

**BEFORE THE
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
SCOTT A. MILLER, C.P.A.**

**On Behalf of
Citizens Gas of Westfield**

Petitioner's Exhibit 9

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Scott A. Miller and my business address is 8365 Keystone Crossing, Suite
3 300, Indianapolis, Indiana 46240.

4 **Q. WHAT IS YOUR PROFESSION AND BY WHOM ARE YOU EMPLOYED?**

5 A. I am a Certified Public Accountant and a partner in the firm of H.J. Umbaugh &
6 Associates, Certified Public Accountants, LLP.

7 **Q. ARE YOU THE SAME SCOTT A. MILLER THAT SUBMITTED PREFILED**
8 **DIRECT TESTIMONY IN THIS CAUSE ON BEHALF OF PETITIONER?**

9 A. Yes I am.

10 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

11 A. The purpose of my rebuttal testimony is to respond to certain issues raised by OUCC
12 witness Mark H. Grosskopf regarding Petitioner's fair value rate base calculations.

13 **Q. WHAT STEPS DID YOU UNDERTAKE TO PREPARE YOUR REBUTTAL**
14 **TESTIMONY?**

15 A. I read the prefiled testimony of Mr. Grosskopf and the testimony of the witnesses for the
16 Public in this case. In addition, I reviewed the testimony, filings and final rulings in
17 various other cases before this Commission. I also participated in discussions with
18 Petitioner's staff, legal counsel and other witnesses.

19 **Q. WHAT ISSUES DOES MR. GROSSKOPF RAISE IN HIS PREFILED**
20 **TESTIMONY RELATIVE TO THE FAIR VALUE OF PETITIONER'S RATE**
21 **BASE?**

22 A. Mr. Grosskopf asserts in his testimony that Reproduction Cost New Less Depreciation
23 ("RCNLD") is but one measure the Commission should consider when determining the

1 fair value of a utility's rate base. He goes on to assert that in this case, Petitioner's fair
2 value calculations are overstated in his opinion because Petitioner's plant would not be
3 built in the same manner if constructed today and because no adjustment for technology
4 was considered. Therefore, in his opinion, the Commission should ignore the RCNLD
5 calculations and simply use original cost rate base as the measure of Petitioner's fair
6 value.

7 **Q. DOES MR. GROSSKOPF HAVE AN OPINION REGARDING PETITIONER'S**
8 **FAIR VALUE RATE BASE?**

9 A. Yes. Mr. Grosskopf appears to believe that Petitioner's fair value rate base is equivalent
10 to its original cost of property and suggests that this value should be used for ratemaking
11 purposes in this case.

12 **Q. DO YOU AGREE WITH THIS ASSESSMENT?**

13 A. No, I do not.

14 **Q. PLEASE EXPLAIN WHY YOU DISAGREE WITH MR. GROSSKOPF'S**
15 **ASSESSMENT.**

16 A. Mr. Grosskopf opens his discussion of fair value rate base by quoting two prior
17 Commission Orders. He suggests that these Orders form the foundational standard upon
18 which the Commission may make a fair value determination. Interestingly, Mr.
19 Grosskopf summarizes this discussion by suggesting that "net original cost should not be
20 disregarded in favor of the results of an RCNLD study rather *both* should be considered."
21 (Pub. Exh. No. 1 at 8; emphasis in original). In my experience, this argument is usually
22 made in the opposite direction, i.e., an RCNLD study should not be disregarded in favor
23 of net original cost. This subtle change is significant because for the remainder of his

1 testimony regarding fair value, Mr. Grosskopf takes the OUCC's traditional position of
2 opposition to anything other than original cost when determining fair value.

3 Indeed, several lines later, Mr. Grosskopf states that fair value is not the same as
4 RCNLD and that RCNLD is but one of the inputs the Commission may use to determine
5 fair value. These statements are only partially correct. In fact, the historical record is
6 littered with pages and pages of discussion on this topic from numerous witnesses in
7 multiple rate cases spanning decades of practice before the Commission. What the
8 relevant statute, Commission's Orders and court cases make clear is:

- 9 • The utility's tangible property must be valued at its fair value, giving such
10 consideration as the Commission deems appropriate in each case to all bases of
11 valuation which may be presented. *See Indiana Code 8-1-2-6.*
- 12 • As an element in determining value, the Commission may take into account
13 reproduction costs at current prices, less depreciation. *See Indiana Code 8-1-2-6.*
- 14 • The Commission has the discretion to weigh the reasonable cost of bringing the
15 property to its then state of efficiency, which includes intangible development
16 costs. *See Indiana Code 8-1-2-6 and L.S. Ayres & Co. v. Indianapolis Power &*
17 *Light Co., 351 N.E.2d 814, at 838 (Ind. Ct. App. 1976).*
- 18 • Fair value is a conclusion or final figure, drawn from all the various values or
19 factors to be weighed in accordance with the statute by the Commission. In other
20 words, the Commission is not limited to any one method of valuation. The
21 Commission may not, however, ignore inflation in reaching a fair value
22 conclusion. *See Ind. Code § 8-1-2-6, Indianapolis Water Co. v. Public Service*
23 *Comm'n of Indiana, 484 N.E.2d 635, 639 (Ind. Ct. App. 1984), and Public Service*
24 *Comm'n v. City of Indianapolis, 131 N.E.2d 308, 318 (Ind. 1956).*
- 25 • The Commission may not ignore fair value; the "fair value" referred to in the
26 statute is the figure which constitutes the rate base upon which a utility should be
27 allowed to earn a return. *Indianapolis Water Co. v. Public Service Comm'n of*
28 *Indiana, 484 N.E.2d 635, 639 (Ind. Ct. App. 1984).*
- 29 • The courts will not limit the Commission to any one or more methods of
30 valuation, be it prudent investment, original cost, present value, or cost of
31 reproduction. The court has held that cost of reproduction depreciated is a proper
32 item to be considered under the statute in arriving at a fair value figure. The

Verified Rebuttal Testimony of Scott A. Miller, C.P.A.
Petitioner's Exhibit 9
Citizens Gas of Westfield
Page 4 of 8

1 ratemaking process involves a balancing of all of these factors and probably
2 others; a balancing of the owner's or investor's interest with the consumer's
3 interest. *Indianapolis Water Co. v. Public Service Comm'n of Indiana*, 484
4 N.E.2d 635, 640 (Ind. Ct. App. 1984).

- 5 • Although it is clear from the statute and from case law that the Commission has
6 discretion in determining the fair value of utility property, it is also clear that the
7 Commission may not ignore the commonly known and recognized fact of
8 inflation. *Indianapolis Water Co. v. Public Service Comm'n of Indiana*, 484
9 N.E.2d 635, 640 (Ind. Ct. App. 1984).

- 10 • While original cost is one of the factors which the Commission should consider in
11 arriving at a fair value figure, it is not necessarily, in and of itself, an accurate
12 reflection of the fair value of the Company's property upon which today's
13 investors should be allowed to earn a return. *Indianapolis Water Co. v. Public*
14 *Service Comm'n of Indiana*, 484 N.E.2d 635, 640 (Ind. Ct. App. 1984).

- 15 • The fair value determination cannot simply be the original cost of the utility's
16 used and useful property. *In re Indiana Michigan Power Co.*, Cause No. 39314
17 (IURC; Nov. 12, 1993).

- 18 • The Commission has stated that it believes that the fair value of a utility's
19 property is most analogous to the true current worth of that property, perhaps
20 what a willing buyer would pay a willing seller in an arms' length transaction. A
21 willing buyer would not ignore inflation, and a willing buyer would reasonably
22 consider the current cost of reproducing that property. *In re Indiana Michigan*
23 *Power Co.*, Cause No. 39314 (IURC; Nov. 12, 1993).

- 24 • When utility property has increased in value since it was acquired, the company is
25 entitled to the benefit of such increase. *In re Indiana Michigan Power Co.*, Cause
26 No. 39314 (IURC; Nov. 12, 1993).

27 This historical record makes clear that the Commission has wide latitude in
28 making its fair value determinations, but that it cannot and should not ignore the current
29 worth of the property including inflation. As Mr. Grosskopf points out, RCNLD is one
30 consideration, as is original cost. Various other hybrid methodologies have also been
31 employed. In a number of cases, the Commission has reached the conclusion that an
32 appropriate estimate of fair value is better represented by RCNLD than by original cost.

Verified Rebuttal Testimony of Scott A. Miller, C.P.A.
Petitioner's Exhibit 9
Citizens Gas of Westfield
Page 5 of 8

1 One of these prior cases happens to be Cause No. 43624, which was Petitioner's last base
2 rate case. In the Order dated March 10, 2010 the Commission found "Petitioner's RCND
3 calculation of \$7,329,167 to be a reasonable estimate of the fair value of Petitioner's
4 utility property as of March 31, 2008." (Order at 17). Now, eight years later, Mr.
5 Grosskopf would have us believe Petitioner's fair value (prior to inventory adjustment)
6 has actually decreased from the \$7,329,167 in the last case to \$7,234,738 in the current
7 proceeding. (Pub. Att. MHG-1 Sch. 4). This might be possible in a circumstance where
8 little capital investment was made during the intervening years, but it defies logic for a
9 utility that has spent over \$3.4 million during the timeframe between rate cases on utility
10 plant improvements to serve its growing customer base. Attachment SAM-R1 shows an
11 analysis of the cost of plant additions Petitioner has made to its system for two separate
12 time periods. Column B shows the historical cost of plant additions made by Petitioner
13 since the end of the test year in Cause No. 43624. Line 15 shows total additions of
14 \$3,425,347.31. Column C shows the percent of each asset class and the total represented
15 by the recent additions. One-third of the historical cost of the system has been placed in
16 service since the end of the last rate case test year. Expanding this analysis backwards in
17 time to the acquisition date of September 1, 2004 produces an even more dramatic picture
18 of plant investment. As shown in columns D and E, slightly more than 70% of
19 Petitioner's assets have been placed in service in the last eleven years and eight months
20 since acquisition. So, while Mr. Grosskopf's assertion that Petitioner's plant was
21 constructed over several decades is technically true, the vast majority of the plant in
22 service today is less than twelve years old. (Pub. Exh. No. 1 at 8). This aggressive level
23 of investment is not indicative of a utility with a declining fair value rate base.

1 **Q. WHAT ABOUT MR. GROSSKOPF'S OPINION THAT THE RCNLD VALUE**
2 **SHOULD BE DISREGARDED DUE TO ADVANCES IN TECHNOLOGY?**

3 A. The timing of Petitioner's capital expenditures also negates Mr. Grosskopf's contention
4 that the RCNLD calculations should be ignored due to the lack of a technological
5 advancement adjustment. Without any support or further description of items specific to
6 Petitioner's operations, Mr. Grosskopf claims that "many technical advances have
7 occurred throughout Westfield Gas's existence." (Pub. Exh. No. 1 at 8). He goes on to
8 state unequivocally -- and again without support -- that "Petitioner's plant could be
9 designed and constructed today in a more efficient manner than its current structure."
10 (Pub. Exh. No. 1 at 9). He continues this line of reasoning by suggesting that a
11 productivity index should be used in order to make a technological adjustment to
12 Petitioner's RCNLD. He cites several cases that purport to include witnesses' testimony
13 that rely on productivity indices from the Bureau of Labor Statistics ranging from 1.2%
14 to 2.5%. Other than merely referencing the range of prior indices, Mr. Grosskopf gives
15 no other indication or evidence as to why the RCNLD amount, as calculated, would not
16 be appropriate in valuing Petitioner's property nor does he produce any alternative fair
17 value calculations taking into account his proposed suggestions nor does he explain why
18 a productivity index in the range of 1.2% to 2.5% would be applicable for Petitioner's
19 specific circumstances. In my opinion, this type of adjustment is unnecessary when
20 analyzing a utility where 70% of the plant assets are less than twelve years old.

21 Similarly, Mr. Grosskopf fails to acknowledge that the cases he cites are for
22 utilities that are orders of magnitude larger and structurally more complex than Petitioner,
23 namely Northern Indiana Public Service Company and Indiana American Water

1 Company. In nearly every conceivable measure, these two utilities dwarf Petitioner. In
2 addition, their respective operations are significantly more complex than Petitioner's in
3 that they include generation plant and treatment plant, respectively, while Petitioner is a
4 distribution-only utility. Indeed, over 90% of Petitioner's assets are comprised of gas
5 mains and services, and 71.5% of these assets are less than twelve years old. Petitioner is
6 not in the complex business of generating electricity or treating water -- processes that
7 *have* significantly changed over the last one hundred years. The vast majority of
8 Petitioner's investment does not rely on mechanical processes and is rather pipe in the
9 ground.

10 Finally, Mr. Grosskopf asserts that Petitioner's plant could be designed and
11 constructed today in a more efficient manner than its current structure. He believes that
12 as a result of "shortcomings and inefficiencies" an unadjusted RCNLD overstates the fair
13 value of the utility because over time the impact of technological change is to require a
14 successively smaller dollar investment to produce a given volume of product or service
15 output. (Pub. Exh. No. 1 at 9). As I described previously, a significant portion of
16 Petitioner's system is less than twelve years old. Because it is a distribution-only system,
17 its assets are concentrated in mains and services. The current technological standard used
18 by Petitioner is plastic pipe. Significantly, the majority of mains and services placed in
19 service prior to the last rate case cutoff or prior to acquisition were also plastic.
20 Consequently, the argument of technological advancement in terms of the physical assets
21 themselves doesn't seem to carry much weight. For those older assets, the percent
22 condition calculation embedded within the RCNLD takes into account the effect of
23 relative age of each investment and that the system was built over a period of years. If

1 instead we focus on his supposition that technological advancement influences not only
2 the physical assets but also the equipment and personnel associated with constructing the
3 plant we would expect to see a declining cost per foot of installed pipe. In fact, the cost
4 per foot of pipe replaced by Petitioner has actually steadily increased not decreased over
5 the last ten years. An awareness of Petitioner's service area explains this result. In
6 situations where new development is occurring and farm fields are being replaced with
7 residential subdivisions and when Petitioner is successful in its goal of being the first
8 utility onsite to install service, the cost has remained relatively low. This makes sense
9 since there are fewer obstructions in the way such as other utility assets. On the other
10 hand, where main replacement is taking place, the cost per foot has increased from
11 approximately \$15.55 per foot of two-inch plastic pipe in 2006 to approximately \$44.13
12 per foot for two-inch plastic pipe in 2015. So while the service area has experienced
13 technological advancement, the result for Petitioner in many cases is a more expensive
14 process to install a similar but newer pipe. This results in a higher RCNLD amount and
15 therefore a higher fair value.

16 **Q. MR. MILLER, WHAT IS YOUR OPINION OF THE FAIR VALUE OF**
17 **PETITIONER'S UTILITY ASSETS?**

18 A. In my professional opinion, given the age and technology of Petitioner's assets, the most
19 appropriate estimate of the fair value of Petitioner's utility assets is the RCNLD value,
20 which is \$10,666,117. Adding a 13-month average inventory balance of \$375,533 results
21 in a total fair value rate base of \$11,041,650 for Petitioner.

22 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

23 A. Yes, it does.

AFFIRMATION

I affirm under the penalties for perjury that the foregoing testimony is true to the best of my knowledge, information, and belief.

Signed: Scott A. Miller

Printed: Scott A. Miller

Dated: 10-26-16

CITIZENS GAS OF WESTFIELD
ANALYSIS OF HISTORICAL COST ADDITIONS TO
UTILITY PLANT IN SERVICE

A	B	C	D	E
	Additions since March 31, 2008 (Since last rate case)	Additions since September 1, 2004 (Since acquisition)		
	Cost of Additions	Cost of Additions	Cost of Additions	% of Total Asset Class
1 Land and Land Rights	\$0.00	0.0%	46,011.00	99.8%
2 Structures and Improvements	28,305.16	100.0%	28,305.16	100.0%
3 Mains - 2" Plastic	916,442.01	31.4%	1,480,589.15	50.7%
4 Mains - 4" Plastic	987,625.96	72.4%	1,259,624.92	92.3%
5 Mains - 6" Plastic	(1,520.00)	-3.4%	0.00	0.0%
6 Mains - 8" Plastic	622,670.73	24.1%	2,578,842.84	100.0%
7 Mains With Valves	106,128.64	63.7%	166,579.01	100.0%
8 Mains Without Valves	3,902.49	1.4%	4,282.49	1.5%
9 Measuring and Regulating Equipment	85,152.74	82.8%	85,152.74	82.8%
10 Services	581,426.60	27.9%	1,269,341.12	60.8%
11 Meters	95,810.39	15.8%	359,871.59	59.4%
12 Meter Installations	(597.41)	-3.5%	0.00	0.0%
13 House Regulators	0.00	0.0%	0.00	0.0%
14 Industrial Measuring and Regulating Equipment	0.00	0.0%	0.00	0.0%
15 Totals	<u>\$3,425,347.31</u>	<u>33.0%</u>	<u>\$7,278,600.02</u>	<u>70.2%</u>
16 Total Additions - Mains	<u>\$2,635,249.83</u>	<u>35.8%</u>	<u>\$5,489,918.41</u>	<u>74.6%</u>
17 Total Additions - Mains and Services	<u>\$3,216,676.43</u>	<u>34.0%</u>	<u>\$6,759,259.53</u>	<u>71.5%</u>