

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF MIDWEST NATURAL GAS)
CORPORATION FOR AUTHORITY TO CHANGE) CAUSE NO. 45888
ITS RATES, CHARGES, TARIFFS, RULES, AND)
REGULATIONS)

PETITIONER'S SUBMISSION OF DIRECT TESTIMONY OF
BONNIE J. MANN

Midwest Natural Gas Corporation, ("Midwest", "Company", or "Petitioner"), by counsel,
hereby submits the direct testimony and attachments of Bonnie J. Mann.

Respectfully submitted,



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**PRE-FILED DIRECT TESTIMONY OF BONNIE J. MANN
ON BEHALF OF MIDWEST NATURAL GAS CORPORATION**

1 **Introduction and Background**

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

3 A1. My name is Bonnie J. Mann; my business address is 1776 N. Meridian, Suite 500,
4 Indianapolis, Indiana 46202.

5 **Q2. What is your occupation?**

6 A2. I am a Certified Public Accountant with LWG CPAs and Advisors (“LWG”), an
7 accounting firm which specializes in utility regulation before the Indiana Utility
8 Regulatory Commission (“Commission”).

9 **Q3. Would you please describe your educational background and professional
10 qualifications, which you believe might be relevant to the testimony and opinions
11 you offer in this Cause?**

12 A3. I am a 1987 graduate of Butler University where I earned a Bachelor of Science Degree
13 in business, with a concentration in accounting. Following graduation, I was employed by
14 the international accounting firm of Peat Marwick, where I performed financial and
15 operational audits for a variety of clients. Since September 1988, I have been employed
16 by the firm now known as LWG CPAs and Advisors (“LWG”), a firm specializing in
17 various financial matters including utility regulation on behalf of not for profit utilities,
18 municipalities, investor-owned utilities, and intervenors before the Indiana Utility
19 Regulatory Commission. I am currently a Principal with LWG concentrating in the
20 utilities area.

1 **Q4. What are your relevant professional affiliations?**

2 A4. I am a member of the American Institute of Certified Public Accountants (AICPA), and
3 the Indiana CPA Society (INCPAS), for which I have served as a chair of its Utilities
4 Committee.

5 **Q5. On whose behalf are you appearing in this Cause?**

6 A5. I am appearing on behalf of Midwest Natural Gas Corporation, (“Midwest”, “Company”,
7 or “Petitioner”).

8 **Q6. Ms. Mann, have you previously testified on behalf of this Petitioner before the**
9 **Commission?**

10 A6. Yes, I have testified in many cases on behalf of Midwest.

11 **Q7. Please summarize the scope of your work for the Petitioner in this case.**

12 A7. I along with my colleagues at LWG were requested by the Petitioner to review its
13 financial records in order to form an opinion as to the appropriate level of revenues
14 required to recover the Company's current cost of service; to thereafter advise the
15 management of Petitioner on various adjustments that should be made in this base rate
16 case; and to prepare Testimony and Exhibits on the Petitioner's behalf for presentation
17 before the IURC supporting Petitioner's request to change its rates and charges.

18 **Q8. Are you sponsoring any attachments?**

19 A8. Yes. I am sponsoring the following attachments, which were prepared by me or by my
20 colleagues at LWG under my direction and supervision:

1 • Attachment BJM-1, which includes the revenue requirement, rate base and cost of
2 capital calculations.

3 • Attachment BJM-2, which is the revenue proof and rate derivation schedules.

4 **Q9. Are you providing any workpapers?**

5 A9. Yes, I am providing workpapers that provide additional detail and support for the
6 schedules included in Attachment BJM-1 and BJM-2.

7 **Test Year Results and Pro Forma Revenue and Expense Adjustments**

8 **Q10. Ms. Mann, having reviewed Petitioner’s books and records for the Test Year what
9 conclusions did you reach?**

10 A10. Petitioner is not earning a reasonable return on its rate base used to provide natural gas
11 service to its customers through its current rates.

12 **Q11. Have you reduced your conclusions to adjustments to Test Year results?**

13 A11. Yes. Attachment BJM-1 are the accounting schedules which include the technical
14 exhibits and schedules supporting a change in Petitioner’s current base rates that should
15 provide Petitioner the opportunity of covering its operating expenses and recovering a
16 reasonable return.

17 **Q12. Please explain what is included in Schedules A and B of Attachment BJM-1.**

18 A12. Schedules A and B show the Comparative Balance Sheets and Statements of Net Income,
19 respectively, for the Petitioner. This historical information is presented as of December
20 31, 2021 and 2022. The twelve months ended December 31, 2022, is the Test Year
21 proposed by the Petitioner initiating this Cause. The books and records of Petitioner are

1 kept in accordance with the uniform system of accounts for a gas utility. They are the
2 representations of the management of the Petitioner, and are the starting point for our
3 fixed, known and measurable accounting adjustments. Schedules A-1, B-1, and B-2 are
4 the supporting details for the major Balance Sheet and Statement of Income elements,
5 respectively.

6 **Q13. Please describe the adjustments contained in Schedule C-1 of Attachment BJM-1.**

7 A13. **Adjustment Nos. 1, through 7,** are comprised of several adjustments to Operating
8 Revenues and Expenses.

9 **Adjustment No. 1,** which adjusts gas sales and consists of seven (7) adjustments totaling
10 (\$13,975,654).

11 a) Decrease in gas sales to remove GCA revenue collected during the year totaling
12 (\$13,697,424).

13 b) Decrease in operating revenue to reflect the impact of changing the Normal
14 Temperature Adjustment (NTA) to reflect the most recent NOAA Heating Degree
15 Averages netting to (\$55,486).

16 c) Increase in revenue to remove customer credits ordered in Cause No. 43995-S1
17 totaling \$41,409. All credits ordered in Cause No. 43995-S1 for the utility have been
18 returned.

19 d) Decrease in revenues to remove transmission, distribution, and storage system
20 improvement charge (“TDSIC”) revenues collected in the test year totaling
21 (\$212,659). As explained in Mr. Osmon’s testimony, Q/As 26-28, the TDSIC is
22 complete, and all rate base is included with this filing.

23 e) Increase in revenues to annualize customers added in the current year as well as

1 customers expected as a result of recent increases to rate base totaling \$34,858.

2 f) Increase in revenue for the addition of a new large public authority customer totaling
3 \$130,218.

4 g) Decrease in revenue to adjust for the difference between sales and transport revenue
5 for customers that will be transport customers going forward totaling (\$216,570).

6 **Adjustment No. 2**, which adjusts other operating revenue and consists of two (2)
7 adjustments totaling \$10,705.

8 a) Increase in other gas revenues for a proposed increase in collection,
9 reconnection, disconnection and after hours fees of \$10,105.

10 b) Increase in other gas revenues for a proposed increase in returned payment
11 fees totaling \$600.

12 **Q14. Ms. Mann, please explain the purchased gas adjustment.**

13 A14. **Adjustment No. 3** adjusts the natural gas purchased to remove the cost of gas from base
14 rates and is a decrease of (\$13,558,505) in Natural Gas Purchased. The unaccounted for
15 percentage used in this adjustment is based on the most recent three year average
16 unaccounted for gas and is calculated in the same manner used by the utility in its
17 quarterly GCA filings. The volume of gas was based on test year sales. The cost of gas
18 used in pricing the unaccounted for gas was based on estimated cost of gas within the 12
19 months following the test year recognizing Petitioner's estimated sales and fixed gas
20 purchases.

21 **Q15. Please describe the pro forma adjustments to operating expenses.**

22 A15. **Adjustment No. 4** adjusts "Operation and Maintenance" expense and consists of fifteen
23 (15) adjustments totaling \$234,794 as follows:

- 1 (a) Amortization of estimated rate case expense resulting in an increase of
2 \$42,000 to test year rate case expense. Petitioner is estimating the cost of rate
3 case expense based upon discussions with outside contractors and its
4 experience during its last rate proceeding.
- 5 (b) Decrease of (\$34,859) to reflect the current IURC fee on the applicable Pro-
6 Forma Present Rate Revenues.
- 7 (c) A decrease for the elimination of energy efficiency rebates to customers under
8 the NTA agreement of (\$13,275). This is the amount of rebates in excess of
9 the amount ordered by the IURC in Cause No. 43129.
- 10 (d) Increase in payroll expenses of \$202,581, which reflects the cost of salaries
11 and wages for Petitioner's employees included in operations and maintenance
12 expenses. The pro forma payroll was calculated by first annualizing the test
13 year wages and then applying the expected 2023-pay rate increase for all
14 employees. The adjustment also accounts for several employees leaving the
15 utility, the annualization of the replacement employees already hired, and the
16 addition of an employee the company has hired during the 12 months
17 following the test year. The pro forma payroll was compared to test year
18 payroll and adjusted for Petitioner's payroll capitalization.
- 19 (e) Increase in retirement contribution made on behalf of employees of \$37,639.
20 This is based on the Pro Forma salaries calculated for the payroll adjustment,
21 as described above.
- 22 (f) Decrease of (\$16,597) for bad debts. This adjustment is based on a five-year
23 average. A five year average was chosen to insure that the impact of the
24 State's emergency order and the utility's subsequent write-offs of those

1 accounts are not too heavily weighted into the average.

2 (g) A decrease of (\$2,250) to annualize an increase in directors' fees.

3 (h) Increase of \$22,115 for increases in the cost of outside contractors
4 supplementing the utility's in-house labor force.

5 (i) Increase in insurance expenses to reflect the changes in the cost of property,
6 worker's compensation, casualty and general liability insurance of \$3,363.

7 (j) Increase in insurance expense of \$84,942 for changes in the cost of health
8 insurance provided to employees.

9 (k) Decrease in miscellaneous expense of (\$38,794) for the cost of employee gifts
10 and events.

11 (l) Reduction in expenses of (\$691) to remove lobbying fees charged to the
12 Petitioner by the Indiana Energy Association.

13 (m) Increase in expenses of \$3,193 for unrecovered penalties during the Statewide
14 moratorium on collecting such fees over the estimated life of these rates which
15 is expected to be 5 years.

16 (n) A decrease in expenses of (\$56,073) to reflect the change in IT services fees
17 as the utility moves from an internal employee to an outside service.

18 (o) A decrease in expenses of (\$3,000) to remove fines imposed by the Pipeline
19 Safety Division of the IURC for missed locates.

20 **Q16. Are there any other pro forma adjustments to operating expenses?**

21 A16. Yes. Those adjustments are as follows:

22 **Adjustment 5** reflects the decrease in the Pro-Forma depreciation and amortization
23 expense. Utility Plant in Service ("UPIS") at December 31, 2022, has been decreased by

1 the cost of fully depreciated assets still on the Petitioner's books and increased by the
2 additions to plant added through the end of the test year. In addition, Petitioner has
3 removed the cost of the CEO's vehicle and contributions in aid of construction ("CIAC")
4 related to a new large public authority customer. This adjustment uses 2.5% depreciation
5 for distribution and transmission plant; 2.5% buildings; 20% for transportation and
6 computer assets and 10% depreciation for all other equipment. These are the same
7 depreciation rates approved in the Petitioner's last rate proceeding. This results in a
8 decrease in depreciation and amortization expense of (\$272). Additionally, adjustment 5
9 includes an amount for depreciation deferred during the 4 TDSIC filings. The totals of
10 those deferred depreciation amounts are being amortized over the life of the rates which
11 is 5 years resulting in an increase in depreciation expense of \$2,518.

12 **Adjustment 6** adjusts "Taxes Other Than Income Taxes" expense and consists of four
13 (4) different adjustments totaling (\$120,107) as follows:

14 (a) Decrease of (\$182,760) to remove utility receipts tax expense during the test year.

15 (b) Increase of \$15,490 for changes in payroll taxes due to the changes in the payroll tax
16 adjustment.

17 (c) Increase of \$46,680 for changes in property taxes based on changes in rate base. This
18 calculation was made by taking the property taxes paid during 2022 for the year 2021
19 and dividing them by utility plant in service for 2021 to create a marginal tax rate.
20 This marginal tax rate was then applied to the utility plant in service as of the end of
21 the test year to arrive at the pro forma estimated property taxes.

22 (d) An increase of \$483 reflecting the collection of property taxes deferred during the
23 TDSIC filings. As with depreciation, this recovery is being spread over the expected

1 life of the rate increase, 5 years.

2 **Adjustment 7** adjusts income tax expense and consists of two (2) different adjustments
3 totaling (\$121,359) as follows:

4 (a) Decrease in State Income Taxes of (\$32,157) using the appropriate State Income Tax
5 rate of 4.9%.

6 (b) Decrease in Federal Income Taxes by (\$89,202).

7 **Q17. Please describe the adjustments presented in Schedule C-2 and Schedule C-3 of**
8 **Attachment BJM-1.**

9 A17. Those adjustments are as follows:

10 **Schedule C-2** reflects adjustments that are correlated with the increase in revenues as
11 proposed by Petitioner, and includes four (4) adjustments:

12 **Adjustment A** of Schedule C-2, reflects the projected proposed increase in annual
13 revenue of \$1,989,993.

14 **Adjustment B** reflects the application of the current IURC fee to the increase in annual
15 revenue resulting in an adjustment of (\$2,299).

16 **Adjustment C** applies the bad debt rate used in Schedule C-1 to the increased annual
17 revenue reflecting an adjustment of (\$13,880).

18 **Adjustment D** adjusts income taxes to the increase in annual revenue and consists of two
19 (2) different adjustments totaling \$490,910 as follows:

20 a) State Income Taxes of \$996,717.

21 b) Federal Income Taxes of \$394,193.

1 **Q18. What is shown in Schedule C-3 of Attachment BJM-1?**

2 A18. **Schedule C-3** is the calculation of total revenues on which the proposed rate increase is
3 based. GCA revenue has been added to present rate revenue to calculate the pro forma
4 rate increase on average.

5 **Rate Base**

6 **Q19. What is Schedule D of Attachment BJM-1?**

7 A19. **Schedule D** is the calculation of Original Cost Rate Base. It is comprised of several
8 components.

9 **Q20. What are those components?**

10 A20. The major component is UPIS as of December 31, 2022, less the CIAC provided by the
11 new large public authority customer. The original cost is offset by the total accumulated
12 depreciation on UPIS as of December 31, 2022. This results in the Net UPIS of
13 \$20,287,143. To the Net UPIS, working capital in the amount of \$753,736 is added using
14 the FERC 45-day working capital formula, which has been accepted for gas utilities the
15 size of Petitioner in lieu of performing a cash lead-lag study, the 13-month average of the
16 cost of materials and supplies held by. The total original cost rate base included in these
17 exhibits is \$22,402,413.

18 **Q21. Please describe Schedule E of Attachment BJM-1.**

19 A21. **Schedule E** reflects the capital structure of the Petitioner as of the end of the test year,
20 December 31, 2022. Petitioner's capital structure includes common equity, long term
21 debt, customer deposits, and deferred taxes include the remaining excess accumulated
22 deferred income taxes ("EADIT") from Cause No. 45032 S11.

1 **Q22. Ms. Mann, on the basis of your analysis, what net operating income should this**
2 **Petitioner be authorized an opportunity to earn?**

3 A22. I believe this Petitioner should be authorized the opportunity to earn at least \$1,825,793
4 annually in net operating income.

5 **Q23. If this Commission authorized a net operating income of \$1,825,793, what would be**
6 **the overall rate of return on Petitioner's used and useful plant?**

7 A23. This would be an overall return of 8.15%. The components comprising the overall return
8 are detailed on Schedule E.

9 **Q24. In your opinion, what increase in revenue should the Commission authorize for the**
10 **Petitioner?**

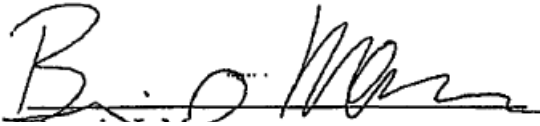
11 A24. Based upon Schedule C, the increase in operating revenue should be \$1,989,993 which is
12 an overall increase of 1.811% over pro forma present rate revenue as reflected on my
13 Attachment BJM-1 (Schedule C).

14 **Q25. Does this conclude your direct testimony?**

15 A25. Yes, it does.

Verification

I affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information, and belief.

A handwritten signature in black ink, appearing to read "Bonnie J. Mann", written over a horizontal line.

Bonnie J. Mann

ATTACHMENT BJM-1

MIDWEST NATURAL GAS CORPORATION
WASHINGTON, INDIANA

BALANCE SHEETS
As of December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
UTILITY PLANT IN SERVICE		
Total utility plant in service	\$ 51,639,129	\$ 49,557,151
Construction work in progress	23,020	1,168,634
Accumulated depreciation	<u>(28,923,631)</u>	<u>(28,822,668)</u>
Net Utility Plant In Service	<u>22,738,518</u>	<u>21,903,117</u>
NON-UTILITY PROPERTY	<u>364,026</u>	<u>364,026</u>
INVESTMENTS	<u>5,668,800</u>	<u>5,666,200</u>
NOTES RECEIVABLE	<u>112,166</u>	<u>112,166</u>
DEFERRED INCOME TAXES	<u>290,022</u>	<u>290,022</u>
REGULATORY ASSET	<u>486,461</u>	<u>489,384</u>
CURRENT ASSETS		
Cash	93,886	(243,219)
Accounts receivable	4,009,553	2,370,613
Materials & supplies	1,259,669	1,318,083
Prepaid expenses	<u>141,567</u>	<u>155,137</u>
	<u>5,504,675</u>	<u>3,600,614</u>
Total Assets	<u>\$ 35,164,668</u>	<u>\$ 32,425,529</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
SHAREHOLDERS' EQUITY		
Common stock issued	\$ 723,341	\$ 723,341
Other paid-in capital	259,331	259,331
Retained earnings	36,797,664	34,676,504
Accumulated other comprehensive income	(1,153,428)	(1,153,428)
Treasury Stock	<u>(19,572,399)</u>	<u>(19,572,399)</u>
Total Shareholders' Equity	<u>17,054,509</u>	<u>14,933,349</u>
LONG TERM DEBT	<u>3,931,511</u>	<u>3,951,015</u>
DEFERRED INCOME TAXES	<u>1,773,659</u>	<u>1,773,659</u>
REGULATORY LIABILITY	<u>496,714</u>	<u>501,584</u>
CURRENT LIABILITIES		
Short term debt	2,808,928	4,649,434
Accounts payable	3,890,556	2,157,865
Customer deposits	162,055	160,040
Accrued expenses	2,104,057	1,901,617
Refundable gas cost	193,172	(352,541)
Construction advance	2,428,355	2,428,355
Current portion long term debt	<u>321,152</u>	<u>321,152</u>
Total Current Liabilities	<u>11,908,275</u>	<u>11,265,922</u>
Total Liabilities and Shareholders' Equity	<u>\$ 35,164,668</u>	<u>\$ 32,425,529</u>

MIDWEST NATURAL GAS CORPORATION
WASHINGTON, INDIANA

DETAIL OF UTILITY PLANT-IN-SERVICE
As of December 31, 2022 and 2021

Description	2022	2021
<u>Utility Plant in Service</u>		
<u>Intangible Plant</u>		
Organizational expenses	\$ 8,512	\$ 8,512
Franchise & consents	29,503	29,503
Miscellaneous intangible plants	850	850
Land & land rights	11,645	11,645
Total Intangible Plant	<u>50,510</u>	<u>50,510</u>
<u>Transmission Plant</u>		
Land & land rights	185,197	185,197
Right of way	133,539	133,539
Land transmission	140,462	140,462
Easements transmission	59,757	59,757
Structures & improvements	3,997	3,997
Intermediate mains	11,413,353	11,413,353
Transmission 8"	2,334,042	2,334,042
Meas & regulator station equipment	980,582	925,932
Communicaiton equipment	100,845	102,321
Total Transmission Plant	<u>15,351,774</u>	<u>15,298,600</u>
<u>Distribution Plant</u>		
Land & land rights	297,946	295,652
Structures & Improvements	10,779	10,779
Mains	13,712,714	12,179,572
Measuring & regulator station general	768,264	768,292
Measuring & regulator station city gate	731,656	626,144
Services	8,685,476	8,497,317
Meters	2,313,017	2,205,380
Meters - AMR	1,146,610	1,146,610
Meter installation	370,862	369,262
House regulators	1,361,918	1,355,002
House regulator installation	261,515	260,447
Industrial measuring & regulators	821,850	821,850
Other equipment	169,759	169,759
Total Distribution Plant	<u>30,652,366</u>	<u>28,706,066</u>
<u>General Plant</u>		
Land & land Rights general	345,664	345,664
Structures & improvement general	2,278,516	2,273,515
Office furniture & equipment	210,208	210,208
Computer equipment	249,666	249,666
Computer equipment laptops for trucks	67,115	52,246
Transportation equipment	1,762,187	1,699,553
Tool & garage equipment	172,288	172,288
Laboratory equipment	29,113	29,113
Power operated equipment	359,894	359,894
Communicaiton equipment	99,017	99,017
Other General equipment	10,811	10,811
Total General Plant	<u>5,584,479</u>	<u>5,501,975</u>
Total Utility Plant in Service	<u>\$ 51,639,129</u>	<u>\$ 49,557,151</u>

MIDWEST NATURAL GAS CORPORATION
WASHINGTON, INDIANA

COMPARATIVE STATEMENTS OF NET INCOME
For the Twelve Months Ended December 31, 2022 and 2021

Description	2022	2021
<u>Operating Revenues</u>		
Gas sales	\$ 22,192,946	\$ 16,797,555
Other gas revenues	135,781	107,640
Total Operating Revenues	22,328,727	16,905,195
<u>Operating Expenses</u>		
Natural gas purchased	13,558,505	8,565,432
Transmission expense	330,210	282,845
Distribution expense	1,791,043	1,585,581
Maintenance expense	269,038	275,319
Customer accounts expense	885,600	739,012
Administrative and general expense	2,519,203	2,247,211
Depreciation	1,407,977	1,336,557
Taxes other than income taxes	652,636	691,381
Income taxes	169,608	364,656
Total Operating Expenses	21,583,820	16,087,994
Net Operating Income	744,907	817,201
<u>Other Income and Expense - Net</u>		
Interest & dividend income	5,953,257	900,168
Interest expense	(213,263)	(171,169)
All other income, net	47,659	26,170
Total Other Income and Expense - Net	5,787,653	755,169
Net Income	\$ 6,532,560	\$ 1,572,370

MIDWEST NATURAL GAS CORPORATION
WASHINGTON, INDIANA

COMPARATIVE DETAIL OF OPERATING REVENUES
For the Twelve Months Ended December 31, 2022 and 2021

Description	2022	2021
<u>Operating Revenues</u>		
<u>Gas Sales</u>		
Residential	\$ 9,544,215	\$ 7,976,145
Commercial	6,636,911	5,048,241
Firm industrial	3,974,262	1,642,841
Public authority	1,326,934	1,054,598
Transportation	879,328	1,015,758
GCA variance refunds applied	(168,704)	59,972
Total gas sales	22,192,946	16,797,555
<u>Other Gas Revenues</u>		
Forfeited discounts	75,510	67,472
Other utility revenue	60,271	40,168
Total other gas revenue	135,781	107,640
Total operating revenues	\$ 22,328,727	\$ 16,905,195

MIDWEST NATURAL GAS CORPORATION
WASHINGTON, INDIANA

COMPARATIVE DETAIL OF OPERATING EXPENSES
For the Twelve Months Ended December 31, 2022 and 2021

Description	2022	2021
<u>Operating Expenses</u>		
<u>Natural Gas Purchased</u>		
Natural gas purchases	\$ 13,558,505	\$ 8,565,432
Total natural gas purchased	<u>13,558,505</u>	<u>8,565,432</u>
<u>Transmission Expense</u>		
Intermediate supervision	8,156	7,566
Communicaiton expense	165,944	154,282
Intermediate mains operations	97,209	69,962
Purchase point operations	48,054	34,165
Interediate maintenance of mains	8,462	7,739
Maintenance Measuring & Regulator Station	2,385	9,131
Total transmission expense	<u>330,210</u>	<u>282,845</u>
<u>Distribution Expense</u>		
Operations supervision	8,156	7,566
Mains/Services operations	1,380,648	1,230,087
Mains/Services DIMP	-	-
Mains/Services Disaster	-	-
Regulator station general operations	29,990	25,883
Regulator industrial operations	14,037	16,356
City gas operations	38,082	32,906
House regulator operations	261,346	230,886
Customer service	5,449	3,841
Distribution other expense	14,953	-
Rents	38,382	38,056
Total distribution expense	<u>1,791,043</u>	<u>1,585,581</u>
<u>Maintenance Expense</u>		
Maintenance of mains	32,866	22,702
Maintenance measuring & regulator general	6,746	16,949
Maintenance measuring & regulator industrial	10,725	8,743
Maintenance measuring & regulator city gate	4,269	8,173
Maintenance of services	16,248	48,107
Maintenance of meters & regulators	146,984	112,728
Maintenance of other equipment	51,200	57,917
Total maintenance expense	<u>269,038</u>	<u>275,319</u>

MIDWEST NATURAL GAS CORPORATION
WASHINGTON, INDIANA

COMPARATIVE DETAIL OF OPERATING EXPENSES
For the Twelve Months Ended December 31, 2022 and 2021

Description	2022	2021
Operating Expenses (Con't)		
<u>Customer Accounts Expenses</u>		
Customer supervision	166,197	149,484
Meter reading	56,080	36,964
Customer operation	528,565	459,198
Uncollectable accounts	73,912	37,745
Advertising	60,846	55,621
	<u> </u>	<u> </u>
Total customer accounts expenses	\$ 885,600	\$ 739,012
<u>Administrative & General Expenses</u>		
Administrative/General salaries	631,299	\$ 579,015
Office expense	213,012	177,276
Outside services	110,383	123,668
Insurance	87,949	61,928
Injuries & damages	74,937	64,913
Employee benefits	1,101,762	907,222
Regulatory expense	162,728	209,482
Miscellaneous general expenses	100,519	79,489
General plant maintenance	36,614	44,218
	<u> </u>	<u> </u>
Total administrative & general expenses	\$ 2,519,203	\$ 2,247,211
<u>Depreciation Expense</u>		
Depreciation - plant	\$ 1,407,977	\$ 1,336,557
	<u> </u>	<u> </u>
Total depreciation expense	1,407,977	1,336,557

MIDWEST NATURAL GAS CORPORATION
WASHINGTON, INDIANA

COMPARATIVE DETAIL OF OPERATING EXPENSES
For the Twelve Months Ended December 31, 2022 and 2021

Description	2022	2021
Operating Expenses (Con't)		
<u>Taxes Other Than Income Taxes</u>		
Payroll Taxes	\$ 207,625	\$ 126,296
Property Taxes	262,251	330,029
Utility receipts tax	182,760	235,056
Total taxes other than income taxes	652,636	691,381
<u>Income Taxes</u>		
Federal income taxes	127,945	294,399
State income taxes	41,663	70,257
Total income taxes	169,608	364,656
Total Operating Expenses	\$ 21,583,820	\$ 16,087,994

MIDWEST NATURAL GAS CORPORATION
WASHINGTON, INDIANA

Pro-Forma Operating Income Statement

For the 12 Months Ended December 31, 2022

Increase Required: 1.811%

	<u>December 2022</u>	<u>Adjustments</u>	<u>Ref</u>	<u>Pro-Forma Present Rates</u>	<u>Adjustments</u>	<u>Ref</u>	<u>Pro-Forma Proposed Rates</u>
<u>Operating Revenues</u>							
Gas sales	\$ 22,192,946	\$ (13,975,654)	(1)	\$ 8,217,292	\$ 1,989,993	(A)	\$ 10,207,285
Other gas revenues	135,781	10,705	(2)	146,486			146,486
Total Operating Revenues	<u>22,328,727</u>	<u>(13,964,949)</u>		<u>8,363,778</u>	<u>1,989,993</u>		<u>10,353,771</u>
<u>Operating Expenses</u>							
Natural gas purchased	13,558,505	(13,558,505)	(3)	-			-
Other operation & maintenance	5,795,094	234,794	(4)	6,029,888	16,179	(B & C)	6,046,067
Depreciation	1,407,977	2,246	(5)	1,410,223			1,410,223
Taxes other than income taxes	652,636	(120,107)	(6)	532,529			532,529
Income taxes	169,608	(121,359)	(7)	48,249	490,910	(D)	539,160
Total Operating Expenses	<u>21,583,820</u>	<u>(13,562,931)</u>		<u>8,020,889</u>	<u>507,089</u>		<u>8,527,978</u>
Net Operating Income	<u>\$ 744,907</u>	<u>\$ (402,017)</u>		<u>\$ 342,890</u>	<u>\$ 1,482,907</u>		<u>\$ 1,825,793</u>

MIDWEST NATURAL GAS CORPORATION
WASHINGTON, INDIANA

DETAIL OF ADJUSTMENTS

(1) GAS SALES ADJUSTMENTS

(a)	Decrease in gas sales for the elimination of GCA revenue included in the test year.		<u>\$ (13,697,424)</u>
(b)	Decrease in operating revenue to set revenues for new heating degree day (HDD) normals.		
	Weather normalization using 1991-2020 NOAA HDD 30-year average	\$ 29,257	
	Weather normalization using 1981-2010 NOAA HDD 30-year average	<u>84,743</u>	
			<u>\$ (55,486)</u>
(c)	Increase in revenue to add back refunds made to customers as a result of tariff changes for Cause No. 43995-S1		
	Revenue change for credits during test year no longer in effect		<u>\$ 41,409</u>
(d)	Decrease in revenues to remove TDISC revenue in test year.		<u>\$ (212,659)</u>
(e)	Increase in revenue to annualize customers added in the test year and new customers expected to be added in new service areas.		<u>\$ 34,858</u>
(f)	Increase in revenue to for a new large public authority contract customer.		<u>\$ 130,218</u>
(g)	Decrease in revenue to reclassify sales customers to transport.		<u>\$ (216,570)</u>
	Total Gas Sales Revenue adjustment		<u><u>\$ (13,975,654)</u></u>

MIDWEST NATURAL GAS CORPORATION
WASHINGTON, INDIANA

DETAIL OF ADJUSTMENTS

(2) OTHER GAS REVENUE ADJUSTMENTS

(a)		
Increase in other gas revenues for increase in collection, reconnection, disconnection and after hour fees.		<u>\$ 10,105</u>
(b)		
Increase in other gas revenues for increase in returned payment fees.		<u>\$ 600</u>
Total Other Gas Revenue adjustment		<u><u>\$ 10,705</u></u>

(3) NATURAL GAS PURCHASED ADJUSTMENT

To adjust natural gas purchased to eliminate the cost of natural gas to be purchased from base rates.

	<u>RATE</u>
Test year sales - Dth	<u>21,408,370</u>
	21,408,370
Unaccounted for gas percentage - (3 year average from GCA schedule 11a)	<u>0.00%</u>
Estimated unaccounted for gas - Dth	<u><u>-</u></u>
Estimated purchases of system gas	-
Anticipated cost of system gas	<u>\$ 4.7386</u>
Total pro-forma cost of purchased gas	\$ -
Less: test year purchased gas	<u>13,558,505</u>
Total Adjustment Increase/(Decrease)	<u><u>\$ (13,558,505)</u></u>

MIDWEST NATURAL GAS CORPORATION
WASHINGTON, INDIANA

DETAIL OF ADJUSTMENTS

(4) OTHER OPERATION AND MAINTENANCE EXPENSE ADJUSTMENTS

(a)

To adjust other operation and maintenance expense for the amortization of rate case expense		
Estimated cost of rate filing	\$	210,000
Amortization period - years		5
Annual amortization amount	\$	42,000
Less: test year expense		-
Adjustment - Increase/(Decrease)		<u>\$ 42,000</u>

(b)

To adjust other operation and maintenance expense to reflect the IURC fee requirement		
Applicable revenues at present rates (schedule C-3)	\$	109,912,392
Current IURC rate		0.001163372
Pro-forma IURC fee at present rates	\$	127,869
Less: Test year IURC fee		162,728
Adjustment - Increase/(Decrease)		<u>\$ (34,859)</u>

(c)

To adjust other operation and maintenance expense to remove energy efficiency contribution for NTA.		
Rebates in excess of annual requirement from Cause No. 47103		
Adjustment-Increase/(Decrease)		<u>\$ (13,275)</u>

(d)

To adjust other Operation and Maintenance Expense for the annualization of payroll and wage increases (net of amount capitalized)		
Proforma payroll expense	\$	2,088,083
Test year payroll expense		1,885,503
Payroll Adjustment - Increase/(Decrease)		<u>\$ 202,581</u>

(e)

To increase operations and maintenance expense for pension contribution for employee		
Proforma pension expense (historical 5 year average)	\$	169,197
Test year pension expense		131,558
Pension Expense Adjustment - Increase/(Decrease)		<u>\$ 37,639</u>

(f)

To adjust other operation and maintenance expense to average bad debts		
Twelve months ended December 31, 2022	\$	62,822
Twelve months ended December 31, 2021		33,490
Twelve months ended December 31, 2020		77,105
Twelve months ended December 31, 2019		62,351
Twelve months ended December 31, 2018		50,809
Average	\$	57,315
Less: Test Year		73,912
Bad Debt Adjustment - Increase/(Decrease)		<u>\$ (16,597)</u>

MIDWEST NATURAL GAS CORPORATION
WASHINGTON, INDIANA

DETAIL OF ADJUSTMENTS

(4) OTHER OPERATION AND MAINTENANCE EXPENSE ADJUSTMENTS CONT

(g)	To adjust other operations and maintenance expense to annualize director fees		
	Adjustment-Increase/(Decrease)		\$ 2,250
(h)	To adjust other operations and maintenance expense for changes in contractor fees.		
	Adjustment-Increase/(Decrease)		\$ 22,115
(i)	To adjust other operations and maintenance expense for property insurance.		
	Total proforma insurance expense	166,249	
	Test year property insurance	<u>162,886</u>	
	Property Insurance Adjustment - Increase/(Decrease)		\$ 3,363
(j)	To adjust other operation and maintenance expense to increase health insurance		
	Proforma insurance expense	\$ 535,498	
	Test year health insurance	<u>450,556</u>	
	Health Insurance Adjustment - Increase/(Decrease)		\$ 84,942
(k)	To adjust other operations and maintenance expense to remove employee gifts and events		
	Non-recurring expenses Adjustment - Increase/(Decrease)		\$ (38,794)
(l)	To adjust other operations and maintenance expense for lobbying fees.		
			\$ (691)
(m)	To adjust other operations and maintenance expense for unrecovered penalty fees during moratorium.		
	Total amount of fees unrecovered	15,963	
	Amoritzation over total expected rate period (years)	<u>5</u>	
	Adjustment - Increase / (Decrease)		\$ 3,193
(n)	To adjust other operations and maintenance expense for changes in IT services.		
			\$ (56,073)
(o)	To adjust other operations and maintenance expense to remove fines related to missed locates.		
			\$ (3,000)
	Total Adjustment to Other Operations and Maintenance Expense - Increase/(Decrease)		<u>\$ 234,794</u>

MIDWEST NATURAL GAS CORPORATION
WASHINGTON, INDIANA

DETAIL OF ADJUSTMENTS

(5) DEPRECIATION EXPENSE ADJUSTMENT

(a)

To adjust "Depreciation Expense" to reflect current plant in service

Distribution Plant @ 12/31/22	\$ 30,652,366	
Less: Land and Land Rights	(297,946)	
Less: MUTC CIAC	(2,427,210)	
Sub Total	<u>27,927,210</u>	
Depreciation Rate	2.50%	
		\$ 698,180
Transmission Plant @ 12/31/22	15,351,774	
Less: Land and Land Right	(518,955)	
Sub Total	<u>14,832,819</u>	
Depreciation Rate	2.50%	
		370,820
Structures @12/31/22	2,278,516	
Depreciation Rate	<u>2.50%</u>	
		56,963
Transportation and Computers @ 12/31/22	2,078,968	
Less: Fully depreciated items	(760,916)	
Less: Other Equipment	(116,741)	
Sub Total	<u>1,201,311</u>	
Depreciation Rate	20.00%	
		240,262
All Other General Plant @ 12/31/22	881,331	
Less: Fully depreciated items	(466,527)	
Sub Total	<u>414,804</u>	
Depreciation Rate	<u>10.00%</u>	
		41,480
Total Pro-Forma Depreciation Expense		1,407,705
Less: Test Year Depreciation Expense		<u>1,407,977</u>
Adjustment - Increase / (Decrease) in Depreciation Expense		<u>\$ (272)</u>

(b)

To adjust depreciation expense for deferred TDSIC depreciation

Total depreciation deferred	\$ 12,588	
Amoritzation over total expected rate period (years)	<u>5</u>	
Adjustment - Increase / (Decrease) in Depreication Expense		<u>\$ 2,518</u>
Total adjustment to Depreciaiton Expense		<u>\$ 2,246</u>

MIDWEST NATURAL GAS CORPORATION
WASHINGTON, INDIANA

DETAIL OF ADJUSTMENTS

(6) TAXES OTHER THAN INCOME TAXES ADJUSTMENTS

(a)

To adjust taxes other than income taxes to remove utility receipts tax from the test year

Adjustment-Increase/(Decrease) in Utility Receipts Tax Expense	\$ (182,760)
--	--------------

(b)

To adjust taxes other than income taxes to reflect changes in payroll taxes

Payroll Taxes

Payroll Wage Increase Subject To FICA Limits	\$ 202,485
FICA tax rate	<u>7.65%</u>
Increase/(Decrease) in Payroll Tax Expense	<u>\$ 15,490</u>

(c)

To adjust taxes other than income taxes to reflect expected changes in property taxes.

Property Taxes

Property taxes paid 2022 for 2021	\$ 297,472
Net book value of Utility Plant in Service 2021	<u>21,903,117</u>
Average weighted property tax rate	\$ 0.013600
Net book value of Utility Plant in Service 12/31/22	<u>22,715,498</u>
Estimated proforma property taxes	\$ 308,931
Test Year	<u>262,251</u>
Increase/(Decrease) in Property Taxes	<u>\$ 46,680</u>

(d)

To adjust taxes other than income taxes for property taxes deferred during TDSIC proceedings

Property Taxes Deferred

Total property taxes deferred	\$ 2,417
Amoritzation over total expected rate period (years)	<u>5</u>
Adjustment - Increase / (Decrease) in Depreication Expense	<u>\$ 483</u>
Adjustment - Decrease Taxes other than Income	<u>\$ (120,107)</u>

MIDWEST NATURAL GAS CORPORATION
WASHINGTON, INDIANA

DETAIL OF ADJUSTMENTS

(7) INCOME TAXES

To adjust "Income Tax" to reflect changes in Revenues and Expenses

(a)

State Income Tax:

Net Operating Income before State Tax	\$	391,139	
Less: Synchronized Interest	\$	(197,141)	
Taxable State Income	\$	193,998	
Applicable State Tax Rate		4.90%	
Pro-Forma at Present Rates	\$	9,506	
Less: Test Year Expense		41,663	
Adjustment - Increase/(Decrease) in State Income Tax Expense			\$ (32,157)

(b)

Federal Income Tax:

Net Operating Income before Federal and State Income Tax	\$	193,998	
Less: Pro Forma State Income Tax		9,506	
Federal Taxable Income	\$	184,492	
Federal Tax Rate		21%	
Adjusted Federal Income Tax Expense	\$	38,743	
Less: Test Year Federal Income Tax		127,945	
Adjustment - Increase/(Decrease) in Federal Income Tax Expense			\$ (89,202)
Adjustment - Decrease Income Taxes			\$ (121,359)

MIDWEST NATURAL GAS CORPORATION
WASHINGTON, INDIANA

DETAIL OF ADJUSTMENTS

(A)

To adjust "Operating Revenues" to reflect proposed revenue increase.

Adjusted Sales of Gas at present rates	\$ 109,912,392	
Requested rate increase	<u>1.811%</u>	
Adjustment - Increase		<u>\$ 1,989,993</u>

(B)

To adjust Other "Operation and Maintenance" expense to reflect increase in IURC fee.

Proposed Revenue Increase	\$ 1,976,113	
Current effective IURC fee rate	<u>0.001163372</u>	
Adjustment - Increase		<u>\$ 2,299</u>

(C)

To adjust Other "Operation and Maintenance" expense to reflect increase in bad debts

Proposed Revenue Increase	\$ 1,989,993	
Bad Debt Rate	<u>0.69750%</u>	
Adjustment - Increase		<u>\$ 13,880</u>
Total "Operations and Maintenance" Adjustment		<u>\$ 16,179</u>

MIDWEST NATURAL GAS CORPORATION
WASHINGTON, INDIANA

DETAIL OF ADJUSTMENTS

(D)

To adjust "Income Taxes" to reflect pro-forma changes in revenues and expenses.

State Income Tax:

Proposed Revenue Increase	\$ 1,989,993
Less: Increase in IURC Fee	(2,299)
Less: Increase in Bad Debts	<u>(13,880)</u>
Taxable Increase	1,973,814
Applicable Tax Rate	<u>4.90%</u>

Adjustment - Increase \$ 96,717

Federal Income Tax:

Proposed Revenue Increase	\$ 1,989,993
Less: Increase in IURC Fee	(2,299)
Increase in Bad Debts	(13,880)
Increase in State Income Tax	<u>(96,717)</u>
Federal taxable income increase	1,877,097
Applicable tax rate	<u>21%</u>

Adjustment-Increase \$ 394,193

Total Increase to Income Tax \$ 490,910

MIDWEST NATURAL GAS CORPORATION

TOTAL REVENUE CALCULATION

Estimated volume of gas purchased	21,408,370
Base Cost of Gas Estimated	<u>\$ 4.7502</u>
Base Cost of Gas Revenues	101,695,100
Pro-Forma Present Sales Revenues	<u>8,217,292</u>
Total Revenues	109,912,392
Requested Increase	<u>1.81%</u>
Revenue Adjustment - Overall	<u><u>\$ 1,989,993</u></u>

MIDWEST NATURAL GAS CORPORATION
WASHINGTON, INDIANA

ORIGINAL COST RATE BASE

Utility Plant In Service as of December 31, 2022		\$51,639,129
Less: Customer Advances		(2,428,355)
Less: Accumulated Depreciation as of December 31, 2022		<u>(28,923,631)</u>
Net Utility Plant in Service		20,287,143
Plus:		
Working Capital	\$6,029,888 /8	753,736
Materials and Supplies		<u>1,361,534</u>
Total Original Cost Rate Base		<u><u>\$22,402,413</u></u>

MIDWEST NATURAL GAS CORPORATION
WASHINGTON, INDIANA

CAPITAL STRUCTURE
As of December 31, 2022

Description	Amount	Percent of Total	Cost	Weighted Cost
Common Equity	\$17,054,509	71.84%	10.10%	7.26%
Long Term Debt	4,252,663	17.91%	4.75%	0.85%
Customer Deposits	162,055	0.68%	6.00%	0.04%
Deferred Tax	1,773,659	7.47%	0.00%	0.00%
Excess Accumulated Deferred Income Taxes, Net of Amortization	496,714	2.09%	0.00%	0.00%
Total	\$23,739,600	100.00%		8.15%

ATTACHMENT BJM-2

MIDWEST NATURAL GAS CORPORATION

COMPARISON OF MARGINS AT PRESENT AND PROPOSED RATES

DESCRIPTION	Number of Bills (1)	Billing Quantities (therms) (2)	Present Rates (\$/therm) (3)	Margin at Present Rates (4)	Proposed Rates (\$/therms) (5)	Margin at Proposed Rates (6)	Increase in Margins Amount (7)	Percent (8)
Tariff A								
Service Charge	172,229		11.83	2,037,469	15	2,583,435	545,966	26.80%
First 100 therms		7,076,035	0.33996	2,405,569	0.41686	2,949,716	544,147	22.62%
Over 100 therms		<u>3,032,290</u>	0.23709	<u>718,926</u>	0.29072	<u>881,547</u>	<u>162,621</u>	22.62%
Total Therms and Margins		<u>10,108,325</u>		<u>5,161,964</u>		<u>6,414,698</u>	<u>1,252,734</u>	24.27%
Tariff B								
Service Charge	7,091		25.64	181,813	30	212,730	30,917	17.00%
First 500 therms		1,768,953	0.29827	527,626	0.36574	646,977	119,351	22.62%
Next 500 therms		952,156	0.20686	196,963	0.25365	241,514	44,551	22.62%
Over 1,000 therms		<u>5,202,358</u>	0.14363	<u>747,215</u>	0.17612	<u>916,239</u>	<u>169,024</u>	22.62%
Total Therms and Margins		<u>7,923,467</u>		<u>1,653,617</u>		<u>2,017,460</u>	<u>363,843</u>	22.00%
Tariff C								
Service Charge	123		162.69	20,011	180	22,140	2,129	10.64%
First 3,000 therms		258,406	0.19892	51,402	0.24391	63,028	11,626	22.62%
Over 3,000 therms		<u>1,750,796</u>	0.14114	<u>247,107</u>	0.17307	<u>303,010</u>	<u>55,903</u>	22.62%
Total Therms and Margins		<u>2,009,202</u>		<u>318,520</u>		<u>388,178</u>	<u>69,658</u>	21.87%
Tariff E								
Service Charge	217		453.56	98,423	550	119,350	20,927	21.26%
First 175,000 therms		12,988,101	0.06711	871,631	0.08229	1,068,791	197,160	22.62%
Over 175,000 therms		<u>7,019,270</u>	0.05398	<u>378,900</u>	0.06619	<u>464,605</u>	<u>85,705</u>	22.62%
Total Therms and Margins		<u>20,007,371</u>		<u>1,348,954</u>		<u>1,652,746</u>	<u>303,792</u>	22.52%
Total Therms and Margins from Rates		40,048,365		8,483,055		10,473,082	1,990,027	23.46%

MIDWEST NATURAL GAS CORPORATION

DERIVATION OF RATES

	Total	Tariff A	Tariff B	Tariff C	Tariff E
Present service charge		\$ 11.83	\$ 25.64	\$ 162.69	\$ 453.56
Revenues Collected through present service charge	\$ 2,337,715.70	\$ 2,037,469.07	\$ 181,813.24	\$ 20,010.87	\$ 98,422.52
Proposed service charge		\$ 15.00	\$ 30.00	\$ 180.00	\$ 550.00
Revenues collected through proposed service charge	\$ 2,937,655.00	\$ 2,583,435.00	\$ 212,730.00	\$ 22,140.00	\$ 119,350.00
Increase in revenue collected through service charges	\$ 599,939.30	\$ 545,965.93	\$ 30,916.76	\$ 2,129.13	\$ 20,927.48
Total Revenue Increase Required	\$ 1,989,993.00				
Increase in revenue collection through distribution charges	\$ 1,390,053.70				
Current revenue recovered through distribution charges	\$ 6,145,338.90				
Percentage increase in distribution charges	22.6196%				

CERTIFICATE OF SERVICE

The undersigned certifies that a copy of the foregoing has been served upon the following counsel of record by electronic mail this 17th day of May, 2023:

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