

FILED
November 26, 2018
INDIANA UTILITY
REGULATORY COMMISSION

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

**PETITION OF INDIANA UTILITIES CORPORATION)
FOR AUTHORITY TO CHANGE ITS RATES,)
CHARGES, TARIFFS, RULES, AND REGULATIONS)**

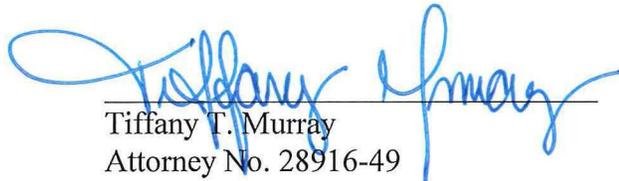
CAUSE NO. 45116

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

PUBLIC'S EXHIBIT NO. 1-S

SETTLEMENT TESTIMONY OF OUCC WITNESS AMY E. LARSEN

Respectfully submitted,



Tiffany T. Murray
Attorney No. 28916-49
Deputy Consumer Counselor

SETTLEMENT TESTIMONY OF AMY E. LARSEN
CAUSE NO. 45116
INDIANA UTILITIES CORPORATION

I. INTRODUCTION

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

2 A: My name is Amy E. Larsen, and my business address is 115 West Washington
3 Street, Suite 1500 South, Indianapolis, IN 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 II. For a summary of my educational and professional
7 experience, as well as my preparation for this case, please see the Appendix
8 attached to my testimony.

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

10 A: My settlement testimony supports the Settlement Agreement (“Settlement”)
11 between the Parties in this Cause: Indiana Utilities Corporation (“Indiana
12 Utilities”) and the OUCC (collectively, the “Settling Parties”). The Settlement
13 resolves all issues between the Settling Parties in this case, with the exception of
14 the refund of Indiana Utilities’ excess deferred income tax (“EDIT”) balance to be
15 addressed as part of the Commission Investigation in Cause No. 45032 S10. My
16 settlement testimony focuses on the pertinent matters agreed to in the Settlement,
17 such as the settled original cost rate base, capital structure, and pro forma
18 operating revenue and expense adjustments. I also discuss terms of the
19 Settlement related to Indiana Utilities’ rate design and customer service charges.

1 **Q: Is the Settlement a product of arms-length negotiations between the Settling**
2 **Parties?**

3 A: Yes. The Settlement represents a compromise reached in the negotiation process,
4 with give and take by both of the Settling Parties. The Settling Parties devoted
5 considerable time and effort to fairly balance Indiana Utilities' interests and those
6 of the ratepayers.

7 **Q: Have you submitted schedules to support your settlement testimony?**

8 A: No. Indiana Utilities is sponsoring the settlement schedules to be included with
9 its settlement testimony.

II. ISSUES RESOLVED IN SETTLEMENT

A. Rate Base

10 **Q: What value did Petitioner assign to rate base in its case-in-chief?**

11 A: Indiana Utilities proposed an original cost rate base value of \$7,370,630.

12 **Q: What rate base value have the Settling Parties agreed upon in the**
13 **Settlement?**

14 A: The Settling Parties agree Petitioner's net utility plant in service based on original
15 cost is \$7,273,058. The agreed amount of working capital included in rate base is
16 \$159,668, and materials/supplies of \$38,711 should be added. Total rate base
17 agreed to by the Settling Parties is \$7,471,437. The change in rate base from
18 Indiana Utilities' case-in-chief resulted from updating utility plant in service
19 through June 30, 2018, and additional accumulated depreciation through June 30,
20 2018. These amounts are from Petitioner's actual amounts, as opposed to the
21 estimates used in its case-in-chief. The 13-month average of materials and
22 supplies was also updated to actual amounts as of June 30, 2018, and working

1 capital was adjusted to take into account adjustments to operating expenses
2 agreed to in the Settlement.

B. Capital Structure

3 **Q: What amounts did Petitioner include in its capital structure in its case-in-**
4 **chief?**

5 A: Indiana Utilities originally proposed a capital structure as of December 31, 2017
6 with a 10.25% return on equity.

7 **Q: What cost of equity have the Settling Parties agreed to in this Cause?**

8 A: Indiana Utilities and the OUCC agreed to a return on equity of 10.10%. The
9 OUCC considers this a fair and reasonable result when combined with other
10 considerations and compromises made in this Agreement. A cost of equity of
11 10.10% is within the range of reasonable outcomes if cost of equity had been
12 litigated. As the Partial Settlement filed in this Cause on September 25, 2018
13 indicates, this return is consistent with prior orders from the Commission,
14 including the Commission's Order in the litigated case of Midwest Natural Gas
15 Corporation, Cause No. 44880, issued on August 16, 2017. Furthermore, this
16 return is the same as the return recently granted to South Eastern Natural Gas in
17 Cause No. 45027 on October 3, 2018. The Settling Parties agree the capital
18 structure cut-off date should match the rate base cut-off date of June 30, 2018.
19 The Settling Parties agree the capital structure as of June 30, 2018 should be:
20 common equity of \$11,177,668, customer deposits of \$43,270, and deferred tax of
21 \$1,290,744. The resulting weighted average cost of capital is 9.04%.

C. Accounting Adjustments

1 **Q: Did the OUCC agree with any of Petitioner's accounting adjustments**
2 **contained in Petitioner's testimony and accounting schedules filed on June**
3 **26, 2018?**

4 A: Yes. The OUCC agreed with Petitioner's pro forma adjustments to the September
5 30, 2017 test year related to: the elimination of GCA revenue; bad debt expense;
6 energy efficiency expense related to NTA; payroll expense; pension expense; and
7 FICA tax expense. Additionally, the OUCC agreed with the methodology used to
8 calculate various flow through taxes, such as the utility receipts tax, state income
9 tax, and federal income tax, but calculated different amounts from Petitioner due
10 to the impact of the OUCC's other proposed adjustments.

11 **Q: How does the Settlement differ from Indiana Utilities' accounting**
12 **adjustments contained in its case-in-chief?**

13 A: The Agreement reflects twelve revenue or expense adjustments that differ from
14 Indiana Utilities' case-in-chief. These include adjustments related to: operating
15 revenue adjusted for new National Oceanic and Atmospheric Administration
16 ("NOAA") 30-year averages, natural gas purchased, rate case expense, IURC fee,
17 outside services, miscellaneous expenses, depreciation expense, property tax,
18 utility receipts tax, state income tax, federal income tax, and the amortization of
19 deferred income tax. Each of these items are discussed below.

20 **Q: What agreement was reached regarding Indiana Utilities' operating revenue**
21 **adjusted for the new NOAA 30-year averages?**

22 A: Indiana Utilities proposed to remove \$24,395 of operating revenue adjusted for
23 the new NOAA 30-year averages. The OUCC found errors in the volumetric rate

1 Indiana Utilities used in its calculation. The Settling Parties have agreed to an
2 adjustment of (\$22,534) due to the change to the new NOAA average.

3 **Q: What agreement was reached regarding Indiana Utilities' Natural Gas**
4 **Purchased?**

5 A: Petitioner proposed an adjustment of (\$1,199,998) with the application of an
6 unaccounted for gas percentage of 2.72%. The Settling Parties agreed to apply a
7 more current unaccounted for gas percentage of 1.45% resulting in an adjustment
8 of (\$1,216,914).

9 **Q: What agreement was reached regarding Indiana Utilities' rate case expense?**

10 A: Indiana Utilities proposed an estimated rate case expense of \$260,000, amortized
11 over five (5) years, for a yearly amortization of \$52,000. The Settling Parties
12 have agreed to an estimated rate case expense of \$137,500 to be amortized over
13 five (5) years resulting in an annual adjustment of \$27,500. The Settling Parties
14 also agree Petitioner will refile its compliance tariff in this Cause to remove the
15 amortization of rate case expense if Petitioner has not filed a new base rate case
16 within five years from the date of the Final Order in this Cause.

17 **Q: What agreement was reached regarding Indiana Utilities' IURC fee?**

18 A: Indiana Utilities proposed an IURC fee of \$2,125. The Settling Parties agreed on
19 an updated estimated revenues at present rates amount, an updated bad debt
20 amount, and an updated IURC fee rate, resulting in an IURC fee adjustment of
21 \$1,425.

22 **Q: What agreement was reached regarding Indiana Utilities' outside services?**

23 A: Indiana Utilities did not propose an adjustment to outside services. The OUCC
24 proposed an adjustment to outside services of (\$6,600), which represents pension

1 expense paid to former employees. The Settling Parties agreed to an adjustment
2 of (\$6,600).

3 **Q: What agreement was reached regarding Indiana Utilities' miscellaneous**
4 **expenses?**

5 A: Indiana Utilities did not propose an adjustment to miscellaneous expense. The
6 OUCC proposed an adjustment to miscellaneous expense of (\$8,406),
7 representing amounts paid for charitable contributions, Christmas gifts to
8 employees, and a first responders meeting. The Settling Parties agreed to an
9 adjustment of (\$8,406).

10 **Q: What agreement was reached regarding Indiana Utilities' depreciation**
11 **expense?**

12 A: Indiana Utilities proposed an adjustment of \$3,168 based on its estimated utility
13 plant through the June 30, 2018 cut-off date. The OUCC found errors in
14 Petitioner's calculation of fully depreciated items, and also updated depreciation
15 expense for actual plant in service through the June 30, 2018 cut-off date. The
16 Settling Parties agreed to an adjustment of \$1,210.

17 **Q: What agreement was reached regarding Indiana Utilities' property taxes?**

18 A: Indiana Utilities proposed a property tax adjustment of (\$2,371). The OUCC
19 found not all property taxes paid in 2017 for 2016 were included in Petitioner's
20 calculation. The Settling Parties agreed to an adjustment of (\$1,837).

21 **Q: What agreement was reached regarding Indiana Utilities' utility receipts tax,**
22 **state income tax and federal income tax?**

23 A: The OUCC is in agreement with Indiana Utilities' methodology for calculating
24 taxes that are impacted by Petitioner's revenue requirement, however, different
25 amounts are calculated due to other adjustments. Indiana Utilities proposed a

1 utility receipts tax adjustment of (\$17,378), the Settling Parties agreed on
2 (\$17,352). Indiana Utilities proposed a state income tax of \$603, the Settling
3 Parties agreed to \$4,075. Finally, Indiana Utilities proposed a federal income tax
4 adjustment of (\$115,258), the Settling Parties agreed on (\$103,311).

5 **Q: Why does the Settlement's revenue requirement serve the public interest?**

6 A: The revenue requirement agreed to by the Settling Parties resolves several issues
7 that would have otherwise been litigated. Not only does litigation increase rate
8 case expense to the utility, and ultimately, to its ratepayers, it is also time-
9 consuming and adds to administrative burden. The Settlement provides certainty
10 to the Settling Parties while promoting judicial economy. The agreed resolution of
11 these issues provides Indiana Utilities with a reasonable increase to base rates so
12 that it can continue to provide safe, reliable service with an opportunity to earn
13 the return agreed to in the Settlement. At the same time, the revenue requirement
14 in the Settlement is less than what Petitioner had initially requested, resulting
15 from material reductions to certain expenses, establishment of expected revenues,
16 and compromise on the return on equity. The Settlement balances the interest of
17 the ratepayers and the utility, providing for a fair, appropriate result that serves
18 the public interest.

D. Rate Design and Customer Service Charges

19 **Q: What monthly customer service charge did the Settling Parties agree upon?**

20 A: Indiana Utilities proposed an increase in the residential customer service charge
21 from \$11.67 to \$15.00. The Settling Parties agreed on \$13.50. All other

1 customer service charges will be increased as proposed in Indiana Utilities' case-
2 in-chief.

3 **Q: Why is the agreed customer charge of \$13.50 reasonable?**

4 A: Because a customer charge is fixed, and does not vary with usage, the
5 disproportionate effect it has on the bills of low-income, low-usage customers
6 should be mitigated. As such, the public interest is served when fixed charges are
7 held to an appropriate level to minimize the effect on vulnerable populations.
8 Moreover, a \$13.50 customer charge is within the range of customer charges of
9 other gas utilities in Indiana.

10 **Q: What elements of cost of service and rate design are included in the**
11 **Agreement?**

12 A: Based on the agreed revenue requirement and any impact of the Commission's
13 decision in Cause No. 45032 S10, Petitioner's Witness Heid will prepare a new
14 exhibit showing the resulting rates and charges.

III. ITEMS NOT RESOLVED IN SETTLEMENT

15 **Q: Are there any items in this Cause the Settling Parties were not able to agree**
16 **upon?**

17 A: Yes. The Settling Parties do not believe the issue of the correct amount of EDIT
18 to refund can be resolved through settlement.

19 **Q: Briefly summarize the status of the Settling Parties' positions regarding**
20 **refunding the excess deferred income taxes.**

21 A: As part of Phase 2 of the Commission's tax investigation in Cause No. 45032
22 S10, excess deferred income taxes need to be refunded to the customers. The
23 Settling Parties do not agree on the date to be used in determining the balance of

1 EDIT. Petitioner proposes to use the date of the last base rate case in determining
2 the balance to be refunded. Coinciding with the date of change for the federal
3 income tax rate, the OUCC proposes to use the deferred income tax balance as of
4 December 31, 2017 from the general ledger to calculate EDIT. Petitioner
5 included a credit of \$308,885 amortized over 13 years in its case-in-chief, for an
6 adjustment of (\$23,760). The OUCC proposed an adjustment to coincide with its
7 testimony in Cause No. 45032 S10 reflecting a credit of \$431,483 amortized over
8 12.13 years, for an adjustment of (\$35,572). The Parties have agreed to flow
9 through the effect on Petitioner's excess deferred income tax balance pursuant to
10 a final order being issued by the Commission in Cause No. 45032 S10. As such,
11 no credit for excess deferred income taxes has been included in the settlement
12 revenue requirement schedules.

IV. OVERALL REVENUE REQUIRMENT

13 **Q: What overall rate increase did Indiana Utilities propose?**

14 A: Indiana Utilities proposed a revenue increase of \$270,235 or 5.24%.

15 **Q: What compromise did the Settling Parties agree upon for the annual revenue**
16 **requirement increase in the Agreement?**

17 A: The Settling Parties agreed to a revenue increase of \$221,425, or 4.29%.

18 **Q: Have the Settling Parties prepared joint settlement revenue requirement**
19 **schedules?**

20 A: Yes. As discussed above, the parties have settled on the issues pertinent to the
21 calculation of revenue requirements. Joint settlement revenue requirement
22 schedules were prepared and submitted as part of the settlement documents.

V. CONCLUSION

1 **Q: Does the OUCC recommend Commission approval of the Agreement?**

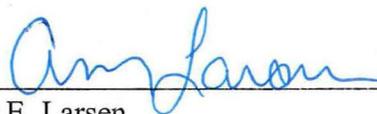
2 A: Yes. The Settling Parties each made material concessions when they entered into
3 the proposed Settlement. The terms of the Settlement demonstrate the give and
4 take of settlement negotiations in resolving multiple contested issues in a manner
5 acceptable to the Settling Parties. The negotiated results in the Settlement are
6 reasonable and a fair balance of the utility's interest and the ratepayer's interest.
7 The Settlement also reduces the risk and expense of litigation of multiple issues.
8 The Settling Parties' testimony and exhibits provide substantial evidence to
9 support the Settlement. For these reasons, the OUCC recommends approval of the
10 Settlement as it is in the public interest.

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

12 A: Yes.

AFFIRMATION

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



Amy E. Larsen
Utility Analyst
Indiana Office of Utility Consumer Counselor
Cause No. 45116
Indiana Utilities Corporation



Date

**APPENDIX TO TESTIMONY OF
OUCC WITNESS AMY E. LARSEN**

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

2 A: I graduated from the School of Public and Environmental Affairs at Indiana
3 University in Bloomington, Indiana with a Bachelor of Science Degree in Public
4 Financial Management in May 2011. In December 2017, I graduated from the
5 Kelley School of Business at Indiana University in Indianapolis, Indiana with a
6 Master's of Science Degree in Accounting. From May 2011 through December
7 2012, I worked for the Indiana State Personnel Department in Indianapolis,
8 Indiana, as a Benefits Specialist. I resolved benefit administration questions and
9 issues raised by state agencies and employees. I also investigated claims,
10 disputes, and eligibility by working with the insurance carriers to ensure claims
11 were properly adjusted. From December 2012 through January 2015, I worked
12 for the Indiana Family and Social Services Administration as an Accountant. I
13 worked in accounts receivable to collect, deposit, and record any funds received.
14 I was also responsible for any refunds due to customers. From January 2015
15 through October 2017, I worked for the Indiana Department of Workforce
16 Development as a Budget Analyst. I set up and monitored projects for grants
17 received from the federal government. I also worked with department managers
18 to create and adhere to their yearly budget.

19 In October 2017, I began my employment with the OUCC as a Utility
20 Analyst II. My current responsibilities include reviewing and analyzing Gas Cost
21 Adjustment ("GCA") petitions and flex filings. I also review and analyze rate
22 cases, special contracts, financing, certificate of public convenience and necessity,

1 pipeline safety adjustment, 7-Year Plan and TDSIC Tracker cases filed by Indiana

2 natural gas utilities with the Commission.

3 **Q: Have you previously testified before the Indiana Utility Regulatory**
4 **Commission?**

5 A: Yes, I have testified in GCA, rate cases, special contract and pipeline safety
6 adjustment cases.

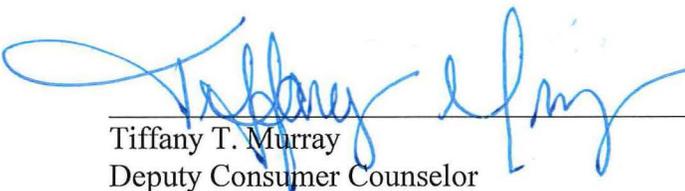
7 **Q: Please describe the review and analysis you conducted in order to prepare**
8 **your testimony.**

9 A: I reviewed the petition, testimony, exhibits, workpapers and supporting
10 documentation submitted in this Cause by Indiana Utilities. I also reviewed the
11 Settlement Agreement and attachments.

CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing *Indiana Office of Utility Consumer Counselor Public's Exhibit No. 1-S Settlement Testimony of OUCC Witness Amy E. Larsen* has been served upon the following counsel of record in the captioned proceeding by electronic service on November 26, 2018.

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