural Gas
8 Corporation, and Switzerland County Natural Gas Company, Inc.

9 **Q. YOU MENTIONED THAT MR. GROSSKOPF HAS REPEATED THE**
10 **SAME ARGUMENTS THAT THE COMMISSION REJECTED IN CAUSE**
11 **NO. 44124. PLEASE DESCRIBE THAT PROCEEDING IN MORE**
12 **DETAIL.**

13 A. Petitioner and Citizens Gas initiated Cause No. 44124 jointly to request
14 Commission approval to continue their respective energy efficiency programs and
15 SRC in 2011. OUCC's witness Grosskopf presented an identical analysis to that
16 presented in this case. According to Mr. Grosskopf's analysis Petitioner's lost
17 base revenues attributable to energy efficiency programs was \$5,772, as compared
18 to the \$617,400 of lost margins recovered through the SRC.¹² Accordingly, Mr.
19 Grosskopf testified that "the benefit to the utility from recovery of SRC
20 (decoupling) revenue exceeds the cost to the utility from lost margin by an even

¹² Cause No. 44124; Public's Exh. MHG-2 at 7.

1 larger comparative amount.”¹³

2 **Q. WHAT FINDINGS DID THE COMMISSION MAKE REGARDING MR.**
3 **GROSSKOPF'S ANALYSIS?**

4 A. The Commission expressly rejected the premise behind Mr. Grosskopf's analysis,
5 stating:

6 The OUCC's testimony indicates its recommendation is based on
7 the difference between amounts recovered by Joint Petitioners
8 through the SRCs in order to recover their Commission-approved
9 margins and the "lost margins through energy efficiency
10 programs." (Public's Ex. MHG-1 at 7.) OUCC Exhibit MHG-2
11 compares amounts collected through Joint Petitioners' SRCs as
12 opposed to savings deemed by EM&V to be attributable to the
13 formal efficiency programs. Citizens has recovered \$21.7 million
14 through the SRC in order to recover revenues sufficient to meet its
15 Commission-approved revenue requirements. The deemed energy
16 savings attributed to the programs through EM&V are \$3.1
17 million, not including gas cost savings. . . .

18
19 As reflected in the Order in Consolidated Cause Nos. 42943 and
20 43046 and the Order on Rehearing in Cause No. 42767, the SRC
21 was not designed to recover just lost margins caused by the energy
22 efficiency program. The SRC was intended to ensure full margin
23 recovery in the wake of declining "usage per customer." *Citizens*
24 *Gas*, Cause No. 42767, Order on Reh'g at 20-21. Paragraph 26 of
25 the Settlement Agreement Citizens entered into in Cause No.
26 42767 makes clear the SRC was intended to: "break[] the linkage
27 between Citizens' customer sales volumes and recovery of its
28 predominantly fixed non-commodity costs." Accordingly, we
29 found that the SRC should ensure "full recovery of the margin
30 difference," between actual margins and the margins authorized in
31 the utility's base rate case. *Id.* at 23.

32
33 As a result of the SRC providing a utility with the opportunity to
34 recover its Commission approved margins, we found the "SRC and

¹³ *Id.* a 8.

1 the resulting departure from volumetric pricing will benefit
2 customers, not only because of the savings they will experience as
3 a result of the Energy Efficiency Portfolio, but also from Citizens'
4 ability to recover its non-gas costs, meet its operational
5 requirements, and avoid the adverse consequences for its credit
6 ratings that could result without decoupling." *Id.* at 23.
7

8 The evidence presented in this proceeding demonstrates that the
9 SRC has functioned as intended. The SRCs have improved Joint
10 Petitioners' ability to recover their non-gas costs, meet operational
11 requirements and avoid the adverse consequences for Citizens'
12 credit rating. . . .¹⁴
13

14 **Q. BASED ON THE FOREGOING FINDINGS, DID THE COMMISSION**
15 **AUTHORIZE THE CONTINUATION OF THE SRC?**

16 A. Yes. By Order dated April 10, 2013, the Commission authorized Petitioner and
17 Citizens Gas to continue their SRCs through December 30, 2015. The
18 Commission, however, held that "[i]nasmuch as Joint Petitioners wish to continue
19 the SRC beyond that date, such proposals shall be included as part of the
20 requested relief in their respective base rate cases, which must be filed by
21 December 30, 2015 in order for the SRCs not to lapse."¹⁵ Citizens Gas did not
22 require rate relief at the end of 2015, and therefore, has allowed its SRC to
23 temporarily lapse in accordance with the terms of the Commission's Order.

24 **Q. HAS MR. GROSSKOPF PRESENTED ANY TESTIMONY AS TO WHY**
25 **THE COMMISSION SHOULD RECONSIDER THE FOREGOING**
26 **FINDINGS?**

¹⁴ Cause No. 44124, Order at 26.

¹⁵ *Id.* at 27.

1 A. No. Mr. Grosskopf does not even acknowledge that he made the exact same
2 arguments in Cause No. 44124 and that those arguments were specifically
3 rejected. Nor does Mr. Grosskopf offer any new basis for his proposal to
4 discontinue the SRC mechanism. I would note that the 8% cap on SRC recovery
5 was designed to address the "OUCC's concerns with respect to excessive recovery
6 through the SRC," "to be consistent with [the] treatment with Vectren's SRC,"
7 and "help reduce the impact and bill volatility on residential ratepayers."

8 **Q. ASIDE FROM ITS HAVING BEEN PREVIOUSLY REJECTED BY THE**
9 **COMMISSION, DO YOU BELIEVE THERE ARE OTHER FLAWS WITH**
10 **MR. GROSSKOPF'S ANALYSIS?**

11 A. Yes. First, the therm savings shown in Mr. Grosskopf's Attachments MHG-4 and
12 MHG-5 are "deemed" savings based on modest estimates. Moreover, there is a
13 substantial amount of savings attributable to both the programs themselves and
14 efforts made by the utility outside the energy efficiency programs that cannot be
15 accurately measured – if measurable at all. For instance, Citizens Energy Group's
16 promotion of conservation has an impact on customer usage in Petitioner's
17 service territory that is unaccounted for in Attachments MHG-4 and MHG-5.

18 **Q. HAS THE OUCC PREVIOUSLY ACKNOWLEDGED THAT ANALYSES**
19 **LIKE THAT PERFORMED BY MR. GROSSKOPF ARE FLAWED?**

20 A. Yes. In a "Memorandum in Support of Approval of Efficiency Settlement and
21 Adoption of Proposed Order" filed jointly with Vectren in *Re Petition of Indiana*

1 *Gas Company, Inc. and Southern Indiana Gas and Electric Co.*, Consolidated
2 Cause Nos. 42943 and 43046 (approved Dec. 1, 2006), the OUCC and Vectren
3 identified a number of flaws with attempts to compare and limit lost margin
4 recovery to estimates of lost margins caused by efficiency programs. The
5 Memorandum was filed in response to Citizens Action Coalition's proposal that
6 Vectren implement a lost revenue adjustment in lieu of the SRC.

7 **Q. WHAT DID THE OUCC AND VECTREN STATE WERE THE FLAWS**
8 **INHERENT IN SUCH A COMPARISON?**

9 A. In essence, the Memorandum concluded there are far more energy savings and
10 margin losses that result when a utility actively promotes conservation than can be
11 measured. Specifically, the OUCC and Vectren identified four main flaws that
12 would result in the understatement of energy savings and margin losses:

- 13 • The approach “simply ignores the value in all the energy efforts beyond
14 formal programs that are difficult to measure, but clearly provide value.”
- 15 • “It also ignores the overriding goal of changing the utility culture for the long-
16 term – a utility cannot be expected to permanently transform itself to a non-
17 sales oriented entity absent clear and complete cost recovery terms.”
- 18 • “[L]ost margin recovery is a contentious issue that can be exceedingly
19 difficult to resolve.”

- 1 • “[U]ltimately, many of the utility’s supportive efficiency efforts, such as
2 media campaigns, which have value, cannot be measured very easily in terms
3 of outcome.”¹⁶

4 In its Order in Consolidated Cause Nos. 42943 and 43046, the Commission
5 accepted each of the foregoing arguments and rejected the CAC’s proposed lost
6 revenue adjustment.¹⁷

7 **Q. DID THE OUCC CONDUCT AN ANALYSIS LIKE THAT SET FORTH IN**
8 **ATTACHMENTS MHG-4 AND MHG-5 BEFORE ENTERING INTO AN**
9 **AGREEMENT WITH VECTREN IN CAUSE NO. 44598**
10 **RECOMMENDING THAT THE SRC BE CONTINUED AND THE CAP**
11 **ON RECOVERY BE REMOVED?**

12 A. Apparently not. We asked the OUCC in discovery to “identify any other
13 proceeding where Mr. Grosskopf or the OUCC has performed a similar cost
14 benefit analysis to that described in his testimony.” The OUCC identified only
15 Cause No. 44124. A copy of the OUCC’s response to the foregoing Data Request
16 is attached as Attachment LSP-R1.

17 **Q. DO YOU BELIEVE THE COMMISSION SHOULD REVERSE ITS**
18 **HOLDING IN CAUSE NO. 44124 AND THE OTHER CASES INVOLVING**
19 **OTHER UTILITIES THAT YOU MENTIONED?**

¹⁶ Memorandum at 8.

¹⁷ Consolidated Cause Nos. 42943 and 43046 (Order approved Dec. 1, 2006) at 44.

1 A. No. In my opinion, the SRC continues to be necessary to allow Petitioner the
2 ability to recover its non-gas costs and meet its operational requirements in the
3 face of declining usage.

4 **ENERGY EFFICIENCY PROGRAMS**

5 **Q. OUCC WITNESS PARONISH RECOMMENDS ELIMINATING**
6 **PETITIONER'S ENERGY EFFICIENCY PROGRAMS. HOW DO YOU**
7 **RESPOND?**

8 A. I believe Petitioner's energy efficiency programs continue to benefit customers
9 and should be continued. Petitioner has made energy efficiency a priority since
10 the implementation of its programs in 2010. Petitioner's energy efficiency
11 programs have and will continue to result in savings for its customers. The
12 opportunity to continue to serve customers by offering energy efficiency
13 programs to help them manage their bills exists and Petitioner believes it is
14 prudent to continue to build upon the success of its initial programs. In my
15 experience, customers look to their utility service provider to offer information
16 and programs to assist them in reducing energy consumption and managing their
17 energy bill. I would note that even though Citizens Gas' SRC lapsed, Citizens
18 Gas still offers a low-income weatherization program (funded through its base
19 rates), which represents a significant need in its service territory. Citizens Energy
20 Group also promotes conservation through multiple forums – which can be seen
21 by both Citizens Gas' and Petitioner's customers. In this case, Petitioner is

1 proposing to continue two well-known energy efficiency programs that it believes
2 are valuable to customers in the Westfield area.

3 **Q. WHY DOES MS. PARONISH WANT PETITIONER'S PROGRAMS TO**
4 **BE DISCONTINUED?**

5 A. Ms. Paronish suggests the programs should be eliminated because Petitioner is a
6 small gas utility and cannot cost-effectively perform some of the analyses that
7 larger gas utilities can perform. In essence, Ms. Paronish seems to be putting up
8 hurdles that make it impossible for Petitioner to implement cost effective energy
9 programs.

10 **Q. CAN YOU GIVE AN EXAMPLE OF ONE OF THOSE HURDLES?**

11 A. Ms. Paronish notes that "there is no Energy Efficiency Program Plan for the
12 energy efficiency programs Petitioner proposed to offer" and claims Petitioner's
13 high-level descriptions of the programs are deficient. This argument ignores the
14 fact that the programs being proposed by Petitioner are: (i) a residential rebate
15 program for natural gas furnaces, boilers, programmable thermostats and WI-FI
16 thermostats; and (ii) a commercial rebate program for natural gas boilers, boiler
17 tune-ups, natural gas furnaces and heaters, and natural gas water heaters. These
18 are not programs outside the norm of those offered by other utilities in the State. I
19 do not believe a detailed analysis is necessary before offering these programs, nor
20 do I believe annual evaluation, measurement and verification are needed or cost
21 effective – both of which would significantly increase the cost of offering the

1 programs and decrease the likelihood that they would be cost effective.

2 **Q. HAS THE COMMISSION FOUND INCURRING SIMILAR EXPENSES**
3 **TO BE UNNECESSARY FOR SMALL GAS UTILITIES PRIOR TO**
4 **IMPLEMENTING ENERGY EFFICIENCY PROGRAMS?**

5 A. Yes. In Cause No. 43935, the Commission authorized certain smaller gas utilities
6 to implement energy efficiency programs that were modeled after those offered
7 by larger utilities. The Commission stated that “[b]ecause smaller utilities have
8 smaller customer bases upon which to allocate program costs, the costs of
9 conducting a market potential study would have more of an impact on the overall
10 cost effectiveness than it would for larger utilities. Consequently, given that Joint
11 Petitioners' proposed EEP contains programs that have been successfully offered
12 by a larger utility within the same general service area, we find the parties’
13 approach to program design in this instance to be reasonable.” I believe the same
14 holds true with respect to the OUCC’s proposals that Petitioner have a formal
15 plan prepared, as well as cost benefit analyses for the program. Typically,
16 Petitioner’s energy efficiency plans and cost benefit analyses have been prepared
17 by the outside vendors that will administer the programs. In the past, those
18 vendors have completed Petitioner’s plan as part of preparing the Citizens Gas
19 plan. Therefore, the completion of a formal plan and cost benefit analyses has not
20 adversely impacted the cost effectiveness of Petitioner’s programs. Requiring
21 Petitioner to independently have a plan and cost benefit analyses prepared for two

1 programs it has offered for the last five years would have an adverse impact on
2 the overall cost effectiveness of the programs.

3 **Q. MS. PARONISH ARGUES THAT WITHOUT SOME TYPE OF**
4 **DETAILED PLAN, THE OUCC IS UNABLE TO DETERMINE**
5 **WHETHER PETITIONER'S REQUEST FOR AUTOMATIC YEAR-TO-**
6 **YEAR FUNDING IS REASONABLE. DO YOU AGREE?**

7 A. No. Petitioner has a significant amount of experience in operating an energy
8 efficiency portfolio. The OUCC has participated on an Oversight Board charged
9 with overseeing Petitioner's programs for the past five years. I believe both
10 Petitioner and the OUCC have ample information from which to determine that
11 \$8,500 per year is an appropriate level of funding for Petitioner's energy
12 efficiency programs. Petitioner was authorized to spend up to \$31,343 per year
13 on energy efficiency programs in Cause No. 44124. Accordingly, Petitioner is
14 proposing to reduce the amount spent by approximately two-thirds. As mentioned
15 in my direct testimony, we believe this is possible because Citizens intends to
16 oversee and operate the programs independently, thus avoiding the costs of a third
17 party administrator and other "overhead" expenses.

18 **Q. IS PETITIONER'S PROPOSAL IN THIS CASE SIMILAR TO THAT SET**
19 **FORTH IN ITS 2016 OPERATING PLAN?**

20 A. Yes. The plans are virtually identical. Specifically, as reflected in the Operating
21 Plan filed in Cause No. 44124 for January through June of 2016, Petitioner

1 budgeted \$3,400 for commercial rebates and \$3,938 for residential rebates.
2 Petitioner also had budgeted approximately \$2,700 for administration costs that
3 will no longer be necessary given that Citizens will administer the programs. The
4 OUCC did not object to these programs in 2016. Petitioner's Attachment LSP-R2
5 includes the relevant pages from Petitioner's Operating Plan.

6 **Q. MS. PARONISH INDICATES THAT A PLAN IS NECESSARY TO SHOW**
7 **THE COSTS ASSOCIATED WITH ADMINISTRATION AND**
8 **MARKETING. HOW DO YOU RESPOND?**

9 A. As indicated in my direct testimony, Petitioner expects to administer and market
10 the programs in-house. Therefore, we do not expect to incur any third party
11 administrator costs.

12 **Q. MS. PARONISH NOTES THAT "AS OF JUNE 30, 2016,**
13 **PETITIONER'S EE PROGRAM SCORECARD SHOWED ZERO**
14 **PARTICIPATION AND SAVINGS YEAR-TO-DATE FOR ITS**
15 **COMMERCIAL PRESCRIPTIVE PROGRAM, YET WESTFIELD GAS**
16 **SPENT \$1,039" AND CONCLUDES THAT THE PROGRAM IS NOT**
17 **SUCCESSFUL. HOW DO YOU RESPOND?**

18 A. The \$1,039 was spent by a third party administrator in marketing the program prior
19 to having participation. Avoidance of this kind of cost is one of the reasons we are
20 proposing to administer this small program in-house.

21 **Q. WHAT OTHER HURDLES HAS MS. PARONISH PUT UP THAT**

1 **WOULD MAKE IT IMPOSSIBLE FOR A SMALL UTILITY LIKE**
2 **PETITIONER TO OFFER ENERGY EFFICIENCY PROGRAMS?**

3 A. Ms. Paronish states that Petitioner has not presented information “indicating
4 whether its programs will be subjected to evaluation, measurement & verification
5 (‘EM&V’).” However, as reflected in Public’s Attachment AMP-1, Petitioner has
6 been in contact with Vectren to discuss applying results from its future EM&V
7 analyses to Petitioner’s program. It would cost Petitioner far more than the total
8 spent on its programs to conduct an EM&V analysis. Traditionally, Petitioner has
9 applied the results of the EM&V analysis done for Citizens Gas to its programs.
10 The Citizens Gas analysis cost approximately \$100,000 to complete. Moreover,
11 due to the small scale of Petitioner’s program, it is doubtful that we could obtain a
12 statistically significant sample.

13 **Q. MS. PARONISH CRITICIZES PETITIONER’S PROPOSAL BECAUSE IT**
14 **DOES NOT CONTEMPLATE CONTINUATION OF THE OVERSIGHT**
15 **BOARD (“OSB”). HOW DO YOU RESPOND?**

16 A. Previously, Petitioner’s OSB was operated in combination with the Citizens Gas
17 OSB. In my opinion, it would not be cost effective for either Petitioner or the
18 OUCC to participate in monthly OSB meetings relating to a program the size of
19 that being proposed by Petitioner. Moreover, I believe Citizens Energy Group has
20 shown that it can effectively manage energy efficiency efforts to the benefit of
21 customers without having an OSB. As mentioned by Ms. Paronish, Citizens Gas

1 independently manages a \$470,588 residential low-income weatherization
2 program. In my opinion, an OSB is not necessary for an \$8,500 per year
3 program.

4 **Q. IS PETITIONER PROPOSING TO DISCONTINUE FILING REPORTS**
5 **ON PROGRAM RESULTS?**

6 A. No. Petitioner would continue to file reports with the Commission summarizing
7 the results of its programs. We intend to continue filing reports so the
8 Commission and other interested stakeholders could review the amount spent on
9 energy efficiency programs and the deemed savings.

10 **RATE CASE EXPENSES**

11 **Q. WHAT RECOMMENDATIONS DOES THE OUCC MAKE WITH**
12 **RESPECT TO RATE CASE EXPENSES?**

13 A. OUCC witness Courter recommends that the approved rate case expenses be
14 shared equally between Citizens Westfield Utilities, LLC ("CWU") and
15 Petitioner's ratepayers. Mr. Courter also recommends the 10% contingency
16 included in Petitioner's proposed rate case expenses be disallowed, total rate case
17 expenses be capped at \$265,500, and Petitioner be required to true-up its final rate
18 case expenses to reflect only those actually incurred. Furthermore, Mr. Courter
19 recommends rate case expenses be amortized over three years, and that Petitioner
20 file a revised tariff at the end of the amortization period to reflect the complete
21 amortization of rate case expenses.

1 **Q. WHY IS MR. COURTER SUGGESTING THAT CWU PAY A PORTION**
2 **OF PETITIONER'S RATE CASE EXPENSES?**

3 A. Mr. Courter suggests a portion of rate case expenses should be paid by CWU
4 because it would receive "appreciable benefits" if Petitioner receives the relief
5 sought in this rate case. Mr. Courter claims Petitioner's board would not have
6 approved the filing of this case but for these prospective benefits, which he states
7 includes a revised return on new plant investment and equipment, an updated
8 ROE, and recovery of *pro forma* operating expenses.

9 **Q. WHY DID PETITIONER FILE THIS CASE?**

10 A. Petitioner desired to continue its SRC mechanism¹⁸ and its current base rates and
11 charges are based on operating results for the test year ending March 31, 2008.
12 Since that time, not only has the value of Petitioners' utility property increased,
13 but its operating costs have increased. In other words, if Petitioner's board would
14 not have approved the filing of this rate case, its existing rates and charges would
15 be considered unjust, unreasonable, insufficient and confiscatory. Absent
16 gathering information on appropriate operating expenses to be included in the
17 revenue requirement in a base rate case, and coming to the Commission pursuant
18 to public utility laws to seek Commission approval, the Petitioner would be

¹⁸ The Commission authorized Petitioner to continue its decoupling and energy efficiency program portfolio through January 1, 2017 by Docket Entry dated March 16, 2015 in Cause No. 44575. The Commission, however, found in Cause No. 44124 that to the extent Petitioner intends to continue the SRC beyond December 30, 2015, such proposal shall be included as part of the requested relief in a base rate case, which must be filed by December 30, 2015 in order for the SRC not to lapse.

1 unable to earn the reasonable return on the investment it has made in facilities and
2 recover the operating costs necessary to provide natural gas service to its
3 customers. In my opinion, rate case expense is merely the cost of doing business
4 as a regulated entity and should be fully recovered in this case.

5 **Q. DOES MR. COURTER SUGGEST THE AMOUNT OF PETITIONER'S**
6 **PROPOSED RATE CASE EXPENSE IS EXCESSIVE?**

7 A. No.

8 **Q. DO YOU AGREE WITH MR. COURTER'S PROPOSAL THAT RATE**
9 **CASE EXPENSES SHOULD BE SHARED WITH THE SHAREHOLDERS**
10 **OF THE UTILITY?**

11 A. No. Mr. Courter cites no Indiana statute or rule that permits the sharing of rate
12 case expenses between a utility and its ratepayers. Instead, Mr. Courter states the
13 language of Ind. Code § 8-1-2-61 "does not prohibit the Commission from
14 requiring a utility's owners (members or shareholders) to shoulder a portion of
15 rate case expenses." While I am not a lawyer, it is my understanding that this
16 statement turns the law on its head. In the 30 years I have been involved in
17 Commission proceedings, I have always been advised that the Commission is a
18 creature of statute and as such, may exercise only that power conferred by
19 statute.¹⁹

20 Moreover, Mr. Courter concedes there is no Commission Order which

¹⁹ See, *United States Gypsum, Inc. v. Indiana Gas Co.*, 735 N.E.2d 790, 795 (Ind. 2000); see also, *United Rural Elec. Membership Corp. v. Indiana & Mich. Elec. Co.*, 549 N.E.2d 1019, 1021 (Ind.1990).

1 supports the OUCC's proposal. In fact, the sole Commission Order Mr. Courter
2 cites is *Kokomo Gas and Fuel Company*, Cause No. 38096 (approved July 9,
3 1987), in which the Commission rejected a similar OUCC proposal to share rate
4 case expense. Rate case expenses have always been recoverable and they are no
5 different from any other operating expense.

6 **Q. PLEASE DESCRIBE THE *KOKOMO GAS AND FUEL COMPANY* CASE**
7 **MENTIONED BY MR. COURTER.**

8 A. In *Kokomo Gas and Fuel Company*, the OUCC proposed a 50/50 split of rate case
9 expense between the utility and the ratepayers. The rationale advanced by the
10 OUCC in that case is the same as it is here. The OUCC claimed both the
11 ratepayers and utility were receiving a benefit from the filing of the rate case, and
12 therefore they should share the expense. The OUCC's witness in *Kokomo Gas*,
13 Mr. Krevda, admitted that it is impossible to determine what the appropriate split
14 should be between ratepayers and the utility, and that rate case expenses have
15 always been treated like any other operating expense.

16 **Q. WHAT DID THE COMMISSION ORDER IN *KOKOMO GAS*?**

17 A. The Commission rejected the OUCC's position. The Commission concluded:

18 The receipt of benefits as a theoretical basis of the proposed
19 adjustment is not adequate. The Public's proposal to divide
20 Petitioner's rate case expense 50-50 on the basis that there is no
21 way to measure the relative benefits of rate case expenses to
22 shareholders and ratepayers amounts to the arbitrary disallowance
23 of a portion of Petitioner's known, fixed and measurable rate case
24 expense. The rate making process is not an appropriate forum to
25 award fees and expenses to a winner, or to the party which receives

1 the benefit. A petitioning utility before the Indiana Utility
2 Regulatory Commission has little control over what must be spent
3 to justify reasonable rates in the face of zealous adversaries like the
4 Office of the Utility Consumer Counselor. . .
5

6 The Commission also found the proposal would be particularly disadvantageous
7 to small public utilities. The Commission noted that in-house counsel and experts
8 at larger utilities would necessarily be included in the utility's labor expense and
9 be automatically recoverable.

10 **Q. IN YOUR OPINION, IS MR. COURTER'S PROPOSAL BASED ON**
11 **"THEORETICAL" BENEFITS TO CWU?**

12 A. Yes. Mr. Courter has provided no more evidence in this case than was provided
13 in *Kokomo Gas* to make his proposal anything but theoretical.

14 **Q. DOES MR. COURTER QUANTIFY THE "BENEFITS" TO BE**
15 **RECEIVED BY CWU AS A RESULT OF THIS CASE?**

16 A. No.

17 **Q. MR. COURTER CRITICIZED THE COMMISSION'S ORDER IN**
18 ***KOKOMO GAS*, NOTING THE COMMISSION SOMETIMES MAKES**
19 **FINDINGS AND CONCLUSIONS THAT FALL BETWEEN THE**
20 **PARTIES' RECOMMENDATIONS, SUCH AS ON THE AMOUNT OF**
21 **RETURN ON EQUITY. HOW DO YOU RESPOND?**

22 A. In my opinion, this is an apples-to-oranges comparison. Rate case expenses are
23 an operating expense. The Commission should not arbitrarily decide that there is

1 a reasonable midpoint between the OUCC's and Petitioner's position on operating
2 expenses. Rather, the amount of any particular reasonable and necessary
3 operating expense has always been determined based on the evidence presented in
4 each case and the fixed, known and measurable standard. As mentioned
5 previously, Mr. Courter does not suggest that the amount of Petitioner's proposed
6 rate case expense is unreasonable or unnecessary.

7 **Q. DOES MR. COURTER MENTION ALL OF THE CASES IN WHICH THE**
8 **OUCC HAS UNSUCCESSFULLY PROPOSED THE SPLITTING OF**
9 **RATE CASE EXPENSES?**

10 A. No. The OUCC has, on at least one other occasion, advanced the position that
11 rate case expenses should be shared. In *Re Indiana Gas Company, Inc.*, Cause
12 No. 38080 (September 18, 1987), the OUCC proposed that the Commission deny
13 the utility's request to recover its expenses associated with the presentation of its
14 cost of equity testimony. OUCC witness Krevda admitted that such rate expenses
15 have always been paid by ratepayers, like any other operating expense, but argued
16 shareholders and ratepayers both benefit from the regulatory process. Mr. Krevda
17 admitted "it is extremely difficult if not impossible to determine what percentage
18 of benefit each party receives from a specific rate case expenditure."
19 Accordingly, the OUCC, in what it characterized as a "conservative position,"
20 proposed that the ratepayer pay all rate case expenses except for the outside cost
21 of equity consultant because "such a cost is clearly a shareholder benefit." Mr.

1 Krevda noted that “neither the Commission Economics Staff nor any party to this
2 Cause is proposing a higher return on common equity than Petitioner's outside
3 consultant.” Mr. Krevda “concluded that “a higher rate of return translates
4 directly into shareholder profit.”

5 Notably, Mr. Courter makes the analogous argument that “[u]nder its rate
6 proposal, CWU will receive a revised return on investment in new plant as well as
7 other rate base equipment. In addition, CWU will receive an updated ROE
8 approved by the Commission.” Mr. Courter’s argument is no different than Mr.
9 Krevda’s contention that “a higher rate of return translates directly into
10 shareholder profit.”

11 **Q. DID THE COMMISSION ACCEPT THE ARGUMENT MADE BY THE**
12 **OUCC IN *RE INDIANA GAS COMPANY*?**

13 A. No. In an Order issued mere weeks after its decision in *Kokomo Gas*, the
14 Commission again rejected the OUCC’s position, and held that “reasonably
15 necessary expenses incurred in offering cost of capital evidence should be
16 included as a part of Petitioner's rate case expense.” The Commission reasoned:

17 In this proceeding, and in any rate proceeding before this
18 Commission, *the petitioning utility has the burden of proving all*
19 *material elements of its requested rate relief. Among these is the*
20 *proposed cost of common equity.* This Commission, by statute,
21 must grant a utility a fair return on the fair value of its property
22 used and useful in furnishing service to the public. Throughout the
23 years the courts have given the Commission specific guidelines
24 and directives to be followed in accomplishing this task. . . This
25 Commission is bound to base all of its findings upon substantial
26 evidence of record. The determination of the cost to be assigned to

1 a utility's common equity component of its capital structure is no
2 exception. *Therefore, a utility seeking rate relief before this*
3 *Commission and presenting the traditionally expected capital*
4 *structure for consideration in the Commission's ratemaking*
5 *deliberations has the burden of presenting evidence as to an*
6 *appropriate cost of common equity.*
7

8 We are unclear as to Mr. Krevda's precise position. Mr. Krevda
9 does not seem to imply that Petitioner should not present cost of
10 capital evidence, but only that it should not recover the cost
11 thereof. . . . (emphasis added)
12

13 The Commission concluded that Mr. Krevda's "approach is contrary to long
14 established practice of the treatment of reasonable rate case expenses," including
15 necessary expenses incurred in offering cost of capital evidence. Accordingly, the
16 Commission rejected the OUCC's argument.

17 **Q. TO YOUR KNOWLEDGE, HAS THE OUCC ADVANCED A PROPOSAL**
18 **TO SHARE RATE CASE EXPENSES SINCE THE DECISIONS IN**
19 ***KOKOMO GAS AND INDIANA GAS COMPANY?***

20 A. At a minimum, while not mentioned in his testimony, Petitioner is aware that
21 OUCC witness Courter is making the same argument in Community Natural Gas
22 Company, Inc.'s current rate case. In that case, Mr. Courter mentioned neither the
23 *Kokomo Gas* case nor the *Indiana Gas* case.

24 **Q. IN YOUR OPINION, IS THERE ANY BASIS FOR THE COMMISSION**
25 **TO CHANGE ITS POLICY IN THIS CASE?**

26 A. No. The OUCC's proposal continues to amount to an arbitrary disallowance of
27 known, fixed and measurable rate case expense. Mr. Courter's argument is

1 virtually identical to that made by Mr. Krevda. Mr. Courter's argument is that the
2 cost of meeting Petitioner's burden of proof regarding the return elements of
3 Petitioner's case should be excluded from rate case expenses. I do not find any
4 reason for the Commission to ignore its prior holdings and change its policy with
5 respect to Petitioner.

6 **Q. MR. COURTER'S TESTIMONY LISTS DIVIDENDS PAID BY**
7 **PETITIONER IN 2015. HOW DO YOU RESPOND TO THIS**
8 **TESTIMONY?**

9 A. It is unclear what Mr. Courter is suggesting, but the amount of dividends paid by
10 Petitioner has no relationship to the amount of Petitioner's fixed, known and
11 measurable operating expenses, including rate case expenses. Mr. Courter's
12 argument is akin to suggesting that operations and maintenance expenses should
13 be decreased due to the level of dividends paid.

14 **Q. MR. COURTER SUGGESTS THAT PETITIONER'S NOT SELECTING**
15 **CONSULTANTS PURSUANT TO A REQUEST FOR PROPOSAL ("RFP")**
16 **PROCESS IS A BASIS FOR SHARING RATE CASE EXPENSES. HOW**
17 **DO YOU RESPOND?**

18 A. I believe parties to Commission proceedings should be able to select the
19 consultants and attorneys that they believe can best represent the utility in
20 complex rate case proceedings without being restricted by an RFP process. There
21 is no legal requirement that Petitioner select consultants via an RFP. In this case,

1 Petitioner selected consultants that have previously testified regarding the
2 complex issues in this case and counsel that have been representing the utility
3 since it was acquired and have institutional knowledge about the utility, including
4 representing the utility in its last rate case, Cause No. 44124 and all of Petitioner's
5 GCA proceedings. In addition, for consultants who had not been previously
6 engaged by Citizens Energy Group, interviews and telephone discussions
7 occurred with multiple consultants before the consultant was engaged. It seems
8 counterintuitive to imply that it is possible to bring in a new rate case team who is
9 not familiar with the utility's records, procedures, and personnel, and that such
10 new rate case team will result in a significantly lower rate case cost.

11 **Q. HOW DO YOU RESPOND TO THE CRITICISM THAT THERE IS NOT**
12 **SUFFICIENTLY DETAILED INFORMATION INCLUDED ON**
13 **CONSULTANTS' INVOICES?**

14 A. First, Mr. Courter seems to presume Petitioner's management did not have
15 enough information to know if the invoices they pay are appropriate for the
16 services provided. I disagree. Petitioner's management is in significant contact
17 with these consultants during the preparation of and pendency of a rate case.
18 Management has a great deal of knowledge with regard to the time and expense
19 being incurred by its consultant when the invoices are paid. Second, the
20 documents provided to the OUCC and attached to Mr. Courter's testimony were
21 the portions of the invoices that are provided to the accounts payable department

1 pursuant to which payments are made – not the full legal invoices submitted and
2 reviewed by the legal department. The full legal counsel invoices include detailed
3 descriptions of the work performed, the name of the attorney working on the
4 matter and hourly rate. I understand the work descriptions are often privileged
5 and are not submitted to accounts payable for payment and are redacted when
6 provided to the OUCC.

7 **Q. MR. COURTER ALSO PROPOSES A DISALLOWANCE OF THE 10%**
8 **RATE CASE EXPENSE CONTINGENCY, ALONG WITH A CAP OF**
9 **RATE CASE EXPENSES. DO YOU AGREE WITH THESE**
10 **PROPOSALS?**

11 A. No. Even with the contingency, Petitioner's rate case expense estimate will be
12 low, given the multitude of issues in dispute. The OUCC has raised a number of
13 issues in this case that were not anticipated. For instance, we did not anticipate
14 the OUCC would raise issues regarding the sharing of rate case expenses – given
15 that this proposal has never been accepted by the Commission. We also did not
16 anticipate that the OUCC would choose to re-litigate the same arguments
17 regarding Petitioner's SRC that were rejected in Cause No. 42144. As indicated
18 above, the OUCC has since agreed that Vectren's SRCs should be continued, and
19 *without a cap*. We also did not believe the OUCC would object to Petitioner's
20 offering \$8,500 of energy efficiency programs to its customers – which are the
21 same types of programs that have been offered to Petitioner's customers for years

1 and currently are being offered by Vectren and NIPSCO. Not to mention that the
2 OUCG is proposing that Petitioner's rates be *decreased*, and provided the
3 testimony of six witnesses in advancing its positions. Petitioner's witness
4 McKenzie states that the OUCG's recommended cost of equity result would be
5 "unprecedented." Interestingly, OUCG witness Krieger even took issue with
6 Petitioner's avoidance of the expenses associated with a cost of service study
7 consultant, and proposed Petitioner perform a cost of service study by June 30,
8 2020, which I will further discuss later in my testimony.

9 **Q. MR. COURTER ALSO PROPOSED THAT PETITIONER BE REQUIRED**
10 **TO TRUE-UP ITS FINAL RATE CASE EXPENSES TO REFLECT**
11 **THOSE ACTUALLY INCURRED. PLEASE EXPLAIN YOUR**
12 **REACTION TO THIS PROPOSAL.**

13 A. I disagree with this proposal, especially to the extent that it is combined with a
14 "cap." The OUCG's proposal is a one-way ratchet to decrease rate case expenses.
15 To the extent Petitioner is required to true-up its rate case expenses, the "true-up"
16 should work both ways, which would make Mr. Courter's argument regarding the
17 contingency moot. I would note that this again is a novel argument. The OUCG
18 was asked in discovery to identify all proceedings in which a utility has true-up
19 its rate case expenses. The OUCG could only identify one case where it even
20 made such a recommendation. The OUCG indicated its witness Heather Poole
21 proposed a true-up of rate case expenses in Citizens Gas' last rate case. However,

1 “the case was settled, and Ms. Poole’s rate case expense proposal was not
2 included in the settlement terms.” A copy of the OUCC’s response to the
3 foregoing Data Request is attached as Attachment LSP-R3.

4 **Q. MR. COURTER ALSO PROPOSES THAT PETITIONER FILE A**
5 **REVISED TARIFF AT THE END OF THE THREE YEAR**
6 **AMORTIZATION PERIOD TO REFLECT COMPLETE**
7 **AMORTIZATION OF THE RATE CASE EXPENSES. DO YOU AGREE**
8 **WITH THIS PROPOSAL?**

9 A. This appears to be the one proposal made by Mr. Courter that has been applied to
10 other utilities; however, in my opinion, taking this step is inconsistent with the
11 treatment of a multitude of expenses that likely will increase over the life of these
12 rates, where no increase will be allowed in Petitioner’s rates. In addition, I would
13 note that given the three-year amortization period, the impact on rates is likely to
14 be *de minimis*. Moreover, as I will discuss below, this recommendation could
15 only even be considered to the extent the Commission rejects Mr. Krieger’s
16 recommendation that Petitioner be required to file a rate case before January 1,
17 2020 (or perform a cost of service study by June 30, 2020). Otherwise, Petitioner
18 could be forced to incur rate case expenses in this case and would not be afforded
19 the opportunity to recover those same costs.

20 **IURC FEE**

1 **PRIOR COST OF SERVICE STUDY. DOES HE RECOMMEND THE**
2 **RESULTS OF THAT UPDATED STUDY BE USED TO ALLOCATE THE**
3 **RATE INCREASE APPROVED IN THIS CASE?**

4 A. No. Mr. Krieger recommends that the rate increase should be implemented on an
5 across the board basis. I agree with using the across the board approach, in fact
6 this is what I proposed in my case-in-chief testimony (Petitioner's Exhibit 2, page
7 19, lines 19 through 21), as Petitioner has not engaged a cost of service consultant
8 to review Mr. Krieger's "updated" cost of service study.

9 **Q. DO YOU BELIEVE THE ACROSS THE BOARD INCREASE**
10 **REQUESTED IN THIS CAUSE MAY BE "PROBLEMATIC" AS MR.**
11 **KRIEGER SUGGESTS?**

12 A. No. Based on Mr. Krieger's "updated" cost of service study, I do not believe any
13 kind of conclusion can be drawn with respect to how costs would have been
14 allocated to Petitioner's customer classes had a full cost of service study been
15 conducted in this case. Mr. Krieger uses allocation factors from Westfield Gas'
16 cost of service study prepared in Cause No. 38778-U in 1988 in combination with
17 certain allocation factors derived from Petitioner's current rate case. Many of the
18 factors would require specific gathering and analysis which was not performed in
19 this case; therefore, in many cases, Mr. Krieger inter-mingles and averages those
20 two sets of allocation factors, and otherwise intersperses his analysis with what
21 appear to be arbitrary assignments of certain costs to certain customer classes in

1 such a way that renders any conclusions drawn from his analysis meaningless.
2 Utilizing data from different rate cases and test years and combining them is
3 bound to result in illegitimate or inauthentic cost allocations. According to the
4 Gas Rate Fundamentals, 4th Edition, published by the American Gas Association,

5 “cost [of service] studies require data inputs from all facets of the
6 utility’s operations, including accounting records, engineering
7 analyses, financial forecasts, load research, and customer billing
8 and usage records. Cost allocation studies are not formula-
9 oriented. They require an in-depth analysis and understanding of
10 the utility as well as judgmental decisions by the cost allocator.”
11

12 Given the amount of detail and judgment required to properly perform a cost of
13 service study, it is critical that the data utilized is consistent and authentic to the
14 period being analyzed.

15 **Q. IS PETITIONER WILLING TO PERFORM A PROPER COST OF**
16 **SERVICE STUDY AS PART OF ITS NEXT RATE CASE?**

17 A. Yes. Petitioner is willing to engage a consultant to perform a cost of service study
18 as part of its next rate case, as long as the cost of conducting such a study would
19 be recoverable as a rate case expense in that rate case.

20 **Q. DO YOU AGREE WITH MR. KRIEGER’S RECOMMENDATION THAT**
21 **IF PETITIONER HAS NOT FILED A RATE CASE BEFORE JANUARY 1,**
22 **2020, PETITIONER SHOULD NEVERTHELESS PERFORM A COST OF**
23 **SERVICE STUDY BY JUNE 30, 2020 AND PROVIDE A COPY TO THE**
24 **OUCG?**

25 A. No. I do not see a basis for requiring Petitioner to file a rate case before its board

1 believes one is necessary; nor does it make sense for Petitioner to conduct a cost
2 of service study for the sole purpose of providing it to the OUCC. As Mr. Krieger
3 notes, the results of his study would result in a rate increase for residential
4 customers. Mr. Krieger's recommendation that Petitioner perform a cost of
5 service study just to provide it to the OUCC would result in a wasteful
6 expenditure. Performing a cost of service study solely for the OUCC's
7 information will cost \$50,000, at a minimum (approximately four times the cost
8 of the energy efficiency programs the OUCC recommends be rejected). That cost
9 of service study would be stale when Petitioner files its next rate case, or at a
10 minimum be based on results from a different test year. Accordingly, Petitioner
11 would have to incur additional cost to perform another cost of service study in its
12 next rate case or update the cost of service study that had recently been
13 conducted.

14 **CONCLUSION**

15 **Q. MS. PRENTICE, DOES THAT CONCLUDE YOUR REBUTTAL**
16 **TESTIMONY IN THIS PROCEEDING?**

17 **A.** Yes, it does.

VERIFICATION

The undersigned affirms under the penalties for perjury that the foregoing testimony is true to the best of her knowledge, information and belief.


LaTona S. Prentice

PETITIONER'S
ATTACHMENT LSP-R1

Request No. 1-19. Identify any other proceeding where Mr. Grosskopf or the OUCC has performed a similar cost benefit analysis to that described in his testimony? Please provide a copy of the studies prepared in connection with those cases in Excel format with formulae intact and all cells unlocked.

RESPONSE:

The OUCC does not maintain a listing of causes and positions taken in causes. Mr. Grosskopf advises he prepared a similar cost benefit analysis in Cause No. 44124. See attachments to DR-19.

Please see the following attached documents:

- Response to DR 1-19 – Cause No. 44124 – Public's Exhibit MHG-2
- Response to DR1-19 – Cause No. 44124 – Public's Exhibit MHG-3
- Response to DR 1-19 – Cause No. 44124 – Additional Supporting Documentation

WITNESS:

Mark H. Grosskopf

CLEAResult

Operating Plan

Citizens - Commercial Prescriptive Rebate Program

February 3, 2016

Westfield Business Prescriptive Rebate Program Measures – PY 2016

#	Business Rebate Measures	Projected 2016 Participation	Measure Incentive	Total Incentives	Est. Gross Therm Savings	Est. Net Therm Savings	% Gross Therm Savings	TRC	UCT									
										6	6.1	6.2	6.3	6.4	6.5	6.6	6.7	6.8
6	Business Rebate Program – Westfield	17	N/A	\$3,400	29,496	7,587	100.00%	3.00	3.42									
6.1	Condensing Boilers, ≥90% AFUE <300 MBH	0	\$500	\$0	0	0	0.00%	0.00	0.00									
6.2	Condensing Boilers, ≥90% TE 300-499 MBH	0	\$1,500	\$0	0	0	0.00%	0.00	0.00									
6.3	Condensing Boilers, ≥90% TE 500-999 MBH	0	\$2,500	\$0	0	0	0.00%	0.00	0.00									
6.4	Condensing Boilers, ≥90% TE 1000-1700 MBH	0	\$5,000	\$0	0	0	0.00%	0.00	0.00									
6.5	Condensing Boilers, ≥90% TE 1701-2000 MBH	0	\$5,000	\$0	0	0	0.00%	0.00	0.00									
6.6	Boiler - Modulating Burner Control	0	\$1,000	\$0	0	0	0.00%	0.00	0.00									
6.7	Boiler Reset Control	0	\$250	\$0	0	0	0.00%	0.00	0.00									
6.8	92% AFUE Furnace (Baseline 80%)	0	\$150	\$0	0	0	0.00%	0.00	0.00									
6.9	95% AFUE Furnace (Baseline 80%)	1	\$250	\$250	315	236	1.07%	2.67	6.04									
6.10	97% AFUE Furnace (Baseline 80%)	0	\$250	\$0	0	0	0.00%	0.00	0.00									
6.11	Programmable Thermostat	0	\$20	\$0	0	38	1.10%	2.26	6.36									
6.12	Tankless Water Heater ≥ 0.82 EF	1	\$150	\$150	111	83	0.38%	1.63	3.55									
6.13	Storage Water Heater ≥0.67 EF	0	\$125	\$0	0	0	0.00%	0.00	0.00									
6.14	0.88 TE Water Heater	0	\$150	\$0	0	0	0.00%	0.00	0.00									
6.15	≤ 1.6 GPM Pre-Rinse Spray Valve - Full Service Restaurant - Direct Install	0	\$150	\$0	0	0	0.00%	0.00	0.00									
6.16	≤ 1.6 GPM Pre-Rinse Spray Valve - Limited Service Restaurant - Direct Install	0	\$150	\$0	0	0	0.00%	0.00	0.00									
6.17	≤ 1.6 GPM Pre-Rinse Spray Valve - Other - Direct Install	0	\$150	\$0	0	0	0.00%	0.00	0.00									
6.18	≤ 1.6 GPM Pre-Rinse Spray Valve	0	\$25	\$0	0	0	0.00%	0.00	0.00									

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Operating Plan

Citizens - Residential Prescriptive Scope of Work

January 26, 2016

Westfield Residential Prescriptive Rebate Program Measures – PY 2016

#	Residential Rebate Measures	Projected 2016 Participation	Measure Incentive	Total Incentives	Est. Gross Therm Savings	Est. Net Therm Savings	% Gross Therm Savings	TRC	UCT
1	Residential Rebate Program - Westfield	2,064	N/A	\$3,938	2,158	1,458	100.00	1.24	2.04
1.1	Natural Gas Boilers - 95% AFUE	0	\$300	\$0	0	0	0.00%	0.00	0.00
1.2	Nat Gas Furnaces - 95%	6	\$250	\$1,500	860	602	39.88%	1.22	2.57
1.3	Programmable Thermostat	4	\$20	\$80	347	191	16.09%	12.87	12.39
1.4	Prescriptive duct sealing package	1	\$400	\$400	160	112	7.40%	4.40	3.08
1.5	Natural Gas Boilers - 90% AFUE	0	\$300	\$0	0	0	0.00%	0.00	0.00
1.6	Nat Gas Furnaces - 97%	2	\$300	\$600	300	210	13.90%	1.03	2.24
1.7	Attic Insulation (pre-existing R11 or below, post R38 or above)	1084	\$0.49	\$531	103	72	4.77%	1.30	2.23
1.8	Wall Insulation (pre-existing R 5, post R13 or above)	965	\$0.65	\$627	68	48	3.16%	0.65	1.15
1.9	Smart Wifi Programmable Thermostat	2	\$100	\$200	319	223	14.79%	3.06	6.90

Westfield Residential Prescriptive Rebate Program Budget – PY 2016

TOTALS	PY2016
Total Incentives Budget	\$ 3,938.00
Implementation	\$ 1,316.00
Program Grand Total Budget	\$ 5,254.00

1/25/16

The information contained in this document is considered confidential and proprietary and cannot be transmitted without approval from Citizens Energy Group Energy Delivery and CLEAResult.

**PETITIONER'S
ATTACHMENT LSP-R3**

Request No. 1-22. Refer to Mr. Courter's testimony on page 2, lines 14 through 17 that: "I recommend total rate case expenses be capped at \$265,500, and, before its new base rates are implemented that Westfield Gas be required to true-up its final rate case expense to reflect only rate case expenses actually incurred."

- (A) Identify by Cause number any and all IURC proceedings that Mr. Courter or the OUCC is aware of in which a utility has been required to "true-up" its final rate case expenses.
- (B) Identify by Cause number any and all IURC proceedings that Mr. Courter or the OUCC is aware of in which a utility has been required to "cap" its rate case expenses.
- (C) If Mr. Courter or the OUCC has not done the research necessary to respond to subparts (A) and (B), please explain why not.
- (D) Identify by Cause number any and all IURC proceedings that Mr. Courter or the OUCC is aware of in which the OUCC has proposed that a utility be required to "true-up" its final rate case expenses.
- (E) Identify by Cause number any and all IURC proceedings that Mr. Courter or the OUCC is aware of in which the OUCC has proposed that a utility be required to "cap" its rate case expenses.

RESPONSE:

- (A) Mr. Courter is aware that in Cause No. 43975 (Citizens Gas), OUCC witness Heather Poole proposed a true-up of Citizens Gas' actual rate case expenses. Heather Poole Testimony, page 35, lines 11-18. Ultimately, the case was settled, and Ms. Poole's rate case expenses true-up proposal was not included in the settlement terms. Mr. Courter has not performed an exhaustive review of such cases and there may other instances. As to the OUCC's knowledge, the OUCC has not compiled a list of such cases.
- (B) Mr. Courter is aware that virtually all utility rate cases have rate case expenses that have been capped by the amount of rate case expenses that were approved by the Commission. Mr. Courter is not aware of any instances where a utility was permitted to include as an amortized revenue requirement more than the amount the utility included in its petition.
- (C) Not applicable.
- (D) Please see the response to subpart (A).