FILED
August 21, 2018
INDIANA UTILITY
REGULATORY COMMISSION

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 ACT OF 2017 AND POSSIBLE RATE IMPLICATIONS	)	**Cause No. 45032 S3**
RESPONDENT: SYCAMORE GAS COMPANY	)	

<u>INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR'S RESPONSE TO SYCAMORE GAS COMPANY'S REQUEST FOR ADMINISTRATIVE NOTICE</u>

Comes now the Indiana Office of Utility Consumer Counselor ("OUCC") and hereby files its Response to Sycamore Gas Company's ("Sycamore") *Request for Administrative Notice.*

1. On August 10, 2018, Sycamore filed a *Request for Administrative Notice* in this Cause, requesting that the Commission take administrative notice pursuant to 170 Ind. Admin. Code 1-1.1-21 of one page of OUCC Witness Mark Grosskopf's testimony in Sycamore's pending rate case, Cause No. 45072.

2. Sycamore's request noted that counsel for Sycamore spoke with the undersigned, who is also OUCC counsel on the rate case, to determine whether the OUCC had an objection to the request. The undersigned informed counsel that the OUCC had no objection to the request, as long as the entirety of Mr. Grosskopf's testimony was included. When filed, Sycamore's request only contained the single page of Mr. Grosskopf's testimony.

3. Pursuant to Ind. Evidence Rule 106, "[i]f a party introduces all or part of a writing or recorded statement, an adverse party may require the introduction, at that time, of any other part – or any other writing or recorded statement – that in fairness ought to be considered at the same time." The inclusion of a single page of Mr. Grosskopf's rate case testimony, absent the balance

of his evidence regarding the appropriateness of Sycamore's rate request, presents an incomplete picture of the OUCC's case overall. Under Evid. R. 106 and 170 I.A.C. 1-1.1-21, the OUCC hereby requests that the Commission take administrative notice of the entirety of Mr. Grosskopf's testimony in Cause NO. 45072, a copy of which is attached.

WHEREFORE, the OUCC requests the Commission take administrative notice of the Direct Testimony of Mark Grosskopf filed in Cause No. 45072, and all other relief as may be just and proper in the premises.

Respectfully submitted,

Lorraine Hitz-Bradley

Lorraine Hitz-Bradley, Atty. # 18006-29
Deputy Consumer Counselor

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CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing ***Indiana Office of Utility Consumer Counselor Response to Sycamore Gas Company's Request for Administrative Notice*** has been served upon the following counsel of record in the captioned proceeding by electronic service on August 21, 2018.

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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 AUTHORIZATION TO TRACK ADDITIONS OF CUSTOMER SERVICE LINES	)))))	**CAUSE NO. 45072**

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

PUBLIC'S EXHIBIT NO. 1

TESTIMONY OF OUCC WITNESS

MARK H. GROSSKOPF

JULY 31, 2018

Respectfully submitted,

Lorraine Hitz-Bradley

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

TESTIMONY OF OUCC WITNESS MARK H. GROSSKOPF
CAUSE NO. 45072
SYCAMORE GAS COMPANY, INC.

I. INTRODUCTION

Q: Please state your name and business address.

A: My name is Mark H. Grosskopf, and my business address is 115 W. Washington Street, Suite 1500 South, Indianapolis, Indiana 46204.

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

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

Q: What is the purpose of your testimony?

A: I address certain elements of the requested rate increase filed by Sycamore Gas Company, Inc. ("Petitioner" or "Sycamore"). I sponsor and discuss the OUCC's proposed adjustments to Petitioner's revenue requirements, taxes other than income taxes, and state and federal income taxes. I discuss Petitioner's proposed amortization of its accumulated deferred income taxes ("ADIT") as part of Phase 2 of the Commission Investigation in Cause No. 45032, included as part of this rate case. Also, as part of Phase 2 of the Commission Investigation included in this rate case, I address the OUCC's proposal for amortization of the federal income tax expense over-collected by Sycamore from January 1, 2018 until the federal income tax rate embedded in current rates and charges is reduced to 21%. The change from a 34% to 21% rate is as a result of the passage of the Tax Cuts and Jobs Act ("TCJA"), which was passed by Congress and became law on December 22, 2017. I also sponsor accounting schedules to support the OUCC's recommended pro forma adjustments, incorporating recommendations and pro forma adjustments of other OUCC witnesses, and implementing the OUCC's recommended cost of equity. My accounting schedules incorporate each adjustment the OUCC used to calculate the OUCC's recommended total pro forma revenue requirements and the resulting recommended rate increase.

II. OUCC WITNESS INTRODUCTION

Q: Please introduce the other OUCC witnesses who are testifying in this case.

A: The following OUCC witnesses reviewed and analyzed Sycamore's rate case and are testifying on various elements of the revenue requirements:

Ms. Amy Larsen (Public's Exhibit No. 2) analyzed Sycamore's gas sales service revenues, including the normal temperature adjustment ("NTA"), transportation revenues, other revenues, natural gas costs, and various operation and maintenance expenses. She recommends changes to Sycamore's pro forma NTA, management service contract expense, clerical service expense, building lease, charitable contributions, and other miscellaneous expenses.

Ms. Isabelle Gordon (Public's Exhibit No. 3) analyzed Sycamore's original cost rate base, capital structure, depreciation expense, property tax, payroll and payroll taxes, and rate case expense. She recommends adjustments to Sycamore's rate base, capital structure, and various operation and maintenance expenses, including payroll expense, payroll tax expense, rate case amortization expense, and depreciation expense.

Mr. Leon Golden (Public's Exhibit No. 4) discusses his analysis of Sycamore's service line repair and replacement tracking proposal. Mr. Golden recommends approval of Sycamore's request to assume ownership and responsibility of its customers' gas service lines, but recommends denial of Sycamore's service line tracker proposal.

Mr. Brad Lorton (Public's Exhibit No. 5) testifies regarding a Stipulation and Settlement as to Petitioner's Cost of Equity Capital wherein Sycamore and the

OUCC agreed to a 10.05% cost of equity rate to be used in a weighted cost of capital applied to an original cost rate base.

<u>Mr. Brien Krieger</u> (Public's Exhibit No. 6) discusses his analysis of Sycamore's cost of service study and rate design, including Sycamore's recommended increases in fixed monthly facilities charges. Mr. Krieger recommends adjustments to certain allocations between customer classes used in Petitioner's cost of service study, and he recommends an alternative monthly facilities charge for residential customers.

III. REVENUE REQUIREMENT SCHEDULES

Q: Does the OUCC agree with Sycamore's proposed pro forma increase in revenue from existing rates?

A: No. Sycamore requests a rate increase of 16.50% over gross margin, to increase its annual revenue by $773,651. The OUCC's review supports an increase in Sycamore's pro forma revenue requirement of $680,688, resulting in an increase in gross margin of 14.52%.

Q: What attachments and schedules do you sponsor showing the pertinent calculations related to your testimony?

A: I sponsor the following attachments and schedules:

Attachment MHG-1: OUCC Revenue Requirement Schedules

- Schedule 1: Comparison of Petitioner's and OUCC's Revenue Requirements, Comparison of the Income Statement Adjustments, and Revenue Conversion Factor.
- Schedule 2: Petitioner's Balance Sheet as of March 31, 2018.
- Schedule 3: Petitioner's Income Statement for the Twelve Months Ended September 30, 2017.
- Schedule 4: Petitioner's Original Cost Rate Base at March 31, 2018.
- Schedule 5: Pro Forma Net Operating Income Statement.
- Schedule 6: Pro Forma Present Rate Adjustments.

- Schedule 7: Pro Forma Proposed Rate Adjustments.
- Schedule 8: Capital Structure at March 31, 2018.

Q: Please describe the schedules in Attachment MHG-1.

A: Page 1 of Schedule 1 summarizes the main components of the revenue requirements, incorporating the OUCC's adjustments as compared to Sycamore's proposed revenue requirements, resulting in the calculation of the OUCC's recommended revenue increase. Pages 2 and 3 of Schedule 1 compare Sycamore's and the OUCC's proposed operating income adjustments and each party's calculation of the revenue conversion factor. Schedule 2 represents Sycamore's Balance Sheet as of the rate base cut-off date of March 31, 2018 sponsored by OUCC witness Gordon, based on Petitioner's general ledger and responses to discovery. Schedule 3 represents Petitioner's Income Statement as of the end of the test year, September 30, 2017. Schedule 4 shows the OUCC's calculation of Sycamore's original cost rate base as of March 31, 2018, also sponsored by OUCC witness Gordon. Schedule 5 is the Pro Forma Net Operating Income Statement reflecting all pro forma revenue and expense adjustments proposed by the OUCC. The OUCC's proposed adjustments yield revised pro forma revenue, operating expenses and net operating income, resulting in a revised proposed rate increase. Schedule 6 shows the results of the OUCC's calculated adjustments to operating expenses and taxes. Schedule 7 uses the OUCC's proposed revenue increase to gross up bad debt, the IURC fee, Indiana utility receipts tax, and federal and state income taxes. Schedule 8 reflects Sycamore's capital structure as of March 31, 2018 as adjusted by OUCC witness

Gordon, with a revised deferred income tax balance that I discuss later in my testimony.

IV. PROPOSED ADJUSTMENTS TO REVENUE REQUIREMENTS

Q: Are you sponsoring all adjustments shown on Schedules 5 and 6 of Attachment MHG-1?

A: No. Schedules 5 and 6 reflect all of the OUCC's operating income and expense adjustments. I am sponsoring the public utility fee, Indiana utility receipts tax ("URT"), and the state income tax and federal income tax adjustments. Details of my proposed public utility fee, URT, and income tax adjustments are shown in detail on Schedule 6.

Other operating income and expense adjustments on Schedule 6 reflect the net result of adjustments sponsored by OUCC witnesses Larsen and Gordon. The details of witness Larsen's adjustments are shown on Public's Exhibit No. 2, Attachments AEL-1 through AEL-7. The details of witness Gordon's adjustments are shown on Public's Exhibit No. 3, Attachments ILG-1 through ILG-8.

Q: Does the fact that you did not address every issue raised in Sycamore's testimony or revenue requirement schedules mean that you agree with Sycamore's testimony or adjustments on those issues?

A: No. Absence of an issue in the OUCC's testimony and exhibits should not be read as an endorsement of, or agreement with, Sycamore's position on such issues.

V. PUBLIC UTILITY FEE AND TAXES OTHER THAN INCOME TAXES

Q: Please discuss your adjustment to Petitioner's proposed public utility fee.

A: I made three changes to Sycamore's proposed public utility fee calculation. My adjustment includes a deduction from revenue for Petitioner's pro forma bad debt, as required on the Commission's Public Utility Fee Report. I also updated the public utility fee rate to the new rate effective July 1, 2018 through June 30, 2019, as shown on Schedule 6 of Attachment MHG-1. The new public utility fee rate is also reflected on Schedule 1, page 3, and Schedule 7 of Attachment MHG-1. The other changes to Sycamore's public utility fee calculation reflected in my schedules are a result of changes in pro forma revenue and gas purchases from weather normalization adjustments sponsored by OUCC witness Larsen.

Q: Please discuss your adjustment to Petitioner's proposed Indiana URT.

A: I do not dispute Sycamore's methodology in calculating the Indiana URT, with one exception. I verified the general methodology is consistent with Indiana URT calculations previously approved by the Commission, but my adjustment includes the $1,000 annual deduction allowed by the Indiana Department of Revenue. The other changes to Sycamore's Indiana URT calculation reflected in my schedules are a result of changes to pro forma revenue sponsored by OUCC witness Larsen.

Q: Did you verify the test year URT amount shown in Petitioner's calculation?

A: Yes. On page 7 of Exhibit MJM-2, Petitioner calculated their URT adjustment with a test year amount of $110,162, but Petitioner's income statement on Exhibit CSH-2 shows a URT amount of $66,367. I verified through discovery that the test year amount of $110,162 is correct; the difference is due to a general ledger reclassification of $43,795 from the payroll tax account into the URT account.

VI. INCOME TAXES

Q: What is your adjustment to state and federal income taxes?

A: I do not dispute Sycamore's methodology in calculating the pro forma federal and state income tax adjustments based on pro forma present rates. I verified the methodology is consistent with income tax calculations previously approved by the Commission. Sycamore used the new 21% federal income tax rate resulting from the TCJA to calculate its pro forma federal tax adjustment. All other changes to Sycamore's federal and state income tax calculations are a result of changes to other pro forma proposed revenue requirements. I will discuss additional impacts resulting from the TCJA and my recommendations regarding these changes below.

VII. IMPACTS OF 2017 TCJA – PHASE 2

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

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

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

A: There are three major adjustments necessary to reflect the impact of the TCJA on a regulated utility's rates and charges: (1) reduction of federal income tax expense embedded in utility rates to reflect the new 21% corporate tax rate on a goingforward basis; (2) refund of the federal income tax expense over-collected by the utility from January 1, 2018 until the federal income tax rate embedded in rates and charges is reduced to 21%;[1] and (3) reduction of federal income tax expense to reflect the return of excess ADIT created when ADIT is revalued at the 21% rate. Item (1) is considered a Phase 1 issue in the Commission's tax investigation in Cause No. 45032, and items (2) and (3) are considered Phase 2 issues in the Commission's tax investigation.

Q: How are the impacts of the TCJA on Sycamore's rates being addressed?

A: Sycamore's Phase 1 tax issue is being addressed in a pending Commission investigation sub-docket, Cause No. 45032 S-3. Phase 2 tax issues have been removed from Cause No. 45032 to be addressed in this Cause.

Q: Did Petitioner include an adjustment to revenue requirements reflecting the Phase 2 effects of the TCJA on proposed rates?

A: Yes. Petitioner's witness Nichole M. Clement sponsors calculations arriving at an annual amortization to return excess accumulated deferred income taxes created when ADIT is revalued at the 21% rate. Ms. Clement's calculation is shown on Petitioner's Exhibit NMC-1, resulting in a reduction to revenue requirements of $105,537 per year over 15.33 years.

Q: What is the effect of the TCJA on Petitioner's accumulated deferred income tax reflected in this Cause?

A: The change in tax law affects deferred taxes in the capital structure. Petitioner's deferred taxes in the capital structure were based on a 34% tax rate. For

[1] 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.

ratemaking purposes, at a 34% tax rate, ratepayers had been supporting income taxes based on the book depreciation rate, but the Company paid lower taxes using accelerated depreciation. Now, when book depreciation exceeds tax depreciation under the new 21% tax rate, the difference of tax depreciation to book depreciation is insufficient to offset the deferred tax liability created with a 34% tax rate. The difference is an excess deferred tax liability, or excess deferred income tax (“EDIT”). As reflected in this filing, Petitioner revalued the accumulated deferred taxes that identified the EDIT to be returned to customers.

As shown on Exhibit NMC-1, Petitioner determined the difference between the Federal Deferred Tax Asset (Liability) at the 34% statutory rate and the Federal Deferred Tax Asset (Liability) at the 21% statutory rate. The difference in these deferred tax liabilities is the EDIT liability to be refunded.

Q: How does Petitioner propose to refund EDIT to its customers?

A: Petitioner used the weighted average remaining life method as an alternative to the Average Rate Assumption Method (“ARAM”) to determine the amortization period over which EDIT is returned. Petitioner calculated the weighted average remaining life of its assets to be 184 months, or 15.33 years. This is the period over which Petitioner proposes to return EDIT.

Q: Is Petitioner’s proposed amortization of EDIT appropriate?

A: Yes. Weighted average remaining life amortization is allowed by the TCJA if accounting records do not contain sufficient detail to apply ARAM. Through discovery, I verified Petitioner’s weighted average remaining life amortization calculation. I also determined through discovery that the entire amount of

Petitioner's deferred federal income tax liability is the result of tax-to-book differences of utility plant in service. (Attachment MHG-2, Q2.7.) Petitioner does not have any unprotected deferred income tax liability which could be amortized at the Commission's discretion over a shorter period than the weighted average remaining life. However, the entire EDIT liability is considered protected and the weighted average remaining life amortization period is required by the TCJA.

Petitioner has an unprotected tax asset of $20,250 that is the result of uncollectable accounts not deductible for tax purposes until the accounts are fully written off as uncollectable. For this unprotected tax asset, the refundable difference between the 34% tax rate amount and the 21% tax rate amount is $8,507. This represents a nominal amount, so I recommend it be amortized with the total EDIT at the same 184 months as the protected regulatory liability.

Q: Why did Petitioner use balances as of the test year ending September 30, 2017 rather than December 31, 2017 to calculate EDIT?

A: Sycamore responded in discovery that the test year end was used to align with other amounts included in the filing as of the test year. They also indicated that "[w]hile the tax rate reduction to 21% did not occur until January 1, 2018, the reduction was known as of the date Sycamore filed its case-in-chief, so the lower enacted statutory tax rate was applied." (Attachment MHG-2, Q2.6(a).) Petitioner proposes the September 30, 2017 balance in Petitioner's Exhibit NMC-1 be used to calculate EDIT.

Q: Do you recommend approval of Petitioner's proposed refund of EDIT in its revenue requirements?

A: No. Although I agree with Petitioner's proposed amortization period of 184 months, I disagree with the deferred income tax balance Petitioner used as the starting point of the calculation. Petitioner started with a $4,232,314 Federal Deferred Tax (Liability) at the 34% statutory rate, which does not agree with Petitioner's balance sheet or general ledger. I use the Deferred Income Tax balances from Petitioner's general ledger, reflected in the balance sheet sponsored by OUCC witness Gordon, shown on Schedule 2, page 2 of Attachment MHG-1. The balances of $4,681,924 in deferred income tax liability and $20,250 in deferred income tax asset are from Petitioner's general ledger at the test year ending September 30, 2017, and these balances remain constant as of the rate base and capital structure cut-off date of March 31, 2018.

Petitioner also reflects the total deferred income tax liability amount from its balance sheet on Petitioner's Exhibit CSH-1. However, this version of Petitioner's balance sheet segregates the $4,681,924 deferred income tax liability into a Regulatory Liability (EDIT) of $1,618,238, minus one years' amortization of $105,537 as calculated on Petitioner's Exhibit NMC-1, leaving the remaining $3,063,687 Deferred Income Tax. The Regulatory Liability (EDIT) of $1,618,238, with one years' amortization of $105,537 added back, plus the remaining Deferred Income Tax Liability ($3,063,687) totals to the $4,681,924 in Petitioner's general ledger. The $105,537 needs to be added back because the amortization of EDIT should coincide with the return of these funds to ratepayers, through approved new rates in this Cause. Amortizing the EDIT without refund would only result in income to the utility.

In my calculation, I used the Deferred Income Tax balance of $4,661,674 reflecting the net deferred income tax liability and deferred income tax asset per Petitioner's general ledger and balance sheet, and reduced this balance to reflect the new 21% statutory rate, yielding a new Deferred Income Tax balance of $2,879,050. The difference between deferred taxes at the 34% tax rate and the 21% tax rate is $1,782,624, reflecting the 13% difference in tax rates to be refunded to ratepayers. Amortizing this difference over Petitioner's calculated 184 months yields an annual amortization of $116,258. (Attachment MHG-3.) This amortization is reflected as a reduction to revenue requirements, shown as an adjustment of ($116,258) on Schedule 5, Attachment MHG-1.

Q: Does revaluing the deferred income tax at the 21% tax rate affect the capital structure?

A: Yes. Deferred Income Taxes in the March 31, 2018 capital structure will be $2,879,050, reflecting the 21% statutory rate. (Attachment MHG-1, Schedule 8.) The reduction of $1,782,624 from Deferred Income Taxes will be a regulatory liability, to be amortized over 184 months.

Q: Did Petitioner's rate filing present all other necessary Phase 2 adjustments responsive to the TCJA?

A: No. Petitioner was silent on the over-collection of tax expense in its current base rates, which were set in its last rate case using a 34% federal tax rate. As a result of the Commission's initial Order in Cause No. 45032, it is undisputed that Sycamore's federal income tax rate was reduced effective January 1, 2018 to 21%. The Commission has previously recognized that taxes are a flow-through expense. Ratepayers should receive a credit for the federal taxes they are over-paying in rates from January 1, 2018 up to the date Petitioner's base rates are adjusted through the date new rates from Phase 1 of Cause No. 45032 are in effect. Petitioner has disputed the Commission's Order to refund the over-collection of taxes in Cause No 45032 S-3 where, in rebuttal, Petitioner stated, "[t]here is no refund to which Sycamore's customers are entitled[.]" (Sycamore's Exhibit JSB-R, Cause No. 45032 S3, page 6, lines 6-7.) When asked in discovery for the results of the regulatory accounting in compliance with the Commission's directive in the January 3, 2018 Order in Cause No. 45032, Petitioner responded that "[a]lthough no such regulatory liability currently exists, Sycamore anticipates making adjustments to its financial statements, including lawfully required liabilities, as it completes its year-end audit in the coming months and/or upon final resolution of these issues in this case." (Attachment MHG-4.) The OUCC verified in discovery that Petitioner's accounting firm that will be conducting the year-end audit is the same firm that provided testimony supporting the amortization of EDIT in this Cause. However, Petitioner did not provide evidence for the regulatory liability calculation for the period from January 1, 2018 to the date this case was filed.

Q: Please explain your recommended refund of the regulatory liability.

A: As addressed in Sycamore's sub-docket, Cause No. 45032 S-3, Sycamore has not yet reduced its base rates to reflect the new federal tax rate. This lengthens the time the federal income tax expense is over-collected by the utility, from January 1, 2018 until the federal income tax rate embedded in base rates is reduced to 21%. This increases the amount of the regulatory liability to be refunded to ratepayers ordered in the Commission's Order dated January 3, 2018 in Cause No.

45032. On June 7, 2018, Sycamore was granted its motion to be dismissed from Phase 2 of Cause No. 45032 S-3 so Phase 2 issues could be addressed in this pending rate case. But, as mentioned above, Petitioner did not provide a calculation of the still accruing over-collection of federal income tax since January 1, 2018. Therefore, I am providing an estimate of the amount Petitioner should refund its customers. The annual amount of excess income tax imbedded in rates was calculated and supported in my testimony in Cause No. 45032 S-3 at $224,438. (Attachment MHG-5.) In Sycamore's Verified Responses to Docket Entry Questions filed on July 20, 2018 in Cause No. 45032 S-3, Petitioner agreed this amount is calculated correctly.

Since Petitioner has not provided an estimate of the excess income tax collected, I recommend the annual amount of $224,438 be used as a temporary proxy. I recommend that this current overpayment of federal income tax be refunded over the same period in which it is being collected, which could extend through the entire year starting January 1, 2018. After new rates are approved in this Cause, Petitioner should be required to file a compliance filing to calculate the correct amount of the over-payment, and return the excess federal tax collected through a temporary tracker, allocated to each rate class based on actual revenues received during the period collected.

VIII. OUCC RECOMMENDATIONS

Q: Please summarize the OUCC's recommendations related to operating revenue and expenses.

A: As shown on Schedules 1 and 5 of Attachment MHG-1, the OUCC's adjustments to revenue, operating expenses, and taxes result in a non-gas cost revenue percentage increase of 14.52%, for a total recommended revenue increase of $680,688.

Q: Please summarize the OUCC's recommendations regarding a return on rate base.

A: The OUCC's revenue requirements are based on an original cost rate base of $15,892,533. The OUCC's capital structure supported by witness Gordon yields a weighted cost of capital of 9.01%. The resulting return on original cost rate base is $1,432,359.

Q: What are your other recommendations in this Cause?

A: As explained in my testimony, I recommend amortizing EDIT of $1,782,624 over 184 months, resulting in a return of EDIT to the ratepayers at an annual amortization of $116,258. I also recommend Petitioner be required to file a compliance filing initiating a temporary tracker to return the excess federal tax collected from January 1, 2018 through the date new rates from Phase 1 of Cause No. 45032 are in effect, allocated to each rate class based on actual revenues received during the period collected.

Q: Does this conclude your testimony?

A: Yes.

AFFIRMATION

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

Mark H. Grosskopf

Mark H. Grosskopf
Senior Utility Analyst
Indiana Office of Utility Consumer Counselor
Cause No. 4572
Sycamore Gas Company

July 31, 2018

Date

APPENDIX MHG-1 TO TESTIMONY OF
OUCC WITNESS MARK H. GROSSKOPF

Q: Please describe your educational background and experience.

A: I graduated from Indiana University in May 1980, receiving a Bachelor of Science degree in business with a major in accounting. I worked in auditing and accounting positions at various companies from 1980 to 1995. I joined the OUCC in April of 1995 and have worked as a member of the OUCC's Natural Gas Division since June of 1999. I became a Certified Public Accountant in November of 1998. I also completed both weeks of the National Association of Regulatory Utility Commissioners Annual Regulatory Studies program at Michigan State University. I completed an additional week of the Advanced Regulatory Studies Program hosted by the Institute of Public Utilities Regulatory Research and Education at Michigan State University.

Q: Have you previously testified before the Commission?

A: Yes, I have testified as an accounting witness in various causes involving water, wastewater, electric, and gas utilities, including but not limited to, rate cases, pipeline safety adjustment cases, 7-Year Plan, and Transmission, Distribution, and Storage System Improvement Charge ("TDSIC") Tracker cases.

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

A: I reviewed Petitioner's direct testimony, exhibits, workpapers and other supporting documentation provided in this Cause. I analyzed Petitioner's responses to the OUCC's discovery requests. I reviewed the Final Order and associated evidence from Petitioner's prior rate case in Cause No. 43090, on which I participated as a testimonial witness for the OUCC. Regarding the tax issues addressed in this Cause relevant to the Commission's tax investigation, I reviewed the direct testimony, exhibits, and rebuttal testimony provided by Sycamore Gas Company related to Phase 1 of Cause No. 45032 S-3, on which I also was a testimonial witness for the OUCC. I also testified on the Phase 1 and Phase 2 tax investigation issues in NIPSCO's rate case in Cause No. 44988. I have been involved with the Commission's Investigation in Cause No. 45032 since its inception, conducting analysis of the Tax Cuts and Jobs Act of 2017 and the effect this Act has on the rates of the various utilities involved in the investigation, including Sycamore Gas Company.

SYCAMORE GAS COMPANY, INC.
CAUSE NO. 45072

Comparison of Petitioner's and the OUCC's
Revenue Requirement

Description	Per Petitioner	Per OUCC	Sch Ref
Rate Base	$16,115,658	$15,892,533	4
Times: Rate Of Return	8.91%	9.01%	8
Net Operating Income	1,436,319	1,432,359	
Less: Adjusted Net Operating Income	870,072	934,089	5
Increase In Net Operating Income	566,247	498,270	
Times: Revenue Conversion Factor	1.3663	1.3661	1
Recommended Revenue Increase	$773,651	$680,688	
Overall Percentage Increase (Decrease)	16.50%	14.52%	

SYCAMORE GAS COMPANY, INC.
CAUSE NO. 45072

Comparison of Income Statement Adjustments
Test Year Ending September 30, 2017

Adjustment	Per Petitioner	Per OUCC	OUCC More/Less
Operating Revenues			
Gas Sales Service Revenue	$ (3,634,156)	$ (3,679,180)	($45,024)
Transportation Revenue	(901)	(901)	0
Other Operating Revenue	0	0	0
Total Operating Revenues	(3,635,057)	(3,680,081)	(45,024)
Operating Expenses			
Natural Gas Purchases	(3,546,386)	(3,546,610)	(224)
Operation & Maintenance:			
Administration:			
Payroll	219,642	181,342	(38,300)
Rate Case Expense	75,333	28,250	(47,083)
Work Study Clerical Work	27,100	26,100	(1,000)
Management Service	38,793	0	(38,793)
Pipeline Safety Training	15,000	15,000	0
Property & Casualty Insurance	42,578	42,578	0
Medical Insurance	20,520	20,520	0
401-K	400	400	0
Building Lease	16,229	15,861	(368)
Charitable Contributions	(3,247)	(3,809)	(562)
Miscellaneous Expenses	0	(1,071)	(1,071)
Bad Debt Expense	7,213	7,213	0
Taxes - Other Than Income Taxes			
Payroll Taxes	1,000	1,032	32
Public Utility Fee	2,604	1,357	(1,247)
Utility Receipts Tax	(47,715)	(48,359)	(644)
Property Tax	0	0	0
Amortization of Regulatory Liability	(105,537)	(116,258)	(10,721)
Taxes - Income - State	(39,213)	(35,382)	3,831
Taxes - Income - Federal	(297,538)	(283,371)	14,167
Depreciation	39,019	51,961	12,942
Total Operating Expenses	($3,534,205)	($3,643,247)	($109,042)

SYCAMORE GAS COMPANY, INC.
CAUSE NO. 45072

Revenue Conversion Factor

Description	Per Petitioner		Per OUCC
Gross Revenue Change	100.0000%	1	100.0000%
Less: Bad Debt (0.083128%)	0.0831%	2	0.0831%
Subtotal	100.0000%	3	100.0000%
Less: Public Utility Fee (0.1202041%)	0.1331%	4	0.1202%
Subtotal	99.9169%	5	99.9169%
Less: Utility Receipts Tax (at 1.40%)	1.3988%	6	1.3988%
Subtotal	99.7838%	7	99.7967%
Less: State Income Tax (at 5.75%)	5.7376%	8	5.7383%
Subtotal	92.6474%	9	92.6595%
Less: Federal Income Tax (at 21%)	19.4560%	10	19.4585%
Change In Net Operating Income	73.1914%		73.2010%
Revenue Conversion Factor	1.3663		1.3661

Formula Notes:

Line 5 equals (100% minus Line 2)

Line 6 equals (Line 5 multiplied by 1.4%)

Line 7 equals (Line 1 minus Line 2 minus Line 4)

Line 8 equals (Line 7 multiplied by 5.75%)

Line 9 equals (Line 7 minus Line 6 minus Line 8)

Line 10 equals (Line 9 multiplied by 21%)

SYCAMORE GAS COMPANY, INC.
CAUSE NO. 45072

Balance Sheet as of March 31, 2018

ASSETS

Utility Plant:	
Utility Plant in Service	$31,214,855
Less: Accumulated Depreciation	(16,000,658)
Net Utility Plant in Service	15,214,197
Construction Work in Progress	23,150
Total Utility Plant	15,237,347
Other Property and Investments:	
Intercompany Receivable	15,588,769
Current and Accrued Assets:	
Accounts Receivable	1,367,319
Materials and Supplies	274,625
Prepaid Expenses	206,168
Other Regulatory Assets	9,090
Recoverable Gas Costs	69,527
Deferred Income Tax	20,250
Total Current Assets	1,946,979
Total Assets	$32,773,095

SYCAMORE GAS COMPANY, INC.
CAUSE NO. 45072

Balance Sheet as of March 31, 2018

LIABILITIES AND SHAREHOLDERS' EQUITY

Shareholders' Equity:	
Retained Earnings	$25,740,881
Total Shareholders' Equity	25,740,881
Current & Accrued Liabilities:	
Accounts Payable	1,071,312
Bank Overdraft	114,486
Other Accrued Liabilities and Expenses	472,298
Customer Deposits	250,654
Income Taxes Payable	441,540
Current Portion of Long Term Debt	0
Total Current Liabilities	2,350,290
Long Term Liabilities:	
Long Term Debt	0
Regulatory Liability	0
Deferred Income Tax	4,681,924
Total Long Term Liabilities	4,681,924
Less: Current Portion of Long Term Debt	0
Total Liabilities	7,032,214
Total Liabilities and Shareholders' Equity	$32,773,095

SYCAMORE GAS COMPANY, INC.
CAUSE NO. 45072

Income Statement For The Twelve Months Ended September 30, 2017

<u>Operating Revenues</u>	
Gas Sales Revenue	$7,553,912
Transportation Revenue	813,749
Other Operating Revenues	97,564
Total Operating Revenues	8,465,225
<u>Operating Expenses</u>	
Natural Gas Purchases	3,560,327
Operations and Maintenance	985,623
Administration	1,207,755
Bad Debt Expense	(176)
Depreciation	901,745
Taxes - Other Than Income Taxes	240,052
Federal Income Taxes	497,590
State Income Taxes	101,386
Total Operating Expenses	7,494,302
Utility Operating Income	970,923
<u>Non-Operating Expense</u>	
Interest Expense	11,959
Total Non-Operating Expense	11,959
Net Income	$958,964

SYCAMORE GAS COMPANY, INC.
CAUSE NO. 45072

Original Cost Rate Base at March 31, 2018

Utility Plant In Service at 3/31/18	$31,214,855
Less: Accumulated Depreciation	(16,000,658)
Less: Contributions in Aid of Construction	0
Add: Construction Work in Progress	23,150
Net Utility Plant in Service	15,237,347
Add:	
Materials and Supplies Inventory (13 month average)	339,488
Working Capital	315,698
Total Original Cost Rate Base	$15,892,533

SYCAMORE GAS COMPANY, INC.
CAUSE NO. 45072

Pro Forma Net Operating Income Statement

Description	Twelve Mos. Ending 9/30/2017	Adjustments	Sch. Ref.	Pro Forma Present Rates	Adjustments	Sch. Ref.	Pro Forma Proposed Rates
Operating Revenues							
Gas Sales Service Revenue	$7,553,912	$ (3,679,180)	6-1	$3,874,732	$680,688	7-1	$4,555,420
Transportation Revenue	813,749	(901)	Pet.	812,848		7-1	812,848
Other Operating Revenue	97,564			97,564			97,564
Total Operating Revenues	8,465,225	(3,680,081)		4,785,144	680,688		5,465,832
Operating Expenses							
Natural Gas Purchases	3,560,327	(3,546,610)	6-2	13,717			13,717
Operation & Maintenance:	985,623			2,525,586			2,526,152
Administration:	1,207,755						
Payroll		181,342	6-8				
Rate Case Expense		28,250	6-10				
Work Study Clerical Work		26,100	6-3				
Management Service		0	6-4				
Pipeline Safety Training		15,000	Pet.				
Property & Casualty Insurance		42,578	Pet.				
Medical Insurance		20,520	Pet.				
401-K		400	Pet.				
Building Lease		15,861	6-5				
Charitable Contributions		(3,809)	6-6				
Miscellaneous		(1,071)	6-7				
Bad Debt Expense	(176)	7,213	Pet.		566	7-2	
Taxes - Other Than Income Taxes							
Payroll Taxes	15,510	1,032	6-9	16,542			16,542
Public Utility Fee	8,940	1,357	6-12	10,297	818	7-3	11,115
Utility Receipts Tax	110,162	(48,359)	6-13	61,803	9,522	7-4	71,324
Property Tax	105,440	0	Pet.	105,440			105,440
Amortization of Regulatory Liability	0	(116,258)	MHG-3	(116,258)			(116,258)
Taxes - Income - State	101,386	(35,382)	6-14	66,004	39,060	7-5	105,064
Taxes - Income - Federal	497,590	(283,371)	6-14	214,219	132,450	7-6	346,669
Depreciation	901,745	51,961	6-11	953,706			953,706
Total Operating Expenses	7,494,302	(3,643,247)		3,851,055	182,415		4,033,471
Net Operating Income	$970,923	($36,834)		$934,089	$498,272		$1,432,361

SYCAMORE GAS COMPANY, INC.
CAUSE NO. 45072
Adjustments - Increase/(Decrease)

(1)
Revenue Adjustment

Total Revenue Adjustment including NTA per Public's Exhibit No. 2, Attachment AEL-1	($3,679,180)

(2)
Purchased Gas Adjustment

Total Gas Cost Adjustment including NTA per Public's Exhibit No. 2, Attachment AEL-2	($3,546,610)

(3)
Clerical Service Work Adjustment

Adjustment to Clerical Service Work Expense per Public's Exhibit No. 2, Attachment AEL-3	$26,100

(4)
Management Service Contract Adjustment

Adjustment to Management Service Contract per Public's Exhibit No. 2, Attachment AEL-4	$0

(5)
Building Lease Adjustment

Adjustment to Building Lease per Public's Exhibit No. 2, Attachment AEL-5	$15,861

(6)
Charitable Contributions Adjustment

Adjustment to Charitable Contributions per Public's Exhibit No. 2, Attachment AEL-6	($3,809)

(7)
Miscellaneous Expense Adjustment

Adjustment to Miscellaneous Expense per Public's Exhibit No. 2, Attachment AEL-7	($1,071)

(8)
Payroll Expense Adjustment

Adjustment to Payroll Expense per Public's Exhibit No. 3, Attachment ILG-8	$181,342

(9)
Payroll Tax Expense Adjustment

Adjustment to Payroll Tax Expense per Public's Exhibit No. 3, Attachment ILG-2	$1,032

SYCAMORE GAS COMPANY, INC.
CAUSE NO. 45072
Adjustments

(10)
Rate Case Amortization Expense Adjustment

Adjustment to Rate Case Amortization Expense per Public's Exhibit No. 3, Attachment ILG-4	$28,250

(11)
Depreciation Expense Adjustment

Adjustment to Depreciation Expense per Public's Exhibit No. 3, Attachment ILG-5	$51,961

(12)
Public Utility Fee

Pro Forma Present Rate Margin		$4,785,144
Add Back: Test Year Gas Purchases		3,560,327
Add Back: Weather Normalized Gas Purchase Adjustment		325,160
Pro Forma Present Rate Revenue		8,670,631
Less Exempt Revenues:		
Miscellaneous Operating Revenues	(97,564)	
Less Pro Forma Bad Debts:	(7,037)	
Total Exempt Revenues		(104,601)
Eligible Revenues		8,566,030
Current Public Utility Fee Rate		0.1202%
Pro Forma Public Utility Fee		10,297
Test Year Public Utility Fee Expense		(8,940)
OUCC Adjustment - Increase/(Decrease)		$1,357

(13)
Indiana Utility Receipts Tax

Gross Receipts	$4,687,580	
Less: Wholesale Customer Receipts	(265,072)	
Less: Exemption	(1,000)	
Less: Pro Forma Bad Debts	(7,037)	
Utility Receipts Subject to Utility Receipts Tax	4,414,471	
Utility Receipts Tax Rate	1.40%	
Pro Forma Utility Receipts Tax at Present Rates	61,803	
Less: Utility Receipts Tax Per Books at 9/30/17	(110,162)	
OUCC Adjustment - Increase/(Decrease)		($48,359)

SYCAMORE GAS COMPANY, INC.
CAUSE NO. 45072
Adjustments

(14)
State and Federal Income Tax

	Federal Income Tax	State Income Tax
Pro Forma Present Rate Operating Revenue Increase	$4,785,144	$4,785,144
Less: Operations and Maintenance	(2,532,266)	(2,532,266)
Bad Debt Expense	(7,037)	(7,037)
Depreciation	(953,706)	(953,706)
Taxes Other Than Income	(194,081)	(194,081)
State Income Tax	(66,004)	
Operating Income	1,032,050	1,098,054
Less:		
Interest Expense	(11,959)	(11,959)
Add Back:		
Utility Receipts Tax		61,803
Taxable Income	1,020,091	1,147,897
Multiply by: Federal Income Tax Rate	21.00%	
Multiply by: State Income Tax Rate		5.75%
Pro Forma State Income Tax Expense		66,004
Pro Forma Federal Income Tax Expense	214,219	
Less: Test Year Expense	497,590	101,386
OUCC Adjustment - Increase/(Decrease)	($283,371)	($35,382)

SYCAMORE GAS COMPANY, INC.
CAUSE NO. 45072

Pro Forma Proposed Adjustments

(1)
Proposed Rate Increase

Pro Forma Present Rate Sales	$4,687,580
Times: Rate Increase	14.52%
Adjustment - Increase	$680,688

(2)
Proposed Bad Debt Adjustment

Proposed Rate Increase	$680,688
Times: Current Effective Rate (from Revenue Conversion Factor - Sch. 1)	0.0831%
Adjustment - Increase	$566

(3)
Proposed Public Utility Fee

Proposed Rate Increase	$680,688
Times: Current Effective Rate (from Revenue Conversion Factor - Sch. 1)	0.1202%
Adjustment - Increase	$818

(4)
Proposed Utility Receipts Tax

Proposed Rate Increase	$680,688
Times: Current Effective Rate (from Revenue Conversion Factor - Sch. 1)	1.3988%
Adjustment - Increase	$9,522

(5)
Proposed State Income Tax

Proposed Rate Increase	$680,688
Times: Current Effective Rate (from Revenue Conversion Factor - Sch. 1)	5.7383%
Adjustment - Increase	$39,060

(6)
Proposed Federal Income Tax

Proposed Rate Increase	$680,688
Times: Current Effective Rate (from Revenue Conversion Factor - Sch. 1)	19.4585%
Adjustment - Increase	$132,450

SYCAMORE GAS COMPANY, INC.
CAUSE NO. 45072

Capital Structure
as of March 31, 2018

Description	Amount	Percent of Total	Cost	Weighted Cost
Common Equity	$25,740,881	89.16%	10.050%	8.96%
Customer Deposits	250,654	0.87%	6.000%	0.05%
Long Term Debt	0	0.00%	0.000%	0.00%
Deferred Income Taxes	2,879,050	9.97%	0.000%	0.00%
Total	$28,870,585	100.00%		9.01%

Q 2.6: *Regarding Petitioner's Exhibit NMC-1:*

a. *Given that the 35% federal tax rate was still in effect until January 1, 2018, please explain why Petitioner used balances as of the test year ending September 30, 2017 rather than December 31, 2017.*

Response: Sycamore utilized balances as of the test year ending September 30, 2017 to be aligned with other amounts included in the filing as of the test year. While the tax rate reduction to 21% did not occur until January 1, 2018, the reduction was known as of the date Sycamore filed its case-in-chief, so the lower enacted statutory tax rate was applied.

b. *Please provide the account balances of Property, Plant, and Equipment, Accumulated Depreciation, and Deferred Income Tax as of December 31, 2017.*

Response: The account balances as of December 31, 2017 are as follows: Property, Plant and Equipment: $31,078,554; Accumulated Depreciation: $15,786,900; and Deferred Federal Income Tax Liability: $2,594,003 at 21% statutory rate (or $4,199,815 at previous 34% statutory rate).

Q 2.7: *Regarding Petitioner's Regulatory Liability Calculation on Exhibit NMC-1:*

a. *Is Petitioner aware of any un-protected deferred income taxes? If "yes", please provide the total balance of un-protected deferred income taxes, as of December 31, 2017.*

Response: Sycamore is not aware of any unprotected deferred income tax liability amounts, but Sycamore is aware of having an unprotected deferred income tax asset amount of $20,250 at December 31, 2017.

b. *Did Petitioner capitalize any repairs to Utility Plant in Service for book purposes and expense these repairs for tax purposes? If "yes", please describe and provide a list of each repair contributing to the deferred tax balance, as of December 31, 2017.*

Response: Sycamore is not aware of any repairs that were capitalized to its Utility Plant in Service for book purposes and expensed for tax purposes.

c. *Is any of the deferred federal income tax a result of tax-to-book differences based on anything other than Utility Plant in Service? If "yes", please provide a list of the types of accounts, assets, expenses, or other items that produced the non-property regulatory liabilities and describe each item contributing to the deferred tax balance, as of December 31, 2017.*

Response: The entire amount of the deferred federal income tax liability is a result of tax-to-book differences of Utility Plant in Service. The amount referenced in the response to DR 2.7a, above, is a deferred income tax asset that is the result of an allowance for doubtful accounts that is not deductible for tax purposes until fully written off as an uncollectible amount.

Q 2.8: *Please provide a list of the approved depreciation rates for each Utility Plant in Service asset account or class.*

Response: Sycamore's "Distribution Plant" is depreciated at a rate of 2.91%; "Other General Plant" is depreciated at a rate of 10%; and "Transportation Equipment – allowed" is depreciated at a rate of 20%. Please see the attached pdf file labeled WP Q2.8 listing the approved depreciation rates for each of these Utility Plant in Service asset accounts or classes as determined in Sycamore's most recent rate case (when Sycamore was known as Lawrenceburg Gas Company), IURC Cause No. 43090.

Q 2.9: *Referencing Petitioner's Exhibit NMC-1, how was the weighted average life of the plant balances calculated? Please provide workpapers showing the calculations of both the 184 months and 15.33 years.*

Response: The weighted average life of the plant balances was calculated as follows: First, the remaining depreciable/useful life (in months) for each individual asset was determined as of September 30, 2017. Next, the remaining life was then weighted based upon the cost of the individual asset as compared to the total cost of plant. Lastly the remaining depreciable/useful weighted average life for each asset was summed together to arrive at the total weighted average life of 184 months (or 15.33 years). Please see the attached pdf file labeled WP Q2.9 and the heading "Asset Value Report.

Sycamore Gas Company
Regulatory Liability Calculation
Deferred Income Tax Balance As of December 31, 2017*

* Petitioner did not provide a reconciled balance as of December 31, 2017. The OUCC used the balance from Petitioner's General Ledger which showed a Deferred Income Tax balance of $4,681,924 as of September 30, 2017, and a combined Deferred Income Tax and Regulatory Liability net balance of $4,681,924 as of March 31, 2018. Since this balance did not change between these two dates, the OUCC used it as the December 31, 2017 balance.

Federal Deferred Tax Liability at 34% Statutory Rate	**$4,681,924** *
Federal Deferred Tax Asset at 34% Statutory Rate	**(20,250)**
Net Federal Deferred Income Tax at 34% Statutory Rate	**4,661,674**
(100% of Net Deferred Income Tax balance from Petitioner's General Ledger)	
Net Federal Deferred Income Tax at 21% Statutory Rate	**(2,879,050)**
(61.76% of Deferred Income Tax) 21%/34% = 61.76%	
Net Regulatory Liability (Refundable Deferred Tax Liability due to Rate Change)	**(1,782,624)**
(38.24% of Deferred Income Tax) 13%/34% = 38.24%	

Amortization of Regulatory Liability over weighted average life of the plant balances

Months	184.00
Years	15.33

		Amortization
1/1/2019-12/31/2019	$	116,258.10
1/1/2020-12/31/2020	$	116,258.10
1/1/2021-12/31/2021	$	116,258.10
1/1/2022-12/31/2022	$	116,258.10
1/1/2023-12/31/2023	$	116,258.10
1/1/2024-12/31/2024	$	116,258.10
1/1/2025-12/31/2025	$	116,258.10
1/1/2026-12/31/2026	$	116,258.10
1/1/2027-12/31/2027	$	116,258.10
1/1/2028-12/31/2028	$	116,258.10
1/1/2029-12/31/2029	$	116,258.10
1/1/2030-12/31/2030	$	116,258.10
1/1/2031-12/31/2031	$	116,258.10
1/1/2032-12/31/2032	$	116,258.10
1/1/2033-12/31/2033	$	116,258.10
1/1/2034-4/30/2034	$	38,752.70
Total	$	1,782,624.20

Q 5.2: *The Commission's Order dated January 3, 2018 in Cause No. 45032 stated "it is appropriate and in the public interest for Respondents to immediately begin using regulatory accounting, such as the use of regulatory assets and liabilities, for all calculated differences resulting from the Act and what would have been recorded if the Act did not go into effect." The Commission ordered that, "Respondents shall apply regulatory accounting treatment, such as the use of regulatory assets and liabilities, for all estimated impacts from the act." Please answer the following:*

a. *Please provide evidence of Petitioner's compliance with the Commission's directive in the January 3, 2018 Order in Cause No. 45032.*
b. *Please provide the amounts of Petitioner's regulatory assets and liabilities for the period from January 1, 2018 through May 31, 2018 from all calculated differences resulting from the Tax Cuts and Jobs Act ("TCJA") and what would have been recorded if the TCJA did not go into effect. Specifically, please provide the amount of Petitioner's calculated differences resulting from the federal income taxes recorded in Petitioner's current rates, and what would have been recorded if the 21% federal tax rate had been included in rates from January 1, 2018 through May 31, 2018.*

<u>Response 5.2. a. and b.</u>:
Sycamore's fiscal year ended April 30, 2018. Although no such regulatory liability currently exists, Sycamore anticipates making adjustments to its financial statements, including lawfully required liabilities, as it completes its year-end audit in the coming months and/or upon final resolution of these issues in this case.

Sycamore Gas
Cause No. 45032 S-3
Impact of Change in Federal Tax Rate (Phase 1)

Summary Information:

Most Recent Base Rate Case:	Cause No. 43090
Depreciation Study?	No
Cost of Service Study?	Yes

	(a) As Approved	(b) Updated	
Revenue Requirement:			
Original Cost Rate Base	$ 15,224,621	$ 15,224,621	
Times: Weighted Cost of Capital	8.84%	8.84%	
Net Operating Income Required	1,345,856	1,345,856	
Less: Adjusted Net Operating Income	562,624	1,504,019	
Net Revenue Increase/(Decrease) Required	783,232	(158,163)	
Gross Revenue Conversion Factor	1.6985	1.4190	
Recommended Revenue Increase/(Decrease)	$ 1,330,349	$ (224,438)	
Calculation of Income Tax Expense:			
Operating Revenues	$ 4,790,808	$ 4,790,808	$ -
Less: Operating expenses	(1,860,467)	(1,860,467)	-
Depreciation	(684,927)	(684,927)	-
Taxes Other Than Income	(367,186)	(367,186)	-
State Income Tax	(118,715)	(118,715)	-
Interest Expense	(542,875)	(542,875)	-
Federal Taxable Income	1,216,638	1,216,638	-
Times: Federal Tax Rate	34.00%	21.00%	-13.00%
Federal Income Tax Expense	$ 413,657	$ 255,494	$ (158,163)
			1.4190
			(224,438)
Revenue Conversion Factor:			
Gross Revenue Change	100.0000%	100.0000%	
Less: Bad Debt Adjustment	0.8835%	0.8835%	
Subtotal	100.0000%	100.0000%	
Less: IURC Fee	0.1100%	0.1100%	
Subtotal	99.1165%	99.1165%	
Less: URT	1.38763%	1.38763%	
Subtotal	99.0065%	99.0065%	
Less: State Income Tax	8.4156%	8.4156%	
Subtotal	89.2033%	89.2033%	
Less: Federal Income Tax	30.3291%	18.7327%	
Change in Net Operating Income	58.8742%	70.4706%	
Revenue Conversion Factor	1.6985	1.4190	

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 Mark H. Grosskopf*** has been served upon the following counsel of record in the captioned proceeding by electronic service on July 31, 2018.

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