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 S9

PREFILED DIRECT TESTIMONY

OF

DAVID A. OSMON

ON BEHALF OF

INDIANA NATURAL GAS CORPORATION

INDIANA NATURAL GAS CORPORATION
PREFILED DIRECT TESTIMONY OF DAVID A. OSMON

1. Q. **PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is David A. Osmon and my business address is 101 S.E. Third Street, Washington, Indiana 47501.

2. Q. **WHAT IS YOUR POSITION WITH THE PETITIONER?**

A. I am the President and Chief Operating Officer of the Petitioner. I have general administrative, financial and regulatory responsibilities.

3. Q. **WHAT ARE YOUR EDUCATIONAL AND PROFESSIONAL QUALIFICATIONS, OR RELEVENT EXPERIENCE WHICH RELATE TO THE MATTERS PRESENTED IN THIS GCA?**

A. I am a graduate of Indiana State University with a B.S. degree in accounting. I am a Certified Public Accountant and was employed as such prior to joining Petitioner. I am a member of various organizations, including the Indiana Certified Public Accountant Society. I have been a long-time member of various industry groups, including the Indiana Energy Association. I have worked with that association and many of its members on a number of issues related to Indiana natural gas utilities. I attended the Commission's Prehearing Conference of February 6, 2018 in the underlying Cause No. 45032.

4. **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION ON MATTERS RELATING TO THIS PETITIONER?**

A. Yes. I have offered testimony in numerous causes on various matters before the Commission on behalf of this Respondent and other small to medium sized natural gas distribution companies on: natural gas pricing, the GCA process, normal temperature adjustment mechanisms, TDSIC filings, and necessity certificate issues. I have also participated in various Commission sponsored natural gas forums.

5. **Q. DID YOU PARTICIPATE ON BEHALF OF THIS RESPONDENT IN ITS LAST BASE RATE CASE?**

A. Yes.

6. **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

A. I am addressing some of the issues referenced by the Commission's Orders of January 3, 2018 and February 16, 2018 issued in the underlying tax investigation matter Cause No. 45032.

7. **Q. PLEASE EXPLAIN WHAT PART OF THE COMMISSION'S JANUARY 3RD AND FEBRUARY 16TH ORDERS YOU ARE ADDRESSING.**

A. My understanding of those orders are that the Respondent should establish a regulatory liability for purposes of booking any over collections of revenue from customers caused by the difference between the federal income tax rates embedded in the Respondent's last base rate case and the changed federal income tax rate established by the Tax Cuts and Jobs Act of 2017 (the Act). I will address the amount of such regulatory liability. How that amount should be calculated for Indiana Natural. Finally, I will recommend for Indiana Natural, how that amount should be returned to the ratepayers who paid the amount.

8. **Q. IS ANYONE ELSE FILING TESTIMONY ON BEHALF OF THE RESPONDENT?**

A. Yes. Bonnie J. Mann of LWG CPAs and Advisors will be offering testimony.

9. **Q. IS THIS TESTIMONY OFFERED UNDER OATH?**

A. Yes. As reflected by the verification attached to this testimony, I am offering this testimony under oath.

10. **Q. WHAT IS YOUR UNDERSTANDING OF THIS SUBDOCKET?**

A. This subdocket essentially flows from the Commission's Order of January 3, 2018. The Act changed federal corporate income tax rates. In short, I believe it was the Commission's intent to develop processes to implement the Act as quickly as possible. That Order went on to point out that the exact amount of tax benefits were not readily determinable, but utilities should use their best estimate in recording a regulatory liability. In an Order dated February 16, 2018, the Commission provided further guidance by indicating the process would be broken down into two phases. Phase 1 called for utilities to file revised rates to reflect the changed corporate income tax rate. The purpose of Phase 2 was to address all remaining issues, but specifically to determine a process to refund excess accumulated deferred income taxes and any over collection in rates for the months in 2018 that occurred before the revised rates resulting from Phase 1 could be implemented.

11. Q. **DID INDIANA NATURAL COMPLY WITH THE COMMISSION'S ORDERS?**

A. Yes. New rates were filed on March 26, 2018. Following an objection by the OUCC and subsequent discussion thereof, revised rates were filed on April 24, 2018, which were approved by the Commission. Those reduced rates were used beginning with the May 2018 billing cycles. Petitioner also used the regulatory accounting treatment as prescribed by the Commission in the January 3, 2018 Order. For January, Petitioner calculated federal income taxes using 21% and 34%. The difference was recorded as a regulatory liability and an offsetting regulatory asset. Generally, the Act has been described as reducing rates from 35% to 21%. Corporations with federal taxable income of $10,000,000, or above, were subject to the 35% corporate tax rate. Indiana Natural's effective federal corporate tax rate prior to the Act was 34%. While this methodology was used to meet the "best estimate" requirement of the Commission's Order, I do not believe simply calculating the difference between the old and new effective tax rates on net income establishes the correct amount for Indiana Natural.

12. **Q. WHAT IS YOUR BASIS FOR NOT SIMPLY REFUNDING THE DIFFERENCE BETWEEN 34% AND 21% OF TAXABLE NET INCOME?**

A. First, the 34% income tax rate is applied to net income, which includes months of net income, but also months of net loss. Using the same type of calculation on a net loss instead of a net income, the calculation would result in a benefit to the utility and not the customer. Second, the refund should only relate to the customers who used gas and were billed at the higher tax rate before our new tariff was approved. This leads me to believe that a more appropriate calculation for Indiana Natural is simply the actual volumes billed to customers, times the difference in the individual block rates before and after the tax rate revision.

13. **Q. HOW DID YOU CALCULATE THE REFUND DUE CUSTOMERS?**

A. We ran a step-rate analysis for each type tariff for all months from January to April. We then multiplied those volumes times the decrease in each block rate. This allows us to determine the actual amount due back to each tariff group of customers based on metered volumes. We also considered the impact of Normal Temperature Adjustment (NTA) volumes. NTA volumes are multiplied by the last block, or tail block, in those tariffs where it applies, to determine NTA charges or credits. Since the tail block rate changed, the difference in that rate before and after the tax rate revision should also be considered to accurately reflect the NTA charge or credit. I have attached each month's calculation and a summary of all months from January to April as Exhibit DAO-1. Lastly, we considered how much of the refund would be given back to customers resulting from excess earnings.

14. Q. **HOW DO YOU BELIEVE THE REFUND FOR THE OVER COLLECTION SINCE JANUARY SHOULD BE RETURNED TO CUSTOMERS?**

A. The refund was created in weather-sensitive months and, for the most part, in months that were colder than normal in Respondent's service area. Indiana Natural is proposing a volumetric refund to customers that is tariff specific. We believe the refund should occur in the same four calendar months, of 2019, it was created in 2018. This gives us the best opportunity to refund the over collection back to the customers that created it, generally in proportion to their contribution. Spreading it over all 12 calendar months tends to favor industrial customers with a significant summer base load over the weather-sensitive customers that helped create the refund. The refund will be divided over the GCA estimated sales volumes, which are generally based upon the average of several years. At the end of April 2019, we would reconcile the refund dollars, with any differences being included in GCA variances at that time.

15. **Q. HOW WOULD THE RECONCILIATION WORK?**

A. We would once again create a step-rate analysis after the four months ended April 2019 to determine the dollars refunded to each tariff group of customer. Our expectation would be that, any differences should be immaterial. What differences remain would become part of the variance balance that passes through the GCA.

16. **Q. HOW MUCH OF A REFUND IS DUE CUSTOMERS?**

A. As determined in Exhibit DAO-1, the amount of refund to all customers is $48,929.98.

17. **Q. HAS YOUR APPROACH TO CALCULATING THE APPROPRIATE AMOUNT OF REFUND BEEN CONSIDERED BY ANYONE ELSE?**

A. Yes. I discussed this approach with both Bonnie Mann and Kerry Heid.

18. **Q. WOULD YOU PLESE EXPLAIN THE BILLING MECHANISM YOU PLAN TO USE TO REFUND THE VARIOUS AMOUNTS TO CUSTOMERS?**

A. We have currently made a determination of how much per therm will be refunded to customers by tariff group. The amount per therm was based on developing monthly sales estimates, as we would for the GCA. Those sales were allocated to each customer class based upon January through April actual sales, adjusted for NTA volumes. We believe this provides weather-normalized volumes. The volumes are then accumulated by Tariff and divided into the net refund due each Tariff group to determine a refund tracker per therm. We will utilize a negative tracker to be multiplied by metered consumption, which will act as a reduction of the customer bill. All Tariff G customers will receive a refund of $0.0145 per therm, Tariff TM customers will receive a refund of $0.0105 per therm, and Tariff T will receive a refund of $0.0050 per therm. The excess earnings refund, based upon the tax rate difference in January through April, also causes a unique situation. The tax rate differential portion of the excess earnings refund for Tariff C is larger than the refund due that group of customers from the base rate change. Tariff C customers will receive, through excess earnings, a refund that is $1,844.78 more than they paid in the higher pre-Tax Act base rates. Due to the immateriality of the amount, Respondent will not seek recovery of that amount from Tariff C customers. All Tariff G, TM and T customers will receive the same amount per therm over the four months. The results will then be reconciled as described previously. We plan on using the same estimated volumes in the GCA used here to determine the amount per therm. We would not expect any changes, but we would need to consider any new information between now and when the GCAs for these months are filed. Any changes will be addressed in GCA testimony.

19. **Q. WOULD YOU PLEASE DISCUSS IN MORE DETAIL WHY EXCESS EARNINGS IS BROUGHT IN TO YOUR CALCULATIONS?**

A. In GCA 138, reconciling the period ending March 31, 2018, Respondent reported excess earnings. The determination of the refund amount due customers was included as a reduction of the GCA tracking factor for the months of August, September and October 2018. The excess earnings would have included the tax rate differential for the months of January through March 2018. It is our belief that, if you do not net out the tax rate differential, you in effect are refunding it twice.

20. **Q. HOW DID YOU CALCULATE THE AMOUNT FROM EXCESS EARNINGS TO NET AGAINST THE BASE RATE REFUND?**

A. I began with Net Income from Operations (NOI), as reported in GCA 138, for January, February and March. I also included NOI from April that will be reported in GCA 139. Each month was converted to NOI before federal income tax by dividing NOI by 1 minus the tax rate (NOI / (1 - .21)). NOI before federal income tax was then multiplied by both 21% and the old tax rate of 34%. The difference between the two tax calculations represents the amount that is being returned through excess earnings, but would also be included in the base differential calculation. The difference was then multiplied by 25%, since only one-fourth of the excess is refunded in the GCA tracker. So, in essence, we are netting out one-fourth of the difference in income tax between 21% and 34% as applied to net operating income before federal income taxes. Excess earnings will be refunded in August through October 2018. Therefore, the allocation to the various customer tariffs is based upon the actual sales of those same three months from 2017. We believe this is the most equitable allocation.

21. **Q. WHY DID YOU USE ONLY GCA SALES?**

A. Excess earnings are not refunded to transport customers who are outside of the GCA. Therefore, since transport customers will not receive a refund of excess earnings, there is no need to net out the tax rate differential, included in the excess earnings refund.

22. Q. **EARLIER YOU NOTED THAT YOU INCLUDED NOI FROM APRIL IN THE EXCESS EARNINGS CALCULATION. WHY WAS APRIL INCLUDED WHEN THAT EXCESS EARNINGS TEST HAS NOT YET OCCURRED?**

A. We looked at net income for April 2018 and for the twelve months then ended. It is most likely that the excess earnings test at June 30, 2018 in GCA 139 will also result in an excess earnings refund to customers. We believed it would be better to calculate the overall impact of excess earnings at one time for all four months. Should we find at June 30, 2018 that there was no excess earnings, we will only need to remove the April portion.

23. Q. **DID YOU DISCUSS THIS BILLING MECHANISM APPROACH WITH ANYONE ELSE?**

A. Yes. Since Kerry Heid was our Cost of Service witness in our last base rate case, I asked him to review this approach.

24. Q. **MR. OSMON, DO YOU BELIEVE YOUR PROPOSAL ABOVE IS THE MOST FAIR WAY OF REFUNDING THE OVER COLLECTION TO INDIANA NATURAL'S CUSTOMERS?**

A. Recognizing the software Indiana Natural has available, and the analysis we were able to perform internally, I believe this approach is the best available approach for Indiana Natural. .

25. **Q. DOES THIS CONCLUDE YOUR PREFILED DIRECT TESTIMONY IN THIS CAUSE?**

A. Yes, it does.

VERIFICATION

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

David A. Osmon

CERTIFICATE OF SERVICE

The undersigned certifies that a copy of the foregoing has been served upon the following counsel of record electronically this 19th day of June, 2018:

Scott Franson
Heather Poole
Tiffany Murray
Indiana Office of Utility Consumer Counselor
115 West Washington, Suite 1500S
Indianapolis, IN 46204
sfranson@oucc.in.gov
hpoole@oucc.in.gov
timurray@oucc.in.gov
infomgt@oucc.in.gov

L. Parvin Price

Indiana Natural Gas Corporation
Determination of Refund Credit Tracker

	Metered Volume	NTA Volume	Weather Adjusted Volume	%	Estimated Deliveries	Tariff G	Tariff C	Tariff TM	Tariff T
January									
Residential - G	1,019,243	(129,044)	890,199	49.42%		770,952			
Commercial - G	208,946	(31,291)	177,655	9.86%		153,816			
Residential - C	5,518	(698)	4,820	0.27%			4,212		
Commercial - C	801,439	(72,760)	728,679	40.45%			631,020		
Total GCA	2,035,146	(233,793)	1,801,353	100.00%	1,560,000				
TM	49,790	-	49,790	15.04%				48,128	
Industrial Transport	281,242	-	281,242	84.96%					271,872
Total Transport	331,032	-	331,032	100.00%	320,000				
Total All Volumes	2,366,178	(233,793)	2,132,385		1,880,000				
February									
Residential - G	1,007,896	(50,401)	957,495	55.38%		891,618			
Commercial - G	196,864	(3,383)	193,481	11.19%		180,159			
Residential - C	4,359	(212)	4,147	0.24%			3,864		
Commercial - C	523,296	50,598	573,894	33.19%			534,359		
Total GCA	1,732,415	(3,398)	1,729,017	100.00%	1,610,000				
TM	41,018	-	41,018	19.15%				45,960	
Industrial Transport	173,182	-	173,182	80.85%					194,040
Total Transport	214,200	-	214,200	100.00%	240,000				
Total All Volumes	1,946,615	(3,398)	1,943,217		1,850,000				
March									
Residential - G	536,632	137,632	674,264	57.43%		519,742			
Commercial - G	101,281	20,069	121,350	10.34%		93,577			
Residential - C	2,425	585	3,010	0.26%			2,353		
Commercial - C	396,360	(20,858)	375,502	31.98%			289,419		
Total GCA	1,036,698	137,428	1,174,126	100.01%	905,000				
TM	60,823	-	60,823	23.13%				55,512	
Industrial Transport	202,156	-	202,156	76.87%					184,488
Total Transport	262,979	-	262,979	100.00%	240,000				
Total All Volumes	1,299,677	137,428	1,437,105		1,145,000				
April									
Residential - G	587,045	(150,325)	436,720	55.64%		411,736			
Commercial - G	107,436	(27,239)	80,197	10.22%		75,628			
Residential - C	2,564	(653)	1,911	0.24%			1,776		
Commercial - C	347,800	(81,724)	266,076	33.90%			250,860		
Total GCA	1,044,845	(259,941)	784,904	100.00%	740,000				
TM	37,564	-	37,564	16.60%				29,880	
Industrial Transport	188,711	-	188,711	83.40%					150,120
Total Transport	226,275	-	226,275	100.00%	180,000				
Total All Volumes	1,271,120	(259,941)	1,011,179		920,000				
Estimated Tariff Sales January - April, 2019					5,795,000	3,097,228	1,717,863	179,480	800,520
Refund Due Customers					$ 48,929.98	$ 44,853.73	$ (1,844.78)	$ 1,889.00	$ 4,032.03
Refund Tracker Per Therm						**$ 0.0145**	**$ (0.0011)**	**$ 0.0105**	**$ 0.0050**

Indiana Natural Gas Corporation
Determination of Refund Due Customer - All Components

Four-Month Summary

	Blocks	January Base Rate Over Collection	January NTA Over Charge/ (Credit)	January Excess Earnings	January Net Over Collection	February Base Rate Over Collection	February NTA Over Charge/ (Credit)	February Excess Earnings	February Net Over Collection
Tariff G:									
Residential	0								
	1 - 50	$ 5,055.72				$ 5,061.01			
	> 50	9,445.53				9,288.45			
		14,501.25	(1,735.64)	(1,606.08)	11,159.53	14,349.46	(677.89)	(2,250.40)	11,421.17
Commercial	0								
	1 - 50	606.83				603.52			
	> 50	2,298.61				2,138.90			
		2,905.44	(420.86)	(337.40)	2,147.18	2,742.42	(45.50)	(472.75)	2,224.17
Total Tariff G		17,406.69	(2,156.50)	(1,943.48)	13,306.71	17,091.88	(723.39)	(2,723.15)	13,645.34
Tariff C:									
Residential	0								
	1 - 1,000	57.66				50.74			
	> 1,000	9.00				3.16			
		66.66	(6.69)	(10.35)	49.62	53.90	(2.03)	(14.50)	37.37
Commercial	0								
	1 - 1,000	2,581.20				2,469.30			
	> 1,000	5,719.66				3,137.50			
		8,300.86	(697.77)	(7,263.62)	339.47	5,606.80	485.23	(10,177.60)	(4,085.57)
Total Tariff C		8,367.52	(704.46)	(7,273.97)	389.09	5,660.70	483.20	(10,192.10)	(4,048.20)
Tariff TM:	0								
Industrial	1 - 3,000	72.93				80.93			
	> 3,000	422.29				331.72			
Total Tariff TM		495.22	-	-	495.22	412.65	-	-	412.65
Tariff T:									
Transport	0								
	All Therms	1,341.52				826.08			
Total Tariff T		$ 1,341.52	$ -	$ -	$ 1,341.52	$ 826.08	$ -	$ -	$ 826.08
Total All Tariffs		$ 27,610.95	$ (2,860.96)	$ (9,217.45)	$ 15,532.54	$ 23,991.31	$ (240.19)	$ (12,915.25)	$ 10,835.87

	Blocks	March Base Rate Over Collection	March NTA Over Charge/ (Credit)	March Excess Earnings	March Net Over Collection	April Base Rate Over Collection	April NTA Over Charge/ (Credit)	April Excess Earnings	April Net Over Collection
Tariff G:									
Residential	0								
	1 - 50	$ 4,751.94				$ 4,800.68			
	> 50	3,210.58				3,847.53			
		7,962.52	1,851.15	(1,074.78)	8,738.89	8,648.21	(2,021.87)	(98.90)	6,527.44
Commercial	0								
	1 - 50	541.79				549.78			
	> 50	905.36				981.41			
		1,447.15	269.93	(225.78)	1,491.30	1,531.19	(366.36)	(20.78)	1,144.05
Total Tariff G		9,409.67	2,121.08	(1,300.56)	10,230.19	10,179.40	(2,388.23)	(119.68)	7,671.49
Tariff C:									
Residential	0								
	1 - 1,000	30.53				32.28			
	> 1,000	-				-			
		30.53	5.61	(6.93)	29.21	32.28	(6.26)	(0.64)	25.38
Commercial	0								
	1 - 1,000	1,933.51				1,906.69			
	> 1,000	2,328.31				1,883.04			
		4,261.82	(200.03)	(4,860.76)	(798.97)	3,789.73	(783.73)	(447.29)	2,558.71
Total Tariff C		4,292.35	(194.42)	(4,867.69)	(769.76)	3,822.01	(789.99)	(447.93)	2,584.09
Tariff TM:	0								
Industrial	1 - 3,000	80.01				77.77			
	> 3,000	522.35				301.00			
Total Tariff TM		602.36	-	-	602.36	378.77	-	-	378.77
Tariff T:									
Transport	0								
	All Therms	964.28				900.15			
Total Tariff T		$ 964.28	$ -	$ -	$ 964.28	$ 900.15	$ -	$ -	$ 900.15
Total All Tariffs		$ 15,268.66	$ 1,926.66	$ (6,168.25)	$ 11,027.07	$ 15,280.33	$ (3,178.22)	$ (567.61)	$ 11,534.50

	Blocks	Total Base Rate Over Collection	Total NTA Over Charge/ (Credit)	Total Excess Earnings	Total Net Over Collection
Tariff G:					
Residential	0				
	1 - 50	$ 19,669.35			
	> 50	25,792.09			
		45,461.44	(2,584.25)	(5,030.16)	37,847.03
Commercial	0				
	1 - 50	2,301.92			
	> 50	6,324.28			
		8,626.20	(562.79)	(1,056.71)	7,006.70
Total Tariff G		54,087.64	(3,147.04)	(6,086.87)	44,853.73
Tariff C:					
Residential	0				
	1 - 1,000	171.21			
	> 1,000	12.16			
		183.37	(9.37)	(32.42)	141.58
Commercial	0				
	1 - 1,000	8,890.70			
	> 1,000	13,068.51			
		21,959.21	(1,196.30)	(22,749.27)	(1,986.36)
Total Tariff C		22,142.58	(1,205.67)	(22,781.69)	(1,844.78)
Tariff TM:	0				
Industrial	1 - 3,000	311.64			
	> 3,000	1,577.36			
Total Tariff TM		1,889.00	-	-	1,889.00
Tariff T:					
Transport	0				
	All Therms	4,032.03			
Total Tariff T		$ 4,032.03	$ -	-	$ 4,032.03
Total All Tariffs		$ 82,151.25	$ (4,352.71)	$ (28,868.56)	$ 48,929.98