

FILED
June 13, 2024
INDIANA UTILITY
REGULATORY COMMISSION

PETITIONER'S EXHIBIT NO. 1

CAUSE NO. 46086

STATE OF INDIANA
INDIANA UTILITY REGULATORY COMMISSION

DIRECT TESTIMONY
OF
FRANK CZESCHIN

ON BEHALF OF
INDIANA UTILITIES CORPORATION

**INDIANA UTILITIES CORPORATION
DIRECT TESTIMONY OF FRANK CZESCHIN**

I. INTRODUCTION AND BACKGROUND

1 **Q1. Please state your name and business address.**

2 A. My name is Frank Czeschin. My business address is Indiana Utilities Corporation,
3 123 West Chestnut Street, Corydon, Indiana 47112.

4 **Q2. On whose behalf are you appearing in this Cause?**

5 A. I am appearing on behalf of Indiana Utilities Corporation, (“Indiana Utilities”,
6 “Company”, or “Petitioner”).

7 **Q3. Are you affiliated with the Petitioner, Indiana Utilities Corporation?**

8 A. I serve as President of the Petitioner.

9 **Q4. How long have you served in that capacity?**

10 A. Twenty-four years.

11 **Q5. Please describe your educational background and experiences which you believe are**
12 **relevant to the conclusions you express in this testimony.**

13 A. I hold a B.S. degree in Business Administration from Indiana University. Prior to
14 joining the Petitioner, I was employed in various management roles with Indiana
15 Gas Company. Prior to serving Petitioner as President, I served as Vice President
16 of the Petitioner with ever increasing responsibilities. I am originally a resident of
17 the area served by the Petitioner and have continuously lived in this area since 1994.
18 I also serve on the Board of Directors for a local bank. Prior to filing the Petition in
19 this current rate case proceeding, I discussed the issues raised with our attorney Ms.
20 Aguilar and with Ms. Mann LWG CPAs and Advisors (“LWG”).

1 **Q6. Mr. Czeschin, have you previously testified before the Commission?**

2 A. Yes, on numerous occasions, including in Petitioner's last base rate proceeding,
3 Cause No. 45116.

4 **Q7. Is the information set out in the Petition which initiated this Cause accurate?**

5 A. Yes it is.

6 **Q8. Would you generally describe what Petitioner is seeking by way of this Cause?**

7 A. Indiana Utilities is proposing to change its base rates, including its monthly
8 customer charge, to increase its operating revenue by approximately 18.41%
9 including gas cots. The total margin increase is 41.48%. Company witness Mann
10 presents Petitioner's proposed revenue requirement and other related schedules.
11 Indiana Utilities also requests approval of the Partial Settlement Agreement
12 between Petitioner and the Office of Utility Consumer Counselor ("OUCC")
13 executed in anticipation of this filing in which Petitioner and the OUCC agreed that
14 it was appropriate to settle the cost of equity capital issue.

15 **Q9. Are you sponsoring any attachments?**

16 A. Yes. I am sponsoring the following attachments:

- 17
- Attachment FC-1, which is a copy of the Petition filed in this Cause.¹
 - Attachment FC-2, which is a copy of the Partial Settlement between Petitioner and
18 the OUCC.
19

¹ As the Petition was filed separately, it is not reproduced with my testimony but will be offered into evidence with my testimony at the hearing in this Cause.

- 1 • I also co-sponsor Attachment NA-2, which is a redline copy and a clean copy of
2 Petitioner’s proposed tariff.

3 **Q10. What other witnesses will be offering testimony or attachments in Petitioner’s direct**
4 **case?**

5 A. In addition to my testimony, Indiana Utilities is presenting testimony from the
6 following witnesses:

- 7 • Nikki Albin, Vice President of Administration, who supports customer
8 notifications and certain changes to Petitioner’s tariff, including updates to
9 Appendix C- Other Charge and changes to Appendix E- Normal Temperature
10 Adjustment.
- 11 • Scott Schmitt, Vice President of Operations, discusses increases in construction
12 material, trucks, equipment and repairs, and employee salary and training
13 expenses. He also discusses some of Indiana Utilities key employee policies
14 surrounding cell phone usage, reimbursement of meals, and personal use of
15 vehicles.
- 16 • Bonnie J. Mann, CPA with LWG, who sponsors Petitioner’s accounting schedules
17 supporting the proposed change in base rates. She presents the revenue requirement,
18 Test Year adjustments, and pro forma capital structure and costs of capital.

19 **Q11. Mr. Czeschin, what is the test year on which your current base rates were established?**

20 A. The test year used in the last base rate case, Cause No. 45116 (IURC 2/20/2019),
21 was the twelve months ending September 30, 2017.

1 **Q12. Has the Petitioner earned its authorized net operating income established in the last**
2 **rate case?**

3 A. No we have not earned the authorized net operating income of \$675,418 for several
4 years.

5 **Q13. What was the weighted cost of capital used to establish your authorized net operating**
6 **income?**

7 A. The Commission's Order in Cause No. 45116, p. 6, reflected a weighted cost of
8 capital was 9.04%.

9 **Q14. Have any of the elements that made up your capital structure changed significantly?**

10 A. No. As shown in Exhibit E included in Ms. Mann's Exhibit BJM-1.

11 **Q15. Mr. Czeschin, what is the test year for this proceeding?**

12 A. The test year used in this proceeding is the twelve months ending September 30,
13 2023 as adjusted for changes fixed, known, and measurable and occurring within
14 12 months following the end of the test year. Indiana Utilities' cutoff date for
15 determining the used and useful status of its utility plant in service, and the value
16 of its rate base, is also September 30, 2023.

17 **II. PARTIAL SETTLEMENT REGARDING COST OF EQUITY ("COE")**

18 **Q16. Did you participate in discussions between the Petitioner and OUCC prior to the filing**
19 **of this rate case?**

20 A. I did. We discussed whether the parties could reach agreement on a variety of
21 terms including an appropriate COE for Petitioner. Those conversations, which

1 were conducted at arms-length between the parties, resulted in the Partial
2 Settlement included as Attachment FC-2 to my testimony.

3 **Q17. Does Attachment FC-2, the Partial Settlement, reflect your understanding of the**
4 **settlement reached prior to initiating this Cause?**

5 A. Yes it does. The parties were able to reach agreement that a 10.1% COE is
6 reasonable at this time for Petitioner.

7 **Q18. Do you believe that COE is reasonable?**

8 A. Yes.

9 **Q19. Please explain.**

10 A. The last rate case for Midwest Natural Gas Corporation Corporation's last
11 litigated rate case (Cause No. 44880 approved on August 16, 2017) included a
12 return on equity of 10.1%. Indiana Utilities' risk profile is similar. In addition,
13 there are business risks that we had not really considered before, in the form of
14 customer disrupting events such as the COVID-19 global pandemic. Customers
15 were, in some cases, temporarily shut down, and some had to permanently close.
16 So, while there appear to be reasons to support a rate higher than the rate
17 determined almost seven years ago, Petitioner believes settling with the OUCC on
18 10.1% and reducing the need to litigate this issue is the best course at this time.
19 One certain benefit to customers is that agreeing on this issue eliminates the
20 expenses of a Cost of Capital expert.

1 **Q20. Do you believe the Partial Settlement is in the public interest?**

2 A. Yes. Settlement is a reasonable means of resolving controversial issues in a
3 manner that is fair and balanced to all concerned. Taken as a whole, the Partial
4 Settlement represents the result of extensive, good faith, arm's-length negotiations
5 of issues that are often contentious. It is my opinion that the Partial Settlement is
6 in the public interest and should be approved because it reasonably addresses
7 Petitioner's COE and eliminates significant expense from total rate case costs for
8 customers. Addressing issues through compromise reduces overall rate case
9 expense, avoids the need to litigate these complex issues, and allows the parties to
10 focus on the remaining issues in this case.

III. UTILITY PLANT IN SERVICE ("UPIS")

11 **Q21. Mr. Czeschin, are you familiar with Petitioner's utility plant in service?**

12 A. Yes I am. As President of Petitioner, I generally am directly involved with all
13 improvements to the plant in service, including extensions of natural gas mains.

14 **Q22. Is the utility plant in service used and useful in providing natural gas service to
15 Petitioner's customers?**

16 A. Yes it is.

17 **Q23. Have you ever testified before the Commission as to the used and useful nature of
18 Petitioner's utility plant?**

19 A. Yes I have.

1 **Q24. Have you ever testified before the Commission on the value of the Petitioner's utility**
2 **plant in service?**

3 A. Yes.

4 **Q25. Do you have an opinion as to the value of Petitioner's utility plant in service?**

5 A. Yes I do.

6 **Q26. Please explain your opinion of value.**

7 A. If we were to examine the value of plant solely from original cost perspective, I
8 believe the value is not less than \$9,918,983 as reflected on Exhibit D contained
9 with Exhibit BJM-1.

10 **Q27. Mr. Czeschin, what is your familiarity with the term "fair value analysis"?**

11 A. My understanding is that the Commission by statute is required to determine the
12 fair value of all property used and useful in providing service to its customers. I
13 further understand that there are different methodologies that can be used to
14 determine that value, including consideration of the original cost per books.
15 However, I also understand the Commission can determine fair value based upon
16 the cost of reproducing the existing utility plant net of depreciation.

17 **Q28. If the value of Petitioner's plant was based on reproduction cost, would the value be**
18 **higher or lower than the original cost per books?**

19 A. At the current prices of reproduction, the value of the utility plant would be much
20 higher than the original cost on books. For purposes of this proceeding, we are
21 proposing that a fair return on the fair value of the utility plant can be determined
22 by applying the weighted average cost of capital to the net original cost rate base.

1 **Q29. Have you considered what improvements to your facilities will require capital going**
2 **forward?**

3 A. Yes. I anticipate we will expand our distribution mains to meet customer needs
4 while these new rates are in place. That will require further investment of capital.

5 **Q30. Mr. Czeschin how will the new revenue requirement established by this base rate case**
6 **be allocated to Petitioner’s customers?**

7 A. Petitioner decided not to complete a new cost of service study for this proceeding and
8 allocated the proposed revenue requirement across the board, increases all volumetric and
9 customer charge rates by the same percentage. The increases to the customer service
10 charges are reasonable, gradual, and in line with the Commission’s Order in prior base rate
11 case to increase the amount of fixed costs recovered through customer charges. The
12 increase in customer service charges are summarized in the Table below.

Customer class:	Current Service Charge:	Proposed Service Charge:
Residential	\$13.13	\$18.00
Small Commercial	\$13.13	\$18.00
Large Commercial	\$70.05	\$80.00
Industrial	\$510.83	\$600.00
Generation Transport	\$510.83	\$600.00
Large Transport	\$973.01	\$1,025.00
School Transport	\$132.33	\$80.00

13 Company witness Mann further explains and presents the allocation in her sponsored
14 attachments. Attachment NA-2, which I co-sponsor, reflects these proposed service
15 charges.

1 **Q31. Do you believe Petitioner's decision not to complete a new cost of service study in this**
2 **base rate case is reasonable?**

3 A Yes. Our customer mix has not materially changed since the base rate case concluded in
4 2018-2019. Thus, Petitioner determined it is unnecessary to incur the expenses associated
5 with a new cost of service study in this proceeding.


6 **Q32. Does this conclude your prefiled direct testimony?**

7 A. Yes it does.

VERIFICATION

I affirm under the penalties of perjury that the foregoing is true to the best of my knowledge, information and belief as of this 13th day of June, 2024.

INDIANA UTILITIES CORPORATION



Frank Czeschna

**Attachment FC-1
Petition**

[Filed Separately – Not Reproduced Herein]

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

**PETITION OF INDIANA UTILITIES)
CORPORATION FOR AUTHORITY TO) CAUSE NO.
CHANGE ITS RATES, CHARGES, TARIFFS,)
RULES, AND REGULATIONS)**

STIPULATION AND PARTIAL SETTLEMENT AGREEMENT
ON COST OF EQUITY CAPITAL

This Stipulation and Settlement Agreement (“Partial Settlement Agreement”) is entered into by Indiana Utilities Corporation (“Petitioner” or “IUC”) and the Indiana Office of Utility Consumer Counselor (“OUCC”). The OUCC and Petitioner collectively are referred to in this Partial Settlement Agreement as “the Parties,” and either may be referenced as “the Party.” The Parties have discussed the appropriateness of settling the cost of equity capital issue, and on the basis of compromise and to reduce controversy, agree 10.10% is an appropriate cost of equity capital for Petitioner in this Cause. The Parties recognize a 10.10% cost of equity is consistent with prior Orders from the Indiana Utility Regulatory Commission (“Commission”) in other small gas utility base rate cases, including the Commission’s Order at page 13 in Midwest Natural Gas Corporation’s last litigated rate case, Cause No. 44880, approved on August 16, 2017.

The Parties acknowledge each will provide the Commission with testimony from their respective witnesses supporting this Partial Settlement Agreement. The Parties anticipate continuing to engage in settlement negotiations related to other issues in this Cause and will notify the Commission if additional issues are settled.

The Parties also acknowledge this Partial Settlement Agreement is conditioned upon and subject to the Commission’s approval of the terms of this Partial Settlement Agreement in this Cause and in the Commission’s final Order. If the Commission does not accept this Partial

Settlement Agreement or does not approve the terms of this Partial Settlement Agreement in its final Order, this Partial Settlement shall become null and void, and the Parties each reserve their respective right to seek additional proceedings and/or offer additional testimony in this Cause related to IUC's appropriate cost of equity capital.

Finally, the Parties agree this Partial Settlement Agreement is reached for purposes of this Cause only and is not to be used as precedent in any other proceeding or for any other purpose except to the extent necessary to implement or enforce its terms in this Cause. Accordingly, the Parties agree neither will cite this Partial Settlement Agreement as precedent before the Commission in any Cause other than this proceeding. The undersigned attorneys represent they are authorized to execute this Partial Settlement Agreement on behalf of their designated Party.

ACCEPTED and AGREED this 1st day of May 2024

Indiana Utilities Corporation



By: _____
Jeffrey M. Peabody.
Attorney for
Indiana Utilities Corporation

Indiana Office of Utility Consumer Counselor



By: _____
Carol Sparks Drake
Chief Deputy Consumer Counselor for the
Indiana Office of Utility Consumer Counselor