

OFFICIAL
EXHIBITS

STATE OF INDIANA

FILED
June 26, 2018
INDIANA UTILITY
REGULATORY COMMISSION

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF SWITZERLAND COUNTY)
NATURAL GAS COMPANY, INC. FOR)
AUTHORITY TO CHANGE ITS RATES,)
CHARGES, TARIFFS, RULES, AND)
REGULATIONS

CAUSE NO. 45117

IURC
PETITIONER'S
EXHIBIT NO. 3
DATE 12-27-18 REPORTER AT

DIRECT TESTIMONY

OF

KERRY A. HEID

ON BEHALF OF

SWITZERLAND COUNTY NATURAL GAS COMPANY, INC.

DIRECT TESTIMONY OF KERRY A. HEID
ON BEHALF OF SWITZERLAND COUNTY INDIANA NATURAL GAS COMPANY,
INC.

I. Introduction and Overview

Q1 PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Kerry A. Heid. My business address is 3212 Brookfield Drive,
Newburgh, IN 47630.

Q2 ARE YOU AFFILIATED WITH THE PETITIONER?

A. No. I am an independent utility rate consultant. I have been engaged by the
Petitioner, Switzerland County Natural Gas Company, Inc. ("Switzco" or
"Company"), to prepare a cost of service study, recommend a rate design, and offer
other tariff changes in this proceeding.

Q3 WHAT IS YOUR EDUCATIONAL BACKGROUND?

A. In 1973, I graduated from Purdue University with a Bachelor of Science degree in
Civil Engineering. In 1985, I graduated from Indiana University with a Master of
Business Administration degree, majoring in Finance.

Q4 PLEASE DESCRIBE YOUR BUSINESS EXPERIENCE.

A. My business experience and qualifications are set forth in Petitioner's Exhibit KAH-1.

Q5 DO YOU HOLD ANY PROFESSIONAL ACCREDITATIONS?

A. Yes. I have been a licensed Professional Engineer in the State of Indiana since 1977.

Q6 HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?

1 A. Yes. I have testified on numerous occasions before this Commission on cost of
2 service, rate design and other regulatory and ratemaking matters. I also testified in
3 Switzco's previous rate proceeding, Cause No. 44293.

4 **Q7 WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

5 A. The purpose of my testimony is to present evidence on:

6 (1) Petitioner's cost of service;

7 (2) Petitioner's subsidy reduction and revenue distribution among its rate schedules;

8 (3) The rate design and levels of rates and charges applicable to each rate schedule;

9 **Q8 HOW IS YOUR TESTIMONY ORGANIZED?**

10 A. My testimony is organized into the following sections:

11 I. Introduction and Overview

12 II. Overview of Rate Schedules

13 III. Cost of Service Study

14 IV. Revenue Distribution Among Rate Classes

15 V. Rates and Charges

16 VI. Tariff

17 **Q9 WHAT EXHIBITS ARE YOU SPONSORING IN THIS PROCEEDING?**

18 A. I am sponsoring the following exhibits:

19 KAH-1 Business Experience and Qualifications of Kerry A. Heid

20 KAH-2 Cost of Service Study

21 KAH-3 Operating Income at Present and Proposed Rates

22 KAH-4 Rate Class Subsidy Levels at Present and Proposed Rates

23 KAH-5 Revenues from Gas Sales at Present and Proposed Rates

24 KAH-6 Comparison of Present and Proposed Revenues and Rate Components

25 KAH-7 Revenue Proof

26 KAH-8 Bill Impact Tables

1 **II. OVERVIEW OF RATE SCHEDULES**

2
3 **Q10 PLEASE PROVIDE AN OVERVIEW OF THE CURRENT SWITZCO RATE**
4 **SCHEDULES THAT FORM THE BASIS FOR YOUR COST OF SERVICE**
5 **STUDY.**

6 A. The current rate schedules are summarized below. Each of these rate schedules will
7 be discussed in further detail in later sections of my testimony.

8 Rate 1R-Residential Service is a sales service available to residential customers. The
9 current Switzco Rate RS-Residential Sales Service has approximately 564 customers.

10 Rate 1G-General Service is available to all non-residential customers. The current
11 Switzco Rate GS-General Sales Service has approximately 130 customers.

12 Rate 2 – Large Commercial and Industrial Service is available to commercial and
13 industrial customers whose annual volume is greater than 10,000 therms. Switzco
14 serves approximately 13 customers under this tariff.

15 Rate 1R and Rate 1G have identical rates and charges. They are separated into two
16 separate rate schedules on the Tariff for administrative convenience and other tariff
17 administration purposes. For purposes of the cost of service and rate design study,
18 they have been combined into a single rate class, Rate 1-Residential and General
19 Service.

20 **III. COST OF SERVICE STUDY**

21 **Q11 PLEASE PROVIDE AN OVERVIEW OF YOUR TESTIMONY AS IT RELATES**
22 **TO YOUR COST OF SERVICE STUDY?**

23 A. The purpose of my testimony is to sponsor a fully allocated cost of service study based
24 on Petitioner's embedded cost of providing gas service for the test year, the twelve

1 months ended September 30, 2017. Working with Petitioner's management and with
2 their accounting consultant, LWG CPAs & Advisors ("LWG"), I prepared an
3 embedded cost of service study based on Petitioner's accounting costs per books,
4 adjusted for fixed, known and measurable changes to test year operating results. The
5 cost of service study corresponds to the proforma financial exhibits included in the
6 exhibits of LWG. My objective in performing the cost of service study was to
7 determine the rate of return on rate base that Petitioner is earning from each customer
8 class, which provides an indication as to whether its rates reflect the cost of providing
9 service to each customer class.

10 **Q12 EXPLAIN THE COMPOSITION OF THE COST OF SERVICE STUDY.**

11 A. The study consists of two parts. First, the investment required to serve each rate
12 schedule was determined. This was done by allocating total original cost utility rate
13 base as of the specified cut-off date, as adjusted, among the customer rate classes
14 based on various assignment and allocation methods. The allocation of investment, or
15 rate base, was used to allocate capital costs. Second, the operating costs incurred
16 during the test year in providing service to each customer rate class were determined.
17 This was done by allocating the proforma operating costs of providing gas service, as
18 determined on a going level basis at present and proposed rates, among the customer
19 rate classes based on various assignment and allocation methods.

20 **Q13 WHERE DID YOU OBTAIN THE DATA USED TO PERFORM THE COST OF**
21 **SERVICE STUDY?**

22 A. Investment cost data was taken from detailed accounting information which formed
23 the basis of the utility rate base shown in Exhibit D sponsored by Petitioner's Witness

1 Mann. The cost of service data was obtained from accounting information which
2 formed the basis of the Proforma Statements of Operating Income shown in Exhibit C
3 sponsored by Petitioner's accounting witnesses. Data used to derive allocation factors
4 in the allocation of rate base and cost of service came from various sources, including
5 Petitioner's books and records, management's estimates and my professional
6 experience. I applied my professional judgment in applying such information and
7 deriving such allocation factors.

8 **Q14 PLEASE DESCRIBE IN GENERAL THE ASSIGNMENT AND ALLOCATION**
9 **PROCESSES USED IN THE COST OF SERVICE STUDY.**

10 A. The investment or cost was allocated to the customer rate classes using the most
11 appropriate method considering the type of investment or cost involved. For example,
12 investment and cost items were identified as being commodity, demand, or customer
13 related. Commodity costs are those that vary with the volume of gas delivered to
14 customers and are allocated based on annual volumes. Demand costs are those
15 incurred to deliver gas to customers at certain levels and are, therefore, dependent on
16 customer demands. These costs are allocated based on peak day demands. Customer
17 costs are those that vary with the number of customers served and are allocated based
18 on number of customers. Other costs are directly related to specific plant investments,
19 and these costs were allocated in the same manner as the plant to which they relate.

20 **Q15 PLEASE DESCRIBE PETITIONER'S EXHIBIT KAH-2.**

21 A. Petitioner's Exhibit KAH-2, Schedules 1 through 7, present the cost of service study I
22 prepared in this proceeding. Schedule 1 presents a table of the rate schedule allocation
23 factors used in the cost allocation process. These cost allocation factors are cross-

1 referenced in the cost allocation schedules that will be subsequently discussed in this
2 section. Schedule 2 presents the results of the allocation of Petitioner's original cost
3 rate base among its various customer rate classes. Schedule 3 presents the results of
4 the allocation of depreciation and amortization expenses among the various customer
5 rate classes. Schedule 4 presents the results of the allocation of operation and
6 maintenance expenses ("O&M") among the various customer rate classes at proforma
7 A and Proforma B revenue levels, respectively. The designation "Proforma A"
8 represents results at present revenue levels. The designation "Proforma B" represents
9 results at proposed revenue levels. Schedule 5 presents the results of the allocation of
10 miscellaneous revenues among the various customer rate classes. Schedule 6 reflects
11 the class-by-class calculation of federal and state income and gross receipts taxes.
12 Schedule 7 reflects the summarized results of the preceding cost of service allocations.
13

14 **IV. REVENUE DISTRIBUTION AMONG RATE CLASSES**

15 **Q16 HAVE YOU USED THE RESULTS OF THE COST OF SERVICE STUDY IN**
16 **DEVELOPING YOUR PROPOSED REVENUE ALLOCATIONS BY RATE**
17 **SCHEDULE?**

18 A. Yes. My cost of service study served as the foundation for determining the revenue
19 allocations I am proposing. My cost of service study was structured to provide
20 revenue and operating income amounts and associated taxes to compute the rate of
21 return on rate base for each rate schedule at both present and proposed rates.

22 **Q17 PLEASE IDENTIFY THE RATES OF RETURN BY RATE BASE UNDER**
23 **PETITIONER'S PRESENT RATES.**

1 A. Petitioner's Exhibit KAH-3, Schedule 1, contains the Statement of Operating Income
2 at present rates by rate schedule. Line 12 of that schedule reflects the current rate of
3 return for each rate schedule. Line 13 reflects the Earnings Indices comparing the
4 current class rates of return to the current overall Company rate of return.

5 **Q18 PLEASE IDENTIFY THE TOTAL OPERATING REVENUES BY RATE**
6 **SCHEDULE THAT WOULD RESULT FROM EQUAL RATES OF RETURN AT**
7 **THE PRESENT REVENUE LEVEL.**

8 A. Petitioner's Exhibit KAH-3, Schedule 2, contains the Statement of Operating Income
9 at equal rates of return at the present revenue levels.

10 **Q19 PLEASE IDENTIFY THE TOTAL OPERATING REVENUES BY RATE**
11 **SCHEDULE THAT WOULD RESULT FROM EQUAL RATES OF RETURN AT**
12 **THE PROPOSED REVENUE REQUIREMENT.**

13 A. Petitioner's Exhibit KAH-3, Schedule 3, contains the Statement of Operating Income
14 at equal rates of return at the proposed revenue requirement.

15 **Q20 PLEASE IDENTIFY THE RATES OF RETURN BY RATE SCHEDULE UNDER**
16 **PETITIONER'S PROPOSED RATES.**

17 A. Petitioner's Exhibit KAH-3, Schedule 4, contains the Statement of Operating Income
18 at proposed rates by rate schedule.

19 **Q21 PLEASE IDENTIFY THE SUBSIDY LEVEL FOR EACH RATE SCHEDULE AT**
20 **PRESENT AND PROPOSED RATES AND THE CHANGE IN EACH SUBSIDY**
21 **LEVEL REFLECTED IN THE PROPOSED REVENUE ALLOCATIONS.**

1 A. Petitioner's Exhibit KAH-4 reflects the current and proposed customer class subsidy
2 levels for each rate schedule at present and proposed rates. This exhibit reflects
3 Petitioner's proposal to maintain subsidies at their existing levels.

4
5 **Q22 WHAT EFFECT WILL THE PROPOSED REVENUE DISTRIBUTION AND**
6 **SUBSIDY REDUCTION LEVELS HAVE ON THE ANNUAL REVENUES FROM**
7 **GAS SALES TO BE COLLECTED FROM EACH RATE SCHEDULE?**

8 A. Petitioner's Exhibit KAH-5 contains a summary of present and proposed margins and
9 revenues from gas sales by rate schedule.
10

11 **V. RATES AND CHARGES**

12 **Q23 PLEASE EXPLAIN HOW YOU DEVELOPED PETITIONER'S PROPOSED**
13 **RATES FOR THIS PROCEEDING.**

14 A. Based upon the desired revenue distribution to each rate class as previously described
15 in my testimony, the primary objective was to design rates that recover the appropriate
16 amount of revenue from each rate class. We were guided by our objective to (1) have
17 a reasonable relationship between rate blocks in the subject rate schedule, (2) mitigate
18 rate shock within the customer class, and (3) have a reasonable relationship between
19 rate blocks in adjacent rate schedules.

20 **Q24 HAVE YOU DEVELOPED RATES AND CHARGES THAT PRODUCE THE**
21 **RESULTS DESCRIBED IN THE PRECEDING SECTION?**

22 A. Yes. Petitioner's Exhibit KAH-6 contains a comparison of present to proposed
23 revenues by rate schedule and by rate component. Columns 1 and 2 reflect the pro

1 forma billing determinants and rate components such as Customer Charges and
2 Distribution Charges. Columns 3 and 4 reflect the present rates and revenues.
3 Columns 5 and 6 reflect the proposed rates and revenues. Columns 7 and 8 reflect the
4 dollar and percentage changes from present to proposed rates. Petitioner's Exhibit
5 KAH-7 contains a revenue proof comparing proposed revenues by rate class to the
6 allocated costs. This schedule demonstrates that the proposed rates generate the
7 appropriate level of revenues. Column 3 highlights Petitioner's proposed rates and
8 charges, and Column 4 shows the Revenues from Gas Sales at Proposed Rates. This
9 exhibit shows the comparison of calculated revenues (Column 6) to allocated costs
10 (Column 7) for each rate schedule based on the proposed rates and charges. Only
11 slight differences appear as reflected in Columns 8 and 9, and they are attributable to
12 rounding differences. Each rate schedule will be discussed in the following
13 paragraphs.

14 **Rate 1-Residential and General Sales Service**

15 **Q25 PLEASE DESCRIBE THE PROPOSED REVISIONS TO THE RATE FOR**
16 **RESIDENTIAL AND GENERAL SALES SERVICE.**

17 A. The Customer Charge for Rate 1-Residential and General Sales Service has been
18 raised to \$13.00 from \$10.86. The remaining increased Rate R revenue requirement
19 will be recovered through increases to the Distribution Charges. The allocated fixed
20 costs per bill for Rate 1 are \$41. The proposed Customer Charge level represents 32%
21 of the allocated fixed costs.

1 **Q26 PLEASE DESCRIBE THE IMPACT OF PETITIONER'S PROPOSED REVENUE**
2 **ALLOCATIONS, AND RATES AND CHARGES, UPON RESIDENTIAL**
3 **SERVICE CUSTOMERS.**

4 A. Petitioner's Exhibit KAH-8, Schedule 1 contains a table of monthly bill amounts
5 calculated at various levels of usage for both present and proposed rates for the
6 Switzco Rate 1-Residential and General Sales Service customers. The dollar and
7 percentage increase in monthly bill amounts is identified for each average monthly
8 usage level.

9 **Rate 2-Large Commercial and Industrial Service**

10 **Q27 WHAT REVISIONS ARE PROPOSED FOR RATE 2-LARGE COMMERCIAL**
11 **AND INDUSTRIAL SERVICE.**

12 A. Consistent with the approach for 1 above, we are proposing an increase in the
13 customer charge from \$90.52 per month per meter to \$100.00 per month per meter.
14 The remaining costs of service are collected through the volumetric rates in the same
15 manner they are being collected for Rate 1 above.

16 **Q28 ARE THE VOLUMETRIC RATES FOR THE RATE 2 CLASS SHOWN IN**
17 **PETITIONER'S EXHIBIT KAH-8?**

18 A. Yes. They are reflected on Petitioner's Exhibit KAH-8, Schedule 2.

19 **VI. TARIFF**

20 **Q29 HAVE YOU DEVELOPED A TARIFF FOR THE RATES AND CHARGES**
21 **DESCRIBED IN THE PRECEDING SECTION?**

1 A. No, because of the uncertainty on Petitioner's rates due to the impact of the Tax Cuts
2 and Jobs Act of 2017, I believe a better approach is to develop those tariffs following
3 an Order in this Cause. At this time I anticipate that the only changes to the existing
4 tariff will relate to the customer charge and the volumetric rates for purposes of
5 allocating the revenue requirement.

6 **Q30 DOES THIS CONCLUDE YOUR PREFILED DIRECT TESTIMONY?**

7 A. Yes, at the present time.
8

VERIFICATION

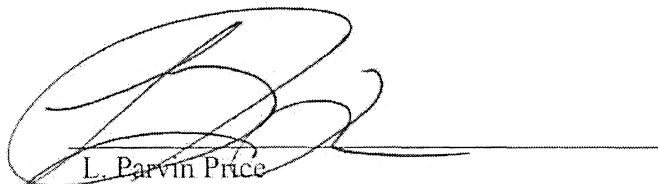
I affirm under the penalties for perjury that the foregoing is true to the best of my knowledge, information and belief as of the date here filed.

Kerry A. Heid
Kerry A. Heid

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 26th day of June, 2018:

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L. Parvin Price