

FILED  
July 31, 2018  
INDIANA UTILITY  
REGULATORY COMMISSION

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF SYCAMORE GAS COMPANY FOR )  
APPROVAL TO INCREASE ITS RATES AND )  
CHARGES FOR GAS SERVICE AND FOR ) CAUSE NO. 45072  
AUTHORIZATION TO TRACK ADDITIONS OF )  
CUSTOMER SERVICE LINES )

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

PUBLIC'S EXHIBIT NO. 5

TESTIMONY OF OUCC WITNESS

BRADLEY E. LORTON

JULY 31, 2018

Respectfully submitted,

  
Lorraine Hitz-Bradley  
Attorney No. 18006-29  
Deputy Consumer Counselor

**TESTIMONY OF OUCC WITNESS BRADLEY E. LORTON**  
**CAUSE NO. 45072**  
**SYCAMORE GAS COMPANY, INC.**

**I. INTRODUCTION**

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

2 A: My name is Bradley E. Lorton, 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 a Utility Analyst in the Natural Gas Division of the Indiana Office of Utility  
6 Consumer Counselor ("OUCC"). For a summary of my educational and  
7 professional experience, as well as my preparation for this case, please see the  
8 Appendix attached to my testimony (Appendix BEL-1).

9 **Q: What are your recommendations?**

10 A: I recommend approval of the settled cost of common equity ("cost of equity" or  
11 "ROE") of 10.05% for Sycamore Gas Company, Inc. ("Petitioner") in this Cause.

**II. RELIEF REQUESTED**

12 **Q: Please describe the relief sought by Petitioner in this Cause.**

13 A: Petitioner seeks to adjust its authorized cost of equity to 10.05% as agreed to in  
14 the Stipulation and Settlement Agreement ("Settlement Agreement") dated April  
15 6, 2018 by the parties in this Cause. *See* Pet. Exh. JSB-2.

16 **Q: Why does Petitioner seek this relief?**

17 A: Petitioner desires to apply the 10.05% ROE to the common equity portion of its

1 capital structure for purposes of determining an overall cost of capital in this rate  
2 case.

**III. SETTLEMENT AGREEMENT ON COST OF EQUITY**

3 **Q: What is Petitioner's current authorized cost of common equity?**

4 A: Petitioner's current authorized cost of common equity is 10.4%, which was  
5 established by the Commission's Order of June 20, 2007 in Cause No. 43090.

6 **Q: What is the cost of common equity for Petitioner agreed to by the parties in  
7 this Cause?**

8 A: The Settlement Agreement of April 6, 2018 sets the agreed cost of common  
9 equity for Petitioner in this Cause at 10.05%. (Pet. Exh. JSB-2.)

10 **Q: Why did the parties agree to a 10.05% cost of common equity?**

11 A: As stated in the Settlement Agreement:

12 This Settlement Agreement reflects each Party's compromise as its  
13 preferred resolution; Sycamore wanted a higher cost-of-equity and  
14 the OUCC wanted a lower number than 10.05%. But each agrees  
15 that in the specific circumstances of this case, and solely for  
16 purposes of settlement, 10.05% is not only within the range of  
17 reasonable outcomes available to this Commission, but is the  
18 appropriate rate to be incorporated into the calculation of  
19 Sycamore's new base rates in this case.

20 Pet. Exh. JSB-2, p. 2.

21 **Q: Without the Settlement Agreement on ROE would you have recommended a  
22 return close to 10.05%?**

23 A: No. My testimonial analyses in recent rate cases have produced recommendations  
24 in the 9.0% range. My most recent ROE testimony was in Cause No. 45027, the  
25 South Eastern Indiana Natural Gas Company ("South Eastern") rate case, in  
26 which I recommended 9.1%. I also recommended 9.0% in the recent NIPSCO  
27 rate case, Cause No. 44988. The variables of the Discounted Cash Flow and

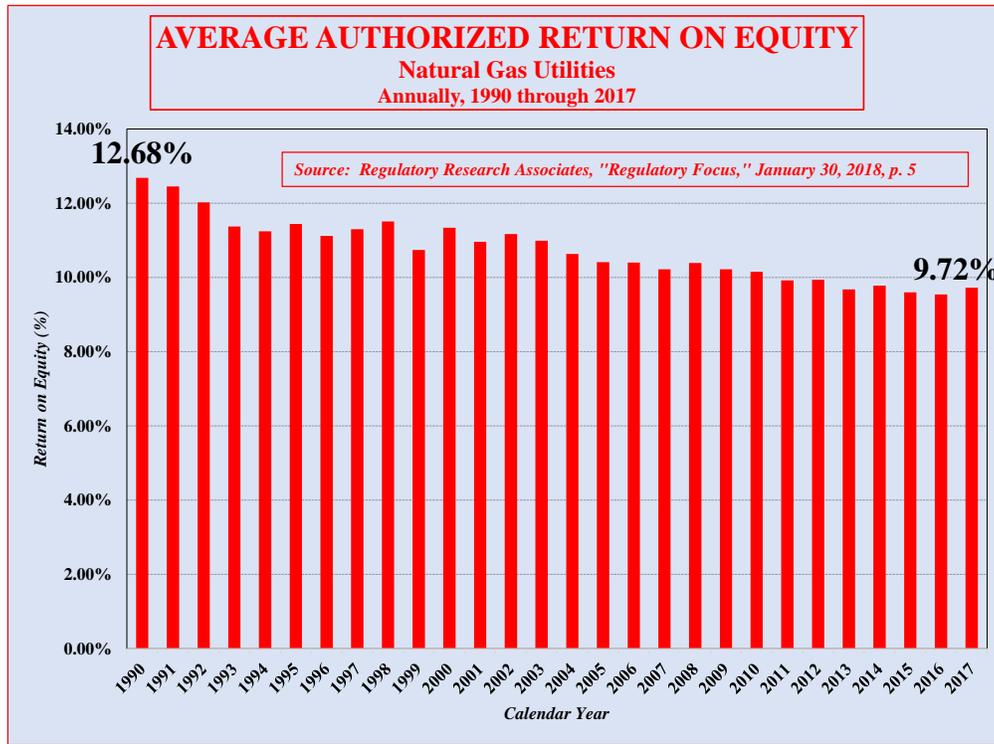
1 Capital Asset Pricing models, which could move an ROE recommendation higher  
2 or lower, have not changed enough in recent months to imply a shift from the  
3 range my recent recommendations have been in.

4 **Q: Do you believe the 10.05% ROE is reasonable for Petitioner in this Cause?**

5 A: Yes. Both the South Eastern and NIPSCO rate cases reached settlements between  
6 the parties with ROE very close to 10%. Also, 10.05% is in line with both long  
7 and short term trends in authorized ROE. Graph 1 on the next page shows the  
8 trend in annual average authorized ROE in the U.S. from 1990 through 2017.  
9 Graph 2 on the next page shows the quarter averages in ROE in the U.S. from the  
10 beginning of 2014 through 2017. *Regulatory Focus*, Regulatory Research  
11 Associates, January 30, 2018, p. 5. The U.S. average for 2017 was 9.72%, while  
12 the fourth quarter 2017 average was 9.68%, and the quarterly average was above  
13 10% only twice in the past four years.

1

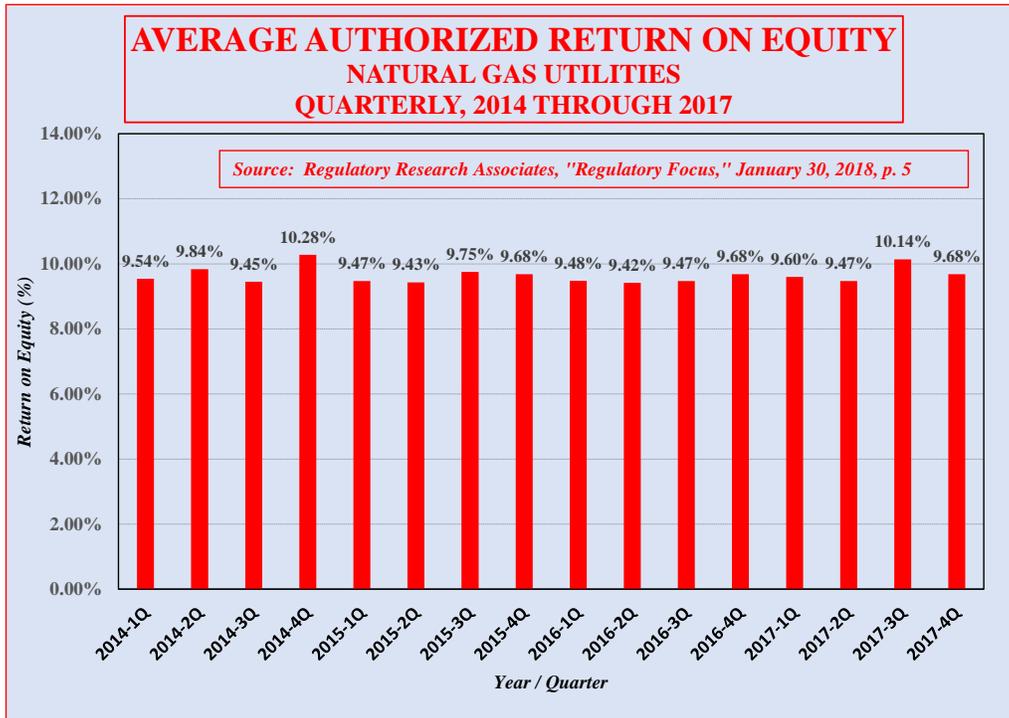
GRAPH 1



2

3

GRAPH 2



4

1 **Q: Do you believe the settled ROE of 10.05% is in the public interest?**

2 A: Yes. While I believe that authorized ROE can be reduced below 10%, I also  
3 recognize that the settled rate is a 35 basis point reduction from its current level.  
4 Moreover, settling ROE prior to Petitioner's case-in-chief filing resulted in cost  
5 savings to ratepayers by avoiding the cost of an ROE witness to Petitioner.  
6 Removing ROE as an issue in this Cause also allows the parties to concentrate on  
7 other issues which might be more difficult to resolve.

#### **IV. OUCC RECOMMENDATIONS**

8 **Q: Please summarize your recommendations to the Commission in this Cause.**

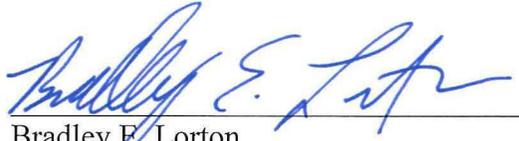
9 A: I recommend the Commission approve the settled 10.05% ROE for use in  
10 Petitioner's capital structure in this Cause.

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

12 A: Yes.

**AFFIRMATION**

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



Bradley E. Lorton  
Utility Analyst II  
Indiana Office of Utility Consumer Counselor  
Cause No. 45072  
Sycamore Gas Company

July 31, 2018

Date

**APPENDIX TO TESTIMONY OF**  
**OUCC WITNESS BRADLEY E. LORTON**

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

2 A: My expertise is in economics and public utility regulation. I hold Bachelor of  
3 Science and Master of Science degrees in Economics from Indiana State  
4 University. I also completed additional courses in Economics, Mathematics and  
5 Labor Studies at Indiana University-Purdue University at Indianapolis. I have  
6 completed the Regulatory Studies Program sponsored by the National Association  
7 of Regulatory Utility Commissioners (“NARUC”) at Michigan State University. I  
8 also completed NARUC’s Advanced Regulatory Studies Program: Ratemaking,  
9 Accounting and Economics.

10 I have over forty years of experience in government and private industry.  
11 My career in public utility regulation began in 2001 when I accepted my current  
12 position with the OUCC. Prior to that, I served in management and business analyst  
13 positions with the U.S. Department of the Navy at the Naval Air Warfare Center in  
14 Indianapolis, and its privatized successor organizations. I also served as an  
15 Economist at the Bureau of Labor Statistics, United States Department of Labor,  
16 and as a Statistician for the Indiana Division of Labor.

17 I have been awarded the professional designation Certified Rate of Return  
18 Analyst (“CRRA”) by the Society of Utility and Regulatory Financial Analysts.  
19 This designation is awarded based upon experience and successful completion of a  
20 written examination.

1 **Q: Have you previously testified before the Indiana Utility Regulatory**  
2 **Commission?**

3 A: Yes. I have previously testified before this Commission addressing economic and  
4 financial issues over the past fifteen years, including rate cases in which I testified  
5 on cost of common equity.

6 **Q: Please describe the review and analysis you conducted in order to prepare**  
7 **your testimony.**

8 A: I reviewed Sycamore Gas' Case-in-Chief and exhibits, including the Stipulation  
9 and Settlement Agreement of April 6, 2018 on the cost of common equity. I  
10 researched Petitioner's previous rate case from 2007, along with recent rate cases  
11 of similar Indiana natural gas utilities.

**CERTIFICATE OF SERVICE**

This is to certify that a copy of the foregoing *Indiana Office of Utility Consumer Counselor Public's Exhibit No. 5 Testimony of OUCC Witness Bradley E. Lorton* has been served upon the following counsel of record in the captioned proceeding by electronic service on July 31, 2018.

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