

**STATE OF INDIANA**

**INDIANA UTILITY REGULATORY COMMISSION**

**IN THE MATTER OF THE INDIANA UTILITY )  
REGULATORY COMMISSION'S INVESTIGATION ) CAUSE NO. 45032 S9  
INTO THE IMPACTS OF THE TAX CUTS AND JOBS )  
ACT OF 2017 AND POSSIBLE RATE IMPLICATIONS )**

**INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR**

**PUBLIC'S EXHIBIT NO. 1**

**TESTIMONY OF OUCC WITNESS**

**ISABELLE L. GORDON**

**AUGUST 21, 2018**

Respectfully submitted,



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Scott Franson  
Attorney No. 27839-49  
Deputy Consumer Counselor

**TESTIMONY OF OUCC WITNESS ISABELLE L. GORDON**  
**CAUSE NO. 45032 S-9**  
**INDIANA NATURAL GAS CORPORATION**

**I. INTRODUCTION**

1 **Q: Please state your name and business address.**

2 A: My name is Isabelle L. Gordon, and my business address is 115 W. Washington  
3 Street, Suite 1500 South, Indianapolis, Indiana 46204.

4 **Q: By whom are you employed and in what capacity?**

5 A: I am employed by the Indiana Office of Utility Consumer Counselor ("OUCC")  
6 as a Utility Analyst I. For a summary of my educational and professional  
7 experience and my preparation for this case, please see Appendix ILG-1 attached  
8 to my testimony.

9 **Q: What is the purpose of your testimony?**

10 A: I discuss and provide background on the Indiana Utility Regulatory Commission's  
11 ("Commission") Investigation in Cause No. 45032 into the impacts of the Tax  
12 Cuts and Jobs Act of 2017 ("TCJA") on regulated utilities (the "Commission  
13 Investigation"). I respond to Indiana Natural Gas Corporation's ("Respondent" or  
14 "Indiana Natural") proposed amortization and calculation of its excess  
15 accumulated deferred income taxes ("EDIT")<sup>1</sup> and address the refund of excess  
16 federal income tax expense collected by Indiana Natural from January 1, 2018  
17 through April 30, 2018, the date on which Respondent's base rates and charges  
18 were reduced to reflect the current federal income tax rate of 21%.

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<sup>1</sup> Hereafter, ADIT refers to accumulated deferred income tax before the excess (EDIT) is calculated.

## **II. TCJA BACKGROUND**

1   **Q:   What are the main effects of the TCJA on regulated utilities?**

2   A:   The main effects of the TCJA on regulated utilities are the reduction of the federal  
3       income tax rate to 21% and the elimination of bonus depreciation. Regulated  
4       utilities are still allowed to deduct all interest expense without limitation.

5   **Q:   What adjustments are necessary to reflect these effects in a regulated utility's**  
6       **rates and charges?**

7   A:   There are three major adjustments necessary to reflect the impact of the TCJA on  
8       a regulated utility's rates and charges: (1) reduction of federal income tax  
9       expense embedded in utility rates to reflect the new 21% corporate tax rate on a  
10      going-forward basis; (2) refund of the federal income tax expense over-collected  
11      by the utility from January 1, 2018 until the federal income tax rate embedded in  
12      rates and charges is reduced to 21%;<sup>2</sup> and (3) reduction of federal income tax  
13      expense to reflect the return of excess ADIT created when ADIT is revalued at the  
14      21% rate. Item (1) is a Phase 1 issue in the Commission Investigation, and items  
15      (2) and (3) are considered Phase 2 issues in the Commission Investigation.

16   **Q:   How are the impacts of the TCJA on Indiana Natural's rates being**  
17       **addressed?**

18   A:   On March 26, 2018, Indiana Natural made a 30-Day filing in compliance with the  
19       Commission's Order in Cause No. 45032 dated February 16, 2018, and  
20       implemented revised rates based on the new 21% income tax rate effective on  
21       May 1, 2018, resolving Phase 1 of the Commission Investigation. Phase 2 tax

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<sup>2</sup> Per the Commission's order dated January 3, 2018 in Cause No. 45032, all Indiana investor-owned utilities are required to begin using regulatory accounting, such as the use of regulatory assets and liabilities, for all calculated differences resulting from the TCJA and what would have been recorded if the TCJA did not go into effect.

1 issues are being addressed in this subdocket, Cause No. 45032 S-9.

2 **Q: How are deferred income taxes generated?**

3 A: Deferred income taxes are the result of temporary timing differences created by  
4 how revenues or expenses are recognized on a company's financial statements or  
5 its "books" and how those same revenues or expenses are recognized for tax  
6 purposes. For regulated utilities, the primary source of deferred income taxes is  
7 due to accelerated tax depreciation. Deferred taxes can also be generated by other  
8 items, such as unbilled revenue, accrued wages, capitalized payroll taxes,  
9 unamortized rate case expense, pension expenses, bad debts, and capital loss carry  
10 forwards. Deferred income taxes can be either a deferred liability (taxes paid are  
11 less than book taxes) or a deferred asset (taxes paid are more than book taxes).

12 **Q: What is the difference between book depreciation and tax depreciation?**

13 A: Accelerated tax depreciation uses a higher depreciation rate than the depreciation  
14 rate used for book purposes. This higher rate of depreciation results in more  
15 expense being recognized earlier in an asset's life for tax purposes than is  
16 recognized for book purposes.

17 **Q: How does the difference between book depreciation and accelerated tax**  
18 **depreciation affect Respondent's payment of income taxes?**

19 A: A lower depreciation expense rate for book purposes results in a higher net  
20 income on a company's financial statements. A higher accelerated depreciation  
21 expense for tax purposes lowers the net income on which the company is taxed,  
22 thereby lowering the income tax payment. But a utility's income tax revenue  
23 requirement is not adjusted when it takes accelerated depreciation; therefore, the  
24 amount of income tax expense recovered from customers is higher than the actual

1 income tax paid by the utility to the government. With accelerated tax  
2 depreciation, the company avoids taxes in the early years, and the temporary  
3 timing difference is recognized as deferred income tax. The value recorded for  
4 ADIT is based on the utility's current income tax rate and is calculated by taking  
5 the difference between book and tax expense and multiplying by the tax rate.  
6 ADIT reverses when accelerated tax depreciation is exhausted and the temporary  
7 timing difference is eliminated.

8 **Q: What is the effect of the TCJA on Respondent's ADIT?**

9 A: When tax rates change, ADIT balances must be revalued at the new tax rates.  
10 The difference between the ADIT balance valued at the old income tax rate (34%)  
11 and the new income tax rate (21%) is known as excess deferred tax liability, or  
12 excess deferred income tax ("EDIT"). Respondent also has other book to tax  
13 differences, not generated from accelerated depreciation, which resulted in either  
14 excess deferred tax liabilities or deferred tax assets. As reflected in this filing,  
15 Respondent revalued its accumulated deferred taxes using the new 21% income  
16 tax rate, which resulted in the EDIT to be returned to customers. As I discuss in  
17 more detail below, the amortization period over which the EDIT balance is to be  
18 refunded to customers depends on whether the EDIT is deemed protected or  
19 unprotected, pursuant to Internal Revenue Service ("IRS") normalization  
20 guidelines.

**III. INDIANA NATURAL'S PHASE 2 SUBDOCKET**

**EDIT**

**Q: Please describe Respondent's calculation of EDIT as shown on Exhibit 1 and the proposed refund amortization period shown on Exhibit 2.**

A: Respondent's Exhibit 1, page 1 determines the amount of ADIT at the prior 34% income tax rate and the amount of ADIT at the new 21% income tax rate; the difference being EDIT, which is to be refunded to ratepayers. Respondent's EDIT is mostly derived from book-to-tax depreciation differences, but it is also derived from unbilled revenue, an unrealized gain/loss on investments, and unamortized rate case expense. The book-to-tax depreciation portion is considered protected.<sup>3</sup> To the extent the utility has the detailed information for each of its assets individually, the utility should use the Average Rate Assumption Method ("ARAM") to calculate the remaining lives over which to refund protected EDIT. Respondent is not using ARAM for this calculation. The TCJA allows utilities with less sophisticated accounting records to use a weighted average life or composite rate used to compute depreciation for regulatory purposes. Respondent uses the weighted average life method as summarized on its Exhibit 2, page 1.<sup>4</sup> The unbilled revenue and unamortized rate case expense are considered unprotected and can be returned over a period subject to the

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<sup>3</sup> EDIT can be protected and unprotected. For protected EDIT, utilities are required to use normalized accounting under which depreciation for ratemaking purposes does not reflect accelerated depreciation for tax purposes. Unprotected EDIT is not subject to such normalization requirements, and the amortization of any refund is subject only to Commission discretion.

<sup>4</sup> Respondent's Exhibit 2 is titled Average Rate Assumption Method ("ARAM"), but ARAM is not used. Respondent indicated in response to discovery Q1.4 "Petitioner does not believe that Exhibit 2 shows an ARAM method." Respondent further indicates that "the calculation on Exhibit 2 is a calculation of the average remaining lives of [the] Petitioner's utility plant in service." (See Attachment ILG-2, pages 2-3.)

Commission's discretion.

Exhibit 1, page 1, lines 1-7 calculates the book-to-tax difference in depreciation, subtracts unbilled revenue and an unrealized gain/loss on investment as regulatory assets, and adds unamortized rate case expense as a regulatory liability. The result is multiplied by the old 34% tax rate and the new 21% tax rate to get the difference, which is a regulatory liability shown on line 14. Respondent's Exhibit 1, page 1 calculates unprotected EDIT on lines 15-23. Also, since state income tax is a deduction for federal income tax purposes, the ADIT related to state deferred taxes is deducted from total ADIT to arrive at the federal ADIT balance used to derive the excess deferred taxes that should be refunded to customers.

**Q: Do you agree with Respondent's EDIT, as calculated on its Exhibit 1, page 1?**

A: No. While the necessary components to calculate EDIT are included in Respondent's Exhibit 1, page 1, with supporting documentation on additional pages of Exhibit 1, because Respondent included unrealized losses in its calculation of EDIT, I cannot agree with its calculations on Exhibit 1.

With that understanding, I used Respondent's book and tax values for protected ADIT, and other deferred income tax balances of unprotected ADIT, to calculate a deferred tax liability shown on Attachment ILG-1, page 1. I took the difference between Respondent's net book value and net tax value of its assets, less state deferred taxes, and calculated the difference in deferred balances using the 34% and 21% tax rates, which yields the total protected EDIT to be returned to the ratepayers. (Attachment ILG-1, lines 1-10.) A similar calculation is shown

1 on lines 11-26 for unprotected EDIT, where net deferred tax assets (unbilled  
2 revenue and unamortized rate case expense) were added, less applicable state  
3 deferred taxes, and the difference in deferred balances using the 34% and 21% tax  
4 rates, yielded the total unprotected EDIT.

5 My calculation differs from Respondent's Exhibit 1, page 1 in two  
6 respects. As discussed in more detail below, I removed Respondent's unrealized  
7 losses for my calculation of EDIT. I also deducted the state deferred income tax  
8 applicable to the protected and unprotected EDIT separately based on the deferred  
9 state income tax calculation shown on Attachment ILG-1, page 2, giving a more  
10 accurate protected and unprotected EDIT balance. Additionally, I used  
11 Respondent's Exhibit 1, page 3 tax depreciation report to arrive at Respondent's  
12 net tax value. The amount Respondent presents on Exhibit 1, page 1 is a \$515  
13 lower net tax value than the \$3,618,949 shown on Attachment ILG-1, line 2  
14 because Respondent did not account for the dispositions and exchanges shown on  
15 Respondent's Exhibit 1, page 3, line 2. The total protected EDIT and unprotected  
16 EDIT is added together on lines 27-29 for a total net regulatory liability to be  
17 returned to customers.

18 This total net EDIT of \$79,588 differs from the net total EDIT amount  
19 reflected on line 14 of Respondent's Exhibit 1, page 1 because of the net tax value  
20 difference and the ADIT item excluded from my calculation.

21 **Q: Why did you remove Respondent's unrealized losses from your EDIT**  
22 **calculation?**

23 **A:** I removed this item from the EDIT calculation because it has no relationship to  
24 revenues and expenses embedded in rates for the provision of utility service.



1 **Q: Is Respondent proposing to refund its EDIT as calculated on Exhibit 1, page**  
2 **1?**

3 A: No. Respondent proposes to use an alternative calculation shown on its Exhibit 3.  
4 As described on page 8 of Ms. Mann's testimony, Respondent recalculated  
5 deferred income taxes from the utility's last rate case assuming a 21% federal tax  
6 rate. Respondent proposes to refund the difference between this amount and the  
7 ADIT at 34% from its last rate case.

8 **Q: Do you agree with using Respondent's Exhibit 3 as the basis for the EDIT**  
9 **refund?**

10 A: No, for several reasons. First, this calculation represents deferred taxes from a  
11 point in time years ago. Ratepayers have been paying income taxes embedded in  
12 rates each year since the last rate case, and each year deferred income taxes are  
13 calculated and reflected on the balance sheet. The December 31, 2017 deferred  
14 income tax balance is the most up to date balance before the new 21% income tax  
15 rate went into effect on January 1, 2018. For purposes of the calculation on  
16 Exhibit 3, Respondent did not update any deferred tax calculations since the last  
17 rate case. (Attachment ILG-2, pages 3-4, Q 1.9.) Not updating deferred tax  
18 calculations since the last rate case ignores ratepayer contributions to income  
19 taxes or contributions to depreciation expense for the years between the last rate  
20 case and the date of the most current deferred income tax balance before the  
21 TCJA went into effect.

22 Second, Exhibit 3 is not supported by any other schedules. Ms. Mann  
23 states on page 9, question 18 of her testimony, "[t]he accumulated deferred  
24 federal income tax calculation referenced in [E]xhibit 3 was included in each

1 utilities [sic] last rate case and has therefore been previously vetted by both the  
2 OUCC and the IURC.” None of the workpapers from the last rate case were  
3 presented to support these figures. In contrast, Respondent’s Exhibit 1, page 1 is  
4 supported by sufficient detail in subsequent pages 2 through 6, and with Exhibit 2,  
5 pages 1 through 3, and Indiana Natural’s Gas Book Depreciation Expense  
6 workpapers. Supporting detail is necessary to verify the calculation of EDIT and  
7 would come directly from Respondent’s books and records. The supporting detail  
8 should show how each pertinent figure in Respondent’s EDIT calculation is  
9 derived.

10 Third, in its calculation on Exhibit 3, Respondent subtracted the short term  
11 asset, unbilled revenue, from the calculation because, according to Ms. Mann’s  
12 testimony on page 8, question 17, “[s]hort term items are items that are deferred  
13 for only one year. As a result those taxes have been incurred and paid at the  
14 utility’s prior tax rate and therefore do not need to be refunded.” I do not agree  
15 with this statement. The items generating the deferred tax created a liability, or  
16 asset, at a higher tax rate. When the liability or asset reverses the following year,  
17 it will be at a lower tax rate, being insufficient to offset the full amount,  
18 consequently, leaving excess deferred tax. Therefore, I included these items in  
19 the calculation of EDIT in Attachment ILG-1.

20 Lastly, the method summarized on Respondent’s Exhibit 1, and on my  
21 Attachment ILG-1, is the same or similar to methods I have seen with other  
22 utilities responsive to Phase 2 of the Commission Investigation, such as  
23 NIPSCO’s rate case in Cause No. 44988, and Sycamore Gas Company’s rate case

1 in Cause No. 45072. In my experience, all utilities recognize December 31, 2017  
2 as the ADIT balance from which to derive the EDIT amount for purposes of a  
3 ratepayer refund.

4 **Q: What is the EDIT balance you recommend be returned to ratepayers?**

5 A: As I described earlier and as shown on Attachment ILG-1, I recommend a total  
6 EDIT balance of \$79,558 be returned to Respondent's customers.

7 **Amortization Period**

8 **Q: What method has Respondent proposed for calculating the amortization**  
9 **period for its protected EDIT balance?**

10 A: Respondent uses the alternative weighted average life method, based on the level  
11 of property record detail available. Respondent presents the estimated average  
12 useful life of its utility plant in service in its Book Depreciation Expense  
13 workpapers, and calculated the weighted average to determine the final  
14 amortization period by asset class summarized on Exhibit 2, page 1. As I  
15 mentioned earlier, although this exhibit is labeled ARAM, the ARAM method is  
16 not used. Given the level of property detail available to Indiana Natural, the  
17 OUCC does not object to using the weighted average life method. Respondent's  
18 weighted average remaining life calculation for each of its asset classes results in  
19 a 12.89 year amortization period, over which protected EDIT is to be amortized  
20 back to ratepayers.

21 **Q: Does Respondent propose an amortization period over which unprotected**  
22 **EDIT will be returned to ratepayers?**

23 A: Yes. Even though Respondent recommends using Exhibit 3 for purposes of  
24 calculating its proposed ratepayer refund for deferred taxes, which shows an  
25 unprotected EDIT asset of \$63, in an apparent reference to Exhibit 1, it states that

1 due to the relatively small amount, unprotected EDIT should be amortized over  
2 the same amortization period as calculated for protected EDIT. Respondent also  
3 argues that using the same amortization period for the entire EDIT will make  
4 tracking of the amortization easier for both the utility and the regulator.  
5 (Testimony of Mann, page 10, question 21.)

6 **Q: Do you agree with Respondent's proposed unprotected EDIT amortization**  
7 **period?**

8 A: For the reasons described below, yes. While the TCJA governs the appropriate  
9 normalization method to amortize protected EDIT back to ratepayers, the  
10 Commission has discretion over the amortization period for unprotected EDIT. In  
11 most instances, it would be appropriate to require a utility to return unprotected  
12 EDIT over a shorter timeframe than for protected EDIT. Should the Commission  
13 determine that to be the appropriate outcome in this instance, the OUCC would  
14 not object; however, I note below the reasons why Respondent's unique  
15 characteristics create challenges that make following this general principle  
16 difficult.

17 First, as shown in Attachment ILG-1, which makes use of Respondent's  
18 Exhibit 1, I calculate an unprotected EDIT *asset* for Respondent of \$25,993. An  
19 EDIT asset results in an increase in rates. If Respondent is ordered to amortize  
20 this unprotected EDIT asset over a timeframe shorter than its protected EDIT  
21 liability, Respondent will have to make separate ratemaking adjustments that both  
22 increase and decrease its deferred tax balances and amortization expense until the  
23 unprotected EDIT asset is fully amortized. Then Respondent will need an  
24 additional tariff filing to remove the ratemaking adjustment for unprotected EDIT,

1 leaving the adjustment for protected EDIT in place. Given Indiana Natural's  
2 relative size and limited resources, it seems unnecessarily burdensome to require  
3 that level of complexity and additional tariff submissions.

4 Second, Respondent's weighted average calculation results in a 12.89 year  
5 amortization period for protected EDIT. Relatively speaking, this amortization  
6 period will return protected EDIT back to ratepayers more quickly than the time  
7 periods that were calculated by NIPSCO and Vectren's gas utilities in the  
8 Commission Investigation. Likewise, using the same amortization period for  
9 Respondent's unprotected EDIT asset will spread out the rate increase, as a result  
10 of this asset, over a reasonable time period so as to mitigate any customer burden.  
11 Therefore, I recommend Respondent's protected and unprotected EDIT balances  
12 be amortized over 12.89 years.

13 **Q: Can this amortization period be adjusted for rounding?**

14 A: No. Respondent replied in discovery that it "expects that it would likely be  
15 required to round that amount to 13 years." (Attachment ILG-2, pages 2-3,  
16 Q1.4(b).) Protected EDIT is governed by the TCJA and the weighted average life  
17 method resulted in a specific amount. The 12.89 year weighted average  
18 remaining life is the proper amortization period used in my calculation on line 31  
19 of Attachment ILG-1 for both protected and unprotected EDIT, converted to 155  
20 months on line 34.

21 **Q: By what mechanism do you propose to return EDIT?**

22 A: Amortizing EDIT of \$79,558 over 12.89 years or 155 months yields an annual  
23 amortization of \$6,172. Respondent's base rates should be reduced by this annual

1 amount using the same revenue requirement schedules applicable to the approved  
2 rates in Respondent's last rate case, reflecting the revised 21% income tax rate  
3 effective on May 1, 2018 in Cause No. 45032. This method is commonly used to  
4 remove rate case expense amortization from base rates and will account for any  
5 flow-through tax effects of the adjusted rates. New rates should also be based on  
6 customer allocation and rate design as approved in Respondent's last rate case. I  
7 suggest this be accomplished using a 30-Day filing process to allow sufficient  
8 time for review by the OUCC and IURC.

9 **Refund of Over-Collection**

10 **Q: Did Respondent provide a calculation and propose a method for returning**  
11 **over-collected taxes beginning January 1, 2018?**

12 A: Yes. Respondent provided a calculation of its tax over-collection in Attachment  
13 DAO-1, page 1 and a proposed refund credit tracker on page 2. The over-  
14 collection represents Respondent's tracking of the difference in revenue collected  
15 at the 34% tax rate and what would have been collected at the 21% tax rate during  
16 the period January 1, 2018 through April 30, 2018. Respondent's calculations of  
17 the over-collection are by customer class, and the proposed refund mechanism is  
18 also by customer class at the same volumes as collected. Respondent is proposing  
19 to refund the over-collection over the same four months it was collected, January  
20 through April starting January 1, 2019. Respondent recommends the refund be  
21 administered through a temporary tracker mechanism with variances recovered  
22 through Respondent's next GCA that includes a reconciliation of April 2019.

23 **Q: Is there any element in Respondent's over-collection refund proposal with**  
24 **which you disagree?**

25 A: Yes. I agree with Respondent's calculation of the over-collection and with

1 making the refund over the proposed four month period in 2019. I agree with the  
2 temporary tracker mechanism proposal. However, the GCA is an inappropriate  
3 mechanism for tax refunds. Not all customer classes receiving refunds are  
4 included in the GCA mechanism. Additionally, all seven small utilities  
5 represented by Ms. Mann's testimony have one GCA rate for all customer classes,  
6 so the allocation of variances would deviate from the customer class allocation  
7 approved in the last rate case. I recommend any variances in the temporary  
8 tracker mechanism be reconciled and refunded in the same temporary tracker  
9 mechanism.

10 **Other Concerns**

11 **Q: Does Respondent address other concerns it believes are relevant to this**  
12 **Cause?**

13 A: Yes. First, Respondent is concerned that non-calendar year taxpayers will refund  
14 more than they should because of a split tax year where the utility will pay a  
15 blended rate. Respondent's witness Mann admits on page 14, question 27 of her  
16 testimony that "It will be a blended rate based on the number of months at each  
17 tax rate during their tax year." This is not a problem for the income tax refund.  
18 For the period up to December 31, 2017, base rates were based on a 34% federal  
19 tax rate, and from January 1, 2018 through April 30, 2018, a 21% federal tax rate  
20 applies. Utilities with a blended rate tax year will only refund an over-collection  
21 back to January 1, 2018. The blended rate will match the appropriate rates  
22 collected for the appropriate months.

23 Second, Respondent seeks approval to defer the cost of its participation in  
24 this proceeding as a regulatory asset that can be reviewed and eventually

1 recovered in the next full base rate case. I do not recommend approval for this  
2 unknown amount. Given that Respondent's income tax rate has been changed, it  
3 would have had to calculate its EDIT in order to adhere to the IRS's  
4 normalization requirements; therefore, it is not entirely accurate to suggest that  
5 Respondent's costs to participate in the Commission Investigation would not have  
6 been required anyway. However, even so, in a regulatory environment,  
7 unexpected, one-time legal and accounting bills occur occasionally. Respondent  
8 has legal and accounting fees embedded into its current rates and no additional  
9 compensation should be necessary.

10 Also, since this is a single issue case and Respondent's testimony is  
11 considerably similar for each of seven utilities, and litigation should be minimal, I  
12 would hope the costs for each utility are a reasonable amount as the actual costs  
13 incurred have not been presented in this subdocket. Further, Respondent has an  
14 interest in arguing for an outcome in this case that minimizes any refunds it owes  
15 to its customers. Those same customers should not be required to pay for the  
16 regulatory expense Respondent incurs in making such arguments.

17 Third, Respondent argues that a lower ADIT with a 0% cost of capital  
18 could have the effect of increasing the overall cost of capital, so authorized  
19 earnings should increase. I do not disagree that overall cost of capital could  
20 increase, but this issue is outside the scope of this proceeding.

21 Last, Respondent believes the fact the Commission initiated the tax  
22 investigation has created uncertainty for the utility, increasing the risk for its  
23 shareholders. A regulated utility facing regulatory action is inherent to its



1 business model.

**IV. OUCC RECOMMENDATIONS**

2 **Q: What are your recommendations in this Cause?**

3 A: I recommend amortizing EDIT of \$79,558 over 12.89 years, resulting in a return  
4 of EDIT to the ratepayers at an annual amortization of \$6,172. This amortization  
5 should be reflected as a reduction to existing rates using revenue requirement  
6 schedules from Respondent's last rate case, updated to the new tax rate as of May  
7 1, 2018, using the same customer allocation and rate design as approved in  
8 Respondent's last rate case, to be submitted for review through a 30-Day filing  
9 process. I also recommend Respondent be required to file a compliance filing  
10 initiating a temporary tracker to return the excess federal tax collected from  
11 January 1, 2018 through April 30, 2018, allocated to each rate class based on  
12 actual revenues received during the period collected. This temporary tracker  
13 should also be used to reconcile and return or collect any variances. I do not  
14 recommend approval to defer the cost of this proceeding as a regulatory asset.

15 **Q: Does this conclude your testimony?**

16 A: Yes.

**AFFIRMATION**

I affirm, under the penalties for perjury, that the foregoing representations are true.

Isabelle Gordon

Isabelle L. Gordon

Utility Analyst I

Indiana Office of Utility Consumer Counselor

Cause No. 45032 S9

Commission Investigation/Indiana Natural  
Gas Corporation

8/21/2018

Date

**APPENDIX ILG-1 TO TESTIMONY OF**  
**OUCC WITNESS ISABELLE L. GORDON**

1   **Q:    Please describe your educational background and experience.**

2    A:    I graduated from the School of Business at Bob Jones University in Greenville,  
3           South Carolina in May 2017 with a Bachelor of Science Degree in Accounting.  
4           In July 2017, I began working at the OUCC as a Utility Analyst I in the Natural  
5           Gas Division. My responsibilities include reviewing, analyzing, and preparing  
6           testimony for Gas Cost Adjustment (“GCA”) cases, Gas Demand Side  
7           Management (“GDSM”) cases, and base rate cases filed by Indiana natural gas  
8           utilities.

9   **Q:    Have you previously testified before the Indiana Utility Regulatory**  
10 **Commission?**

11  A:    Yes, I have testified in Gas Cost Adjustment cases, GDSM cases, special contract  
12         cases, and base rate cases.

13 **Q:    Please describe the review and analysis you conducted to prepare your**  
14 **testimony.**

15  A:    I reviewed Respondent’s direct testimony, exhibits, workpapers and other  
16         supporting documentation provided in this Cause. I analyzed Respondent’s  
17         responses to the OUCC’s discovery requests.

Indiana Natural Gas Corporation  
Deferred Tax Asset/Liability

<u>Line</u>	<u>After Tax Act</u>	<u>Prior to Tax Act</u>
<b>Protected EDIT:</b>		
1 Net Book Value, Petitioner's Exhibit 1 Page 2	4,478,564	4,478,564
2 Net Tax Value, Petitioner's Exhibit 1 Page 3	3,618,949	3,618,949
3 Difference in Net Book Value	859,615	859,615
4 State Deferred Tax Asset/(Liability), Att. ILG-1 Page 2	(47,686)	(47,686)
5 NBV less State Deferred Tax Estimate	811,929	811,929
6 Tax Rate	21.0%	34.0%
7 Current Period Deferred	170,505	276,056
8 Deferred Tax under old rate	276,056	
9 Deferred Tax under new rate	170,505	
10 Protected EDIT - Regulatory Liability	105,551	
<b>Un-Protected EDIT:</b>		
11 Other Deferred Taxes, Petitioner's Exhibit 1 Page 6:		
12 Unbilled Revenue	(101,598)	(101,598)
13 Unrealized Gain/(Loss) on Investments	(88,478)	(88,478)
14 Unamortized Rate Case	65,843	65,843
15 Total Other Deferred Taxes	(124,233)	(124,233)
16 State Deferred Tax Asset/(Liability), Att. ILG-1 Page 2	6,096	6,096
17 State Deferred Tax Asset/(Liability), Att. ILG-1 Page 2	5,309	5,309
18 State Deferred Tax Asset/(Liability), Att. ILG-1 Page 2	(3,951)	(3,951)
19 Less Deferred Tax not applicable to utility rates:		
20 Unrealized Gain/(Loss) on Investments, Net of State Deferred Tax	(83,169)	(83,169)
21 Total Applicable Other Deferred Taxes	(199,948)	(199,948)
22 Tax Rate	21.0%	34.0%
23 Current Period Deferred (Line 16 * Line 17)	(41,989)	(67,982)
24 Deferred Tax under old rate	(67,982)	
25 Deferred Tax under new rate	(41,989)	
26 Un-Protected EDIT - Net Regulatory Asset	(25,993)	
<b>Total EDIT:</b>		
27 Protected EDIT - Regulatory Liability	105,551	
28 Un-Protected EDIT - Net Regulatory Asset	(25,993)	
29 Total Net EDIT	79,558	
<b>EDIT Amortization:</b>		
30 Total Net EDIT	79,558	
31 Amortization Period (years), Petitioner's Exhibit 2 Page 1	12.89	
32 Annual Amortization	6,172	
33 Total Net EDIT	79,558	
34 Amortization Period (months)	155	
35 Monthly Amortization	514	

Indiana Natural Gas Corporation  
State Deferred Tax Asset/(Liability)

Unprotected State Deferred Tax Asset/Liability		
Net Book Value, Petitioner's Exhibit 1 Page 2	4,478,564	
Net Book Value, Petitioner's Exhibit 1 Page 5	3,683,800	
Difference in Net Book Value	794,764	
State Tax Rate	6%	
State Deferred Tax Asset/(Liability)		47,686
Unbilled Revenue		
	101,598	
State Tax Rate	6%	
State Deferred Tax Asset/(Liability)		6,096
Unrealized (Gain)/Loss on Investments		
	88,478	
State Tax Rate	6%	
State Deferred Tax Asset/(Liability)		5,309
Unamortized Rate Case		
	(65,843)	
State Tax Rate	6%	
State Deferred Tax Asset/(Liability)		(3,951)

**STATE OF INDIANA**

**INDIANA UTILITY REGULATORY COMMISSION**

**IN THE MATTER OF THE INDIANA UTILITY )  
REGULATORY COMMISSION'S INVESTIGATION )  
INTO THE IMPACTS OF THE TAX CUTS AND JOBS ) CAUSE NO. 45032 S9  
ACT OF 2017 AND POSSIBLE RATE )  
IMPLICATIONS. )**

**INDIANA NATURAL GAS CORPORATION RESPONSES TO  
THE INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR'S  
FIRST SET OF DATA REQUESTS**

Comes now Indiana Natural Gas Corporation, by counsel, and submits to the Indiana Office of the Utility Consumer Counselor ("OUCC") its responses to the OUCC's First Set of Data Requests dated July 3, 2018, as follows:

**II. Data Request.**

- Q 1.1:** What is Respondent's balance of deferred taxes on the balance sheet as of December 31, 2017?
- A. Petitioner's balance of deferred taxes on the balance sheet as of December 31, 2017 was \$273,472.
- Q 1.2:** Regarding Respondent's Exhibit 1:
- a. Please provide a list of the types of accounts, assets, expenses, or other items that produced the balance of Deferred Tax on line 11, as of December 31, 2017, including the amount of each item.
  - b. On the list from a. above, identify the items as protected or unprotected balances.
  - c. On the list from a. above, identify the items as property or non-property.
  - d. On the list from a. above, identify short term items.
  - e. On the list from a. above, identify non-income statement items.
  - f. On the list from a. above, identify regulatory liabilities and regulatory assets.
- A.
- a. Each item and the amounts are listed on lines 1-6 of Exhibit 1 Page 1. All numbers on Exhibit 1 Page 1, are for December 31, 2017.
  - b. Items which are listed as protected are on lines 1 and 2 of Exhibit 1 Page 1. The remaining items are unprotected as shown in the unprotected calculation of Exhibit 1 starting on line 15.
  - c. Petitioner is assuming that by requesting items as property, that lines 1 and 2 of Exhibit 1 show that information for utility plant information.
  - d. Short term items are line item 4 of Exhibit 1, with their respective amounts.

- e. Petitioner is unsure of what is meant by non-income items. Utility plant included on lines 1 and 2 of Exhibit 1 are not reflected on the income statement but the annual depreciation associated with those items is reflected. However, the amount of depreciation differs between the financial statements and the tax return. Items on lines 4 and 6 of Exhibit 1 appear on the income statement, but appear differently on the tax return. The item on line 5 is related to an investment and will not appear on the income statement until the investment is sold.
- f. The item on line 6 of the Exhibit 1 is a regulatory asset approved by the IURC in the Petitioner's last general rate proceeding.

**Q 1.3:** Regarding Respondent's Exhibit 1, line 12, Deferred Tax under old rate:

- a. Is any of Respondent's deferred income tax balance derived from expense deductions available for tax purposes for costs that were capitalized for book purposes?
- b. If yes, are these deferred tax amounts considered as associated with property or non-property?
- c. Please provide the balance for the property or non-property for (a.) and (b.) above.

- A.
  - a. The item on line 6 of Exhibit 1 was expensed for tax purposes when incurred but was capitalized and amortized based on the Order in Petitioner's last base rate proceeding.
  - b. Petitioner is assuming that property or non-property refers to utility plant in service. The item listed in a. above is not utility plant in service.
  - c. See line 6 of Exhibit 1 for the amount.

**Q 1.4:** Page 9, lines 19-20 of Ms. Mann's testimony mentions using the alternative weighted average life method, but Exhibit 2 shows an ARAM calculation.

- a. Is ARAM or the alternative weighted average life method used? Please explain.
- b. Is Respondent proposing an amortization period of 12.89 years?
- c. Please show the calculation of the 12.89 years. (i.e. What numbers were used?)
- d. Please provide the IRS publication and any other authoritative source Ms. Mann relied upon to support the calculation method on Exhibit 2.

- A.
  - a. Petitioner does not believe that Exhibit 2 shows an ARAM method. It is Petitioner's understanding that ARAM requires the calculation and amortization of the excess deferred federal income tax amount for each underlying item separately. Petitioner is not proposing to calculate the excess deferred federal income tax amount to that level of detail, but instead calculate the average remaining of life of its assets at the greatest level of detail available to it.

- b. Petitioner expects that it would likely be required to round that amount to 13 years.
- c. Please review formula in cell K34 of the tab labeled (Ex 2 Pg 1) NAV in the excel file; that was filed with the workpapers in this cause and sent to OUCC as part of the workpaper package.
- d. Ms. Mann believes that the calculation on Exhibit 2 is a calculation of the average remaining lives of the Petitioner's utility plant in service. She relied on her training as an accountant and her 30 years of consulting in the utility industry to make the calculation.

**Q 1.5:** Referring to Exhibit 3, please provide the separate amounts to be refunded for protected and unprotected excess deferred federal income tax.

**A.** The protected amount of Exhibit 3 is calculated using the amount of federal deferred tax net of state taxes on Exhibit 3 page 2 line 13 less the amount of federal deferred tax net of state taxes on Exhibit 3 page 3 line 13 which nets to (\$173,080).

The unprotected amount of Exhibit 3 is calculated by taking the unprotected item federal taxes total on Exhibit 3 page 2 line 17 less the unprotected item federal taxes total on Exhibit 2 page 2 line 17 which nets to \$(63).

**Q 1.6:** What are the depreciation rates used by Respondent, for each asset class, as of December 31, 2017?

**A.** The depreciation rates used by the Respondent, for each asset class, as of December 31, 2017 are shown within the supporting workpapers proved with the filing of Cause No. 45032-S9. These workpapers reflect Federal and State depreciation reports which show method of depreciation, and useful lives. Book depreciation is calculated on a composite basis using the rates approved by the IURC in Petitioner's last base rate proceeding.

**Q 1.7:** What are the utility-plant-in-service balances, for each asset class, as of December 31, 2017?

**A.** The utility-plant-in-service balances, for each asset class, as of December 31, 2017 are shown on Exhibit 1 page 2.

**Q 1.8:** Please provide the balance sheet for Respondent as of December 31, 2017.

**A.** Balance sheet has been provided to the respondent as Attachment A.

**Q 1.9:** On page 8, lines 4-5, Ms. Mann states, "I have recalculated the deferred income taxes from each utility's last base rate case assuming a federal tax rate of 21%."

- a. Did Ms. Mann recalculate the deferred income taxes for each tax year after the last base rate case through December 31, 2017? Please explain.



- b. If yes, please provide the workpapers and calculations.
  - c. Please provide the IRS publication and any other authoritative source Ms. Mann relied upon to support this method of calculating excess deferred income tax.
- A.
- a. No, the deferred income taxes for each tax year after the last base rate case through December 31, 2017 was not recalculated.
  - b. N/A
  - c. The method used to calculate deferred income taxes follows the proscribed method of generally accepted accounting principles as accepted in the United States and dictated by the Federal Accounting Standards Board in ASC 740.

**Q 1.10:** Referring to Exhibit 1, page 1:

- a. Please confirm the line description for line 2 should read "Plant Costs per Federal Depr Report, Exhibit 1 Page 3." If this is incorrect, what should the line description be?
- b. Respondent describes the Other Adjustments on lines 3-6 as coming from Exhibit 1 Page 10. However, Exhibit 1 does not have a page 10. Please provide the correct source for the items on lines 3-6.
- c. Please confirm the line description for line 7 should read "Difference in NBV ((Sum Line 2 – 6) - Line 1)." If this is incorrect, what should the line description be?
- d. Please confirm the line description for line 8 should read "State Deferred Tax Estimate, Exhibit 1 Page 4." If this is incorrect, what should the line description be?
- e. Please confirm the line description for line 9 should read "NBV less State Deferred Tax Estimate (Line 7 - Line 8)." If this is incorrect, what should the line description be?
- f. Please confirm the line description for line 11 should read "Current Period Deferred (Line 9\*Line 10)." If this is incorrect, what should the line description be?
- g. Please confirm the line description on line 13 should read "Deferred Tax under new rate (Line 11)." If this is incorrect, what should the line description be?
- h. Please confirm the line description for line 14 should read "Reg Liability (acc 253.050) (Line 12-Line 13)." If this is incorrect, what should the line description be?
- i. Please confirm the line description for line 24 should read "State Deferred Tax Estimate, Exhibit 1 Page 4." If this is incorrect, what should the line description be?
- j. Please provide documentation supporting the amounts on lines 4, 5, 6, 15, 16, and 17.
- k. Please explain why Respondent included a state deferred tax estimate on lines 8 and 24-26.
- l. Please confirm the correct calculation of Respondent's protected portion of EADIT as line 14 less line 27, or as line 14 less line 23.

- A.
- a. Confirmed
  - b. Exhibit 1 page 6
  - c. Confirmed
  - d. Confirmed
  - e. Confirmed
  - f. Confirmed
  - g. Confirmed
  - h. Confirmed
  - i. Confirmed
  - j. See attached
  - k. Because state income taxes are a deduction in the calculation of federal income taxes
  - l. The calculation of Respondent's protected portion of EADIT is line 14 less line 27.

**Q 1.11:** On page 6, lines 13-20, Ms. Mann discusses a retirement component. Please explain whether this retirement component is applicable to Indiana Natural Gas. If so, please provide a copy of the retirement study.

A. There is no retirement component applicable to Indiana Natural Gas.



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**CERTIFICATE OF SERVICE**

This is to certify that a copy of the foregoing *Indiana Office of Utility Consumer Counselor Public's Exhibit No. 1 Testimony of OUCC Witness Isabelle L. Gordon* has been served upon the following counsel of record in the captioned proceeding by electronic service on August 21, 2018.

L. Parvin Price  
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Scott Franson  
Deputy Consumer Counselor

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