

TESTIMONY OF OUCC WITNESS HEATHER R. POOLE
CAUSE NO. 45214
COMMUNITY NATURAL GAS CO., INC.

I. INTRODUCTION

IURC
PUBLIC'S
EXHIBIT NO. 3
DATE 10-3-19 AT REPORTER

1 Q: Please state your name and business address.

2 A: My name is Heather R. Poole and my business address is 115 West Washington Street,
3 Suite 1500 South, Indianapolis, IN 46204.

4 Q: By whom are you employed and in what capacity?

5 A: I am employed by the Indiana Office of Utility Consumer Counselor ("OUCC") as the
6 Assistant Director of the Natural Gas Division. I have worked as a member of the
7 OUCC's Natural Gas Division since December of 2010. For a summary of my
8 educational and professional experience, as well as my preparation for this case, please
9 see the Appendix attached to this testimony.

10 Q: What is the purpose of your testimony?

11 A: I address certain elements of the requested rate increase filed by Community Natural Gas
12 Co., Inc. ("Petitioner" or "Community"), including adjustments to Petitioner's operating
13 expenses. I evaluate a number of adjustments including rate case expense, payroll
14 expense, payroll tax, pension contribution, and amortization of tax investigation costs.

II. OPERATING EXPENSES

A. Rate Case Expense

15 Q: What rate case expense adjustment did Petitioner propose?

16 A: Petitioner's witness Mann states the "[a]mortization of estimated rate case expense, plus
17 the estimated cost of Notice to Customers and a small amount of rate case expense

1 name of the consultant performing the work, a description of the work performed, and the
2 time spent performing the work. In response to OUCC Data Request ("DR") No. 1.3,
3 Petitioner provided LWG CPAs & Advisors Invoice No. 32051 in the amount of \$4,280.
4 (Attachment HRP-1, p. 2.) This invoice lacked all the minimum details mentioned above.
5 My position in this case is similar to the OUCC's position in Cause No. 45117, in which
6 the Commission indicated the absence of more detailed billing information in the future
7 could place a similar request at risk. (Final Order at 20.) Therefore, I have reduced
8 Petitioner's proposed rate case expense by the amount of the invoice.

9 **Q: Do you agree with Petitioner's proposed 4-year amortization period for rate case**
10 **expense?**

11 A: Yes. A 4-year amortization period is reasonable based on the average pacing of
12 Petitioner's past base rate case filings. I recommend Petitioner file a revised tariff if new
13 rates have not gone into effect at the end of the 4-year period to remove rate case expense
14 from Petitioner's base rates. In the event Petitioner has new base rates that go into effect
15 before the end of the 4-year period, any remaining rate case expenses not amortized at the
16 time of Petitioner's next rate case filing can be included in that proceeding.

17 **Q: What is your total adjustment for rate case expense?**

18 A: Dividing my total rate case expense of \$221,562 by 4 results in a pro forma annual rate
19 case expense of \$55,391. Comparing this amount with the test year rate case expense of
20 \$130,641 results in a rate case expense adjustment of (\$75,251). (Attachment HRP-1, p.
21 3.)

1 tariff if new rates have not gone into effect at the end of the 4-year period to remove
2 TCJA costs from Petitioner's base rates. In the event Petitioner has new base rates that
3 go into effect before the end of the 4-year period, any remaining TCJA costs not
4 amortized at the time of Petitioner's next rate case filing can be included in that
5 proceeding

C. Payroll Expense

6 **Q: What payroll adjustment did Petitioner propose?**

7 A: Petitioner's witness Ms. Mann describes the pro forma adjustment as an "[i]ncrease in
8 payroll expenses of \$106,047 which reflects the cost of salaries and wages for
9 Petitioner's employees included in operations and maintenance expenses." (Direct
10 Testimony of Ms. Mann, p. 6, lines 8-9.)

11 **Q: How did Petitioner calculate the adjustments made for payroll?**

12 A: Petitioner calculated the pro forma payroll by annualizing the test year payroll increase
13 by employee, and then making additional adjustments for salary increases approved by
14 the board to be implemented by management in September 2019. Additionally,
15 Petitioner's payroll adjustment includes: (1) \$26,250 in salary decrease for a retired
16 employee; (2) \$11,200 increase for the salary annualization of a replacement employee;
17 (3) \$27,000 increase for a new hire; and (4) \$10,000 increase for a cost of living increase
18 for Petitioner's President Dean Kieffer and Controller Mandy Leach on June 1, 2019.
19 Since some portion of payroll is capitalized, Petitioner compared the pro forma payroll to
20 test year payroll and adjusted for Petitioner's payroll capitalization rate of 9%.

1 other employees, Petitioner has taken no other steps to secure a new hire, such as placing
2 newspaper ads, posting on online job boards, or contacting a staffing agency. Because
3 Petitioner has not filled this position and it does not appear it will do so within 12 months
4 of the end of the test year, I have made an adjustment to decrease payroll by \$27,000.
5 (Attachment HRP-3, p. 1.)

6 *Incentive Compensation*

7 At the May 2018 Board of Directors meeting, Dean Kiefer and Mandy Leach were each
8 awarded shares of stock through Petitioner's Incentive Compensation Plan. Petitioner's
9 payroll distribution journal shows the amount flowing through payroll expense. In
10 response to OUCC DR 4.8, Petitioner stated, "The Incentive Compensation Plan requires
11 the Board to make determinations on the performance of the President and
12 Controller...and considers the status of customer service, considers the management of
13 employees and reviews the financial results of the company." (Attachment HRP-3, p. 5.)
14 Petitioner's response makes plain that incentive compensation is not a guaranteed form of
15 compensation on an annual basis. Therefore, company stocks as incentive compensation
16 should not be part of base salary. It would be inappropriate to recover payroll expense
17 based upon an amount that the utility is not actually incurring. Moreover, Community's
18 customers are already paying for executive salaries, including an additional 33% of
19 variable pay in form of incentive compensation would be unreasonable. For these
20 reasons, I have removed \$75,012 of incentive compensation that was included in
21 Petitioner's test year payroll amount to accurately reflect payroll going forward.
22 (Attachment HRP-3, p. 1.)

1 Forma salaries calculated for the payroll adjustment..." (Direct Testimony of Ms. Mann,
2 p. 6, lines 21 – 23.)

3 **Q: How did Petitioner calculate its pension expense adjustment?**

4 A: Petitioner calculated its pension expense by taking pro forma employee salaries,
5 multiplied by 15%, which is the standard contribution. For Dean Kiefer and Mandy
6 Leach, the pro forma salary was unknown, therefore, Petitioner used their test year
7 salaries to calculate the pro forma pension adjustment.

8 **Q: Do you agree with Petitioner's adjustment to pension expense?**

9 A: No. In order to reflect the adjustments I made to Petitioner's pro forma payroll expense,
10 an adjustment also needs to be made to pension expense.

11 **Q: Please explain your adjustment to pension expense.**

12 A: In response to OUCC DR 4.6, Petitioner indicated 15% is the standard contribution
13 Petitioner makes to employees' pension. Therefore, to calculate pro forma pension, I took
14 my calculated total increase to payroll of \$8,476 and multiplied it by 15% to arrive at an
15 increase of \$1,271 in pension expense. (Attachment HRP-5.)

III. OUCC RECOMMENDATIONS

16 **Q: Please summarize your recommendations.**

17 A: I recommend the Commission make the following adjustments to Petitioner's case:

- 18 • Decrease Rate Case Expense by (\$75,251).
- 19 • Increase Expenses for TCJA Costs by \$7,571.
- 20 • Increase Payroll Expense by \$7,713.
- 21 • Increase Payroll Tax Expense by \$648.
- 22 • Increase Pension Expense by \$1,271.

AFFIRMATION

I affirm, under the penalties for perjury, that the foregoing representations are true.

Heather R Poole

Heather R. Poole

Assistant Director-Natural Gas Division

Indiana Office of

Utility Consumer Counselor

45214

Community Natural Gas Co.

10-1-19

Date

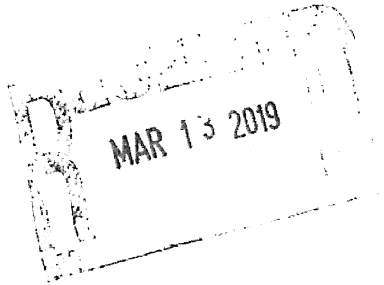
1 In May 2016, I passed the Certified Public Accountant (“CPA”) Exam, and
2 obtained my CPA license in June 2016. While employed at the OUCC, I completed
3 NARUC’s Utility Rate School hosted by the Institute of Public Utilities at Michigan State
4 University and the Institute of Public Utilities Advanced Regulatory Studies Program at
5 Michigan State University. I am also a member of the Indiana CPA Society.

6 **Q: Have you previously testified before the Commission?**

7 A: Yes. I have testified in GCAs, rate cases, TDSIC tracker cases, 7-Year Plan cases, tariff,
8 gas demand side management, and special contract cases involving gas and water
9 utilities. I also provided extensive testimony in the Commission’s investigation into the
10 existing GCA procedures and schedules.

11 **Q: What review and analysis have you conducted to prepare your testimony?**

12 A: I reviewed the petition, testimony, exhibits, workpapers, and supporting documentation
13 submitted in this Cause. I analyzed Community’s responses to OUCC discovery
14 requests. I reviewed Community’s audited financial statements for the test year, and
15 participated in an on-site review on April 22, 2019 with Community’s representatives to
16 gain further insight into the relief requested in Community’s testimony, exhibits and
17 supporting documentation. Additionally, I reviewed the Commission’s Final Orders in
18 Cause Nos. 43995, 44298, and 44768.



Community Natural Gas Co., Inc.
933 W. Third St.
Mt. Carmel, IL 62863

Client No: 9503.001
Date: 02/28/2019
Invoice No: 32051

Work related to preparation of testimony and exhibits for upcoming rate case filing
See attached detail

\$ 4,280.00

Current Amount Due \$ 4,280.00

V-13300
186000 = 4280.00

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Amy.Spenos@lwgcpa.com to have your invoice set up.

Community Natural Gas Co., Inc.
Cause No. 45214
Unamortized TCJA Expense - OUCC's Workpaper

Total Cost Through 11/30/2018 per Petitioner	\$ 51,941
Less: Insufficiently Detailed Invoices	<u>(21,657) *</u>
Total Cost to be Recovered	\$ 30,285
Amortization Period	<u>4</u>
Adjustment- Increase/(Decrease)	<u><u>\$ 7,571</u></u>

* Attachment HRP-2, p. 2.



Community Natural Gas Co., Inc.
933 W. Third St.
Mt. Carmel, IL 62863

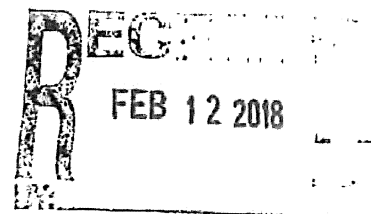
Client No: 9503.001
Date: 01/31/2018
Invoice No: 30898

Time spent to date in connection with research and planning for IURC investigation into the tax act, pre-conference hearing, and impact on accounting, rates and charges for the small gas utilities group.

\$ 750.00

Current Amount Due \$ 750.00

✓ - 13300
186002 \$750.00



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Community Natural Gas Co., Inc.
933 W. Third St.
Mt. Carmel, IL 62863

Client No: 9503.001
Date: 03/31/2018
Invoice No: 31057

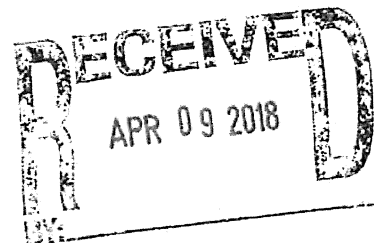
Preparation of new revenue requirement, coordination with engineer constructing new
tariff and preparation of testimony and exhibits for filing

\$ 2,000.00

Current Amount Due

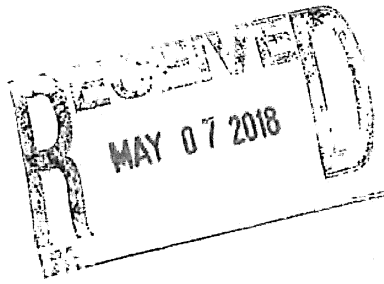
\$ 2,000.00

V-13300
186002
#2000.00



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Community Natural Gas Co., Inc.
933 W. Third St.
Mt. Carmel, IL 62863

Client No: 9503.001
Date: 04/30/2018
Invoice No: 31205

Time spent in connection with IURC Cause No 45032 including
recalculation of revenue requirement for tariff following a conference
call with IURC and OUCC personnel.

\$ 250.00

Current Amount Due \$ 250.00

✓ - 13300

186002 \$ 250.00

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Amy.Spenos@lwgcpa.com to have your invoice set up.



Community Natural Gas Co., Inc.
933 W. Third St.
Mt. Carmel, IL 62863

Client No: 9503.001
Date: 06/30/2018
Invoice No: 31524

Time spent in connection with the IURC tax investigation Cause No. 45032 including conference call with clients and attorneys, calculation of impact to rates, and finalizing and filing testimony and exhibits for the phase II subdockets

\$ 3,502.86

Current Amount Due \$ 3,502.86

✓ - 13300

186002 \$ 3502.86

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Kerry A. Heid, P.E.
HEID RATE AND REGULATORY SERVICES

3212 Brookfield Drive
Newburgh, IN 47630
kaheid@wowway.com

Phone: (812) 858-0508
Cellular: (812) 568-5955

October 3, 2018

Mr. Donald Kieffer, President
Community Natural Gas Co., Inc.
933 W. Third Street
Mt. Carmel, IL 62863

Re: Invoice for Services in Cause No. 45032 Phase I, Impact of Federal Income Tax Rate
Change on Customer Rates

Dear Mr. Kieffer:

Attached is my invoice for services performed in Cause No. 45032 Phase I pertaining to the impact of the federal income tax rate change on customer rates. This analysis was ordered in the Commission's Order dated February 16, 2018. The invoice amount is \$2,920.

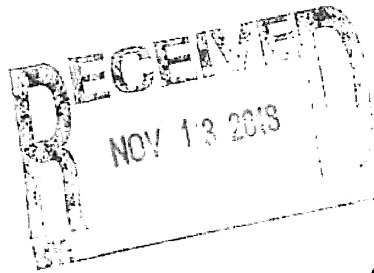
If you have any questions, please do not hesitate to contact me.

Sincerely,

Kerry A. Heid

Kerry A. Heid, P.E.

V- 12200
186002 \$ 2920.00



Community Natural Gas Co., Inc.
933 W. Third St.
Mt. Carmel, IL 62863

Client No: 9503.001
Date: 10/31/2018
Invoice No: 31762

Preparation of response to data request 2 in the tax investigation case. \$ 2,000.00

Current Amount Due \$ 2,000.00

✓ - 13300
186002 \$ 2000.00

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Community Natural Gas Co., Inc.

Cause No. 45214

Payroll Expense

	Adjustments		Description
	Per Petitioner	Per OUCC	
Test Year Payroll	\$ 1,096,716	\$ 1,096,716	
-Ray	\$ (26,250)	\$ (26,250)	Retired
+ 4 months Damien	\$ 11,200	\$ 5,000	Blake replaced Damien at a lower rate.
9/1/19 Salary Increase	\$ 48,000	\$ 48,000	Salary increases for 2019
Effect of test year raises	\$ 46,738	\$ 46,738	Salary increases for 2018
New Hire	\$ 27,000	\$ -	
Dean Mandy 6/1/19	\$ 10,000	\$ 10,000	
Dean Mandy Incentive Compensation	\$ -	\$ (75,012)	Incentive Compensation included in test year payroll
Total Adjustment	\$ 116,688	\$ 8,476	
Pro Forma Payroll	\$ 1,213,404	\$ 1,105,192	

- Q 4.5:** Referring to Pro forma Payroll Summary workpaper:
- a. Please explain how the "9/1/2019 salary increase" line of \$48,000 will be allocated among the 16 salaried employees.
 - b. Please provide an explanation of the line item "Dean Mandy 6/1/19" for \$10,000.
 - c. Referring to the line item "New Hire," please provide a job description for this position.
 - d. Referring to the line item "New Hire," please explain how long this position has been vacant.

- Q 4.8:** The Incentive Compensation Plan for Selected Executives document Part II states, "The board will consider accomplishments that benefited customers, employees, the communities served by the company and shareholders as well as actions or performance that did not meet expectations."
- a. Please provide detailed explanations of what accomplishments the board reviews in determining how much to award to each executive on an annual basis.
 - b. More specifically, please provide detailed explanations of what metrics and accomplishments were used in order to determine Dean Kieffer and Mandy Leach's incentive compensation of \$ \$45,007 and \$30,005, respectively.
- A.** a./b. The Incentive Compensation Plan requires the Board to make determinations on the performance of the President and Controller. Neither the President nor the Controller participate in such Board discussions or decisions. The Compensation Committee of the Board begins with an annual self-assessment received from the President and the Controller. Thereafter the Board reviews such self-assessments, and considers the status of customer service, considers the management of employees and reviews the financial results of the company. Based on such review and considerations, the Board determines whether the President and the Controller have met the expectations of the Board. As an example of expectations and the Board's process, the Petitioner recently embarked on extension of new mains into unserved areas. The expectation of the Board was that these projects would be authorized under a TDSIC proceeding before the Commission. The Board expected that such TDSIC proceeding would be followed by timely construction, with projects constructed within the overall budget, and with the result that a reasonable amount of customers would be added to Petitioner's customer count. The Board reviewed whether the TDSIC proceeding was successfully completed; whether the projects were being completed in a timely fashion; whether the projects met budget expectations; and whether the projects were adding to the number of customers served by the Petitioner. The Board also reviewed whether the President and the Controller were successful in including such projects into Petitioner's rate base either through a base rate case or a periodic TDSIC filing. The Board determined that the TDSIC proceeding was successfully accomplished. The extensions were being completed timely or even ahead of expectations. The Board determined that the projects were being constructed consistent with the overall budget. The Board determined that the projects were adding a reasonable number of new customers. Based on the identification of such expectations and the review performed by the Board, the Board determined that the President and Controller had met the Board's expectations.

Community Natural Gas Co., Inc.

Cause No. 45214

Pension Expense

Payroll Wage Increase	\$ 8,476
Pension Contribution Rate	<u>15%</u>
Increase in Pension Expense	<u><u>\$ 1,271</u></u>