BEFORE THE

INDIANA UTILITY REGULATORY COMMISSION

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

PETITIONERS' EXHIBIT BKJ

DIRECT TESTIMONY

OF

BRADLEY K. JONES
CONSULTING PRINCIPAL
MCCREADY AND KEENE, INC.

ON BEHALF OF

OHIO VALLEY GAS CORPORATION
OHIO VALLEY GAS, INC.

DECEMBER 2016

PREPARED DIRECT TESTIMONY OF BRADLEY K. JONES

OHIO VALLEY GAS CORPORATION
OHIO VALLEY GAS, INC.

CAUSE NO. 44891

1. Q. **Will you please state your name and business address?**

A. My name is Bradley K. Jones. My business address is 1 American Square, Indianapolis, Indiana 46282. My mailing address is P.O. Box 6094, Indianapolis, IN 46206.

2. Q. **By whom are you employed and in what capacity?**

A. I am employed by McCready and Keene, Inc., a OneAmerica company ("McCready and Keene"). I am a Consulting Principal and have been employed by McCready and Keene since 2006.

3. Q. **Please describe your educational background and professional experience.**

A. I graduated from Rose-Hulman Institute of Technology in Terre Haute, Indiana with a Bachelor of Science degree in Mathematics in May 2005. I have been employed in the actuarial field since 2006. I hold the designations of Fellow of the Society of Actuaries, Member of the American Academy of Actuaries, and Enrolled Actuary. My career at McCready and Keene has been spent working on a multitude of projects concerning employee pension plans. One of my specific areas of expertise is plan terminations, which involves assisting employers with closing out their pension plans through a PBGC standard termination. Additional responsibilities include client relationship, peer review, retiree medical valuation, and actuarial student development.

4. **Q. What is the purpose of your testimony?**

A. Ohio Valley Gas has engaged McCready and Keene to perform pension plan services since 1986. I have been directly involved with the team supporting these services since 2012. Ohio Valley Gas initiated a PBGC standard termination of the pension plan in 2015 and completed distribution in 2016. The purpose of my testimony is to provide actuarial support for the contribution required to close out the plan.

5. **Q. Provide a brief description of how the Participant's earned Plan termination benefits were calculated. Briefly explain how the Plan's cost to liquidate an earned benefit by purchasing an annuity contract for the Participant differs from paying the earned benefit as a lump sum, and why annuity contract cost is greater than lump sum benefit payment?**

A. Plan participants had the right to elect to have their Plan termination benefits paid out in one of two ways: a lump sum (which could include cash, direct rollover, or some combination of the two) or through an annuity contract.

Lump sum amounts were determined as of May 17, 2016, using the actuarial equivalent assumptions for lump sums as set by the Plan. Specifically, interest rates of 1.76% (for payments to be made in the first 5 years), 4.15% (for payments to be made from year 5 to year 20), and 5.13% (for payments to be made thereafter) were used to discount future benefit payments, along with 2016 Applicable Mortality (per Code Section 430(h)(3), subparagraph (A)). Lump sums were based upon the accrued benefit scheduled to commence at Normal Retirement Age. In the case of those who had reached Normal Retirement Age or had already entered pay status, lump sums were determined on an immediate basis.

For anyone not electing a lump sum, a group annuity contract was purchased. Under pension law, the provisions of the annuity contract must mirror those of the Plan document, so that participants under the annuity contract receive the same benefits they would have had the Plan continued to exist. Each annuity provider uses a proprietary set of assumptions to value this contract. These assumptions are based on existing market conditions at the time of purchase. I am not aware of the assumptions used for the Ohio Valley Gas annuity contract.

Annuity purchase liability is often higher than lump sum liability. There are a few reasons for this (this list may not be exhaustive):

1) Interest rates used in the annuity purchase are often lower than lump sum rates. Lump sum rates are set by law and regulation. Annuity rates are dictated by market conditions and how the annuity provider will invest the revenue. This is typically in higher quality, lower yielding bonds. All else being equal, lower interest rates produce higher liabilities.

2) Mortality for lump sums is also dictated by law and regulation. The lump sum regulations do not currently include future mortality improvement (i.e. the fact that people are living longer, primarily due to advances in health sciences). Annuity providers are free to determine their best estimate ~~at~~ BKJ for future mortality experience, and this generally includes mortality improvement.

3) Annuity contract prices include a load for expenses to administer the plan. No such load exists for lump sum calculations.

4) The annuity contract must account for all possible provisions of the plan (e.g. early retirement, death benefits, etc.). Lump sums are a one-time calculation, assuming Normal Retirement.

6. **Q. How does the Plan liability (obligation) for an "ongoing" Plan differ from the liability of a terminated/ liquidating Plan?**

A. An ongoing Plan is subject to a different set of assumptions than a plan going through termination. Specifically, the interest rates to be used in an ongoing plan are averaged over a much longer time period, often resulting in higher interest rates than the rates used for determining lump sums and annuity contract prices. The two calculations use a slightly different, although comparable, mortality assumption. The end result is that the liability for an ongoing plan is lower than plan termination liability. The interest rates for determining minimum funding for ongoing plan liability and lump sums are set by law.

7. **Q. Does this conclude your direct testimony?**

A. Yes, at this time.