

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) CAUSE NO. 45032 S11
JOBS ACT OF 2017 AND POSSIBLE RATE)
IMPLICATIONS)

PREFILED DIRECT TESTIMONY

OF

DAVID A. OSMON

ON BEHALF OF

MIDWEST NATURAL GAS CORPORATION

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

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

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

4
5 **2. Q. WHAT IS YOUR POSITION WITH THE PETITIONER?**

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

9
10 **3. Q. WHAT ARE YOUR EDUCATIONAL AND PROFESSIONAL**
11 **QUALIFICATIONS, OR RELEVANT EXPERIENCE WHICH**
12 **RELATE TO THE MATTERS PRESENTED IN THIS GCA?**

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

1
2 **4. Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS**
3 **COMMISSION ON MATTERS RELATING TO THIS PETITIONER?**
4 A. Yes. I have offered testimony in numerous causes on various
5 matters before the Commission on behalf of this Respondent and
6 other small to medium sized natural gas distribution companies on:
7 natural gas pricing, the GCA process, normal temperature
8 adjustment mechanisms, TDSIC filings, and necessity certificate
9 issues. I have also participated in various Commission sponsored
10 natural gas forums.
11
12 **5. Q. DID YOU PARTICIPATE ON BEHALF OF THIS RESPONDENT IN**
13 **ITS LAST BASE RATE CASE?**
14 A. Yes.
15
16
17 **6. Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**
18
19 A. I am addressing some of the issues referenced by the
20 Commission's Orders of January 3, 2018 and February 16, 2018
21 issued in the underlying tax investigation matter Cause No. 45032.
22
23 **7. Q. PLEASE EXPLAIN WHAT PART OF THE COMMISSION'S**
24 **JANUARY 3RD AND FEBRUARY 16TH ORDERS YOU ARE**
25 **ADDRESSING.**

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

11
12 **8. Q. IS ANYONE ELSE FILING TESTIMONY ON BEHALF OF THE**
13 **RESPONDENT?**

14 A. Yes. Bonnie J. Mann of LWG CPAs and Advisors.

15
16 **9. Q. IS THIS TESTIMONY OFFERED UNDER OATH?**

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

19
20 **10. Q. WHAT IS YOUR UNDERSTANDING OF THIS SUBDOCKET?**

21 A. This subdocket essentially flows from the Commission's Order of
22 January 3, 2018. The Act changed federal corporate income tax
23 rates. In short, I believe it was the Commission's intent to develop
24 processes to implement the Act as quickly as possible. That Order

1 went on to point out that the exact amount of tax benefits were not
2 readily determinable, but utilities should use their best estimate in
3 recording a regulatory liability. In an Order dated February 16,
4 2018, the Commission provided further guidance by indicating the
5 process would be broken down into two phases. Phase 1 called for
6 utilities to file revised rates to reflect the changed corporate income
7 tax rate. The purpose of Phase 2 was to address all remaining
8 issues, but specifically to determine a process to refund excess
9 accumulated deferred income taxes and any over collection in rates
10 for the months in 2018 that occurred before the revised rates
11 resulting from Phase 1 could be implemented.

12
13 **11. Q. DID MIDWEST COMPLY WITH THE COMMISSION'S ORDERS?**

14 A. Yes. New rates were filed on March 26, 2018. Following an
15 objection by the OUCC and subsequent discussion thereof, revised
16 rates were filed on April 24, 2018, which were approved by the
17 Commission. Those reduced rates were used beginning with the
18 May 2018 billing cycles. Petitioner also used the regulatory
19 accounting treatment as prescribe by the Commission in the
20 January 3, 2018 Order. For January, Petitioner calculated federal
21 income taxes using 21% and 34%. The difference was recorded as
22 a regulatory liability and an offsetting regulatory asset. Generally,
23 the Act has been described as reducing rates from 35% to 21%.

1 Corporations with federal taxable income of \$10,000,000, or above,
2 were subject to the 35% corporate tax rate. Midwest's effective
3 federal corporate tax rate prior to the Act was 34%. While this
4 methodology was used to meet the "best estimate" requirement of
5 the Commission's Order, I do not believe simply calculating the
6 difference between the old and new effective tax rates on net
7 income establishes the correct amount for Midwest.

8
9 **12. Q. WHAT IS YOUR BASIS FOR NOT SIMPLY REFUNDING THE**
10 **DIFFERENCE BETWEEN 34% AND 21% OF TAXABLE NET**
11 **INCOME?**

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

22
23 **13. Q. HOW DID YOU CALCULATE THE REFUND DUE CUSTOMERS?**

1 A. We ran a step-rate analysis for each type of customer for all
2 months from January to April. We then multiplied those volumes
3 times the decrease in each block rate. This allows us to determine
4 the actual amount due back to each class of customer based on
5 metered volumes. We also considered the impact of Normal
6 Temperature Adjustment (NTA) volumes. NTA volumes are
7 multiplied by the last block, or tail block, in those tariffs where it
8 applies, to determine NTA charges or credits. Since the tail block
9 rate changed, the difference in that rate before and after the tax
10 rate revision should also be considered to accurately reflect the
11 NTA charge or credit. I have attached each month's calculation
12 and a summary of all months from January to April as Exhibit DAO-
13 1.

14 **14. Q. HOW DO YOU BELIEVE THE REFUND FOR THE OVER**
15 **COLLECTION SINCE JANUARY SHOULD BE RETURNED TO**
16 **CUSTOMERS?**
17

18 A. The refund was created in weather-sensitive months and, for the
19 most part, in months that were colder than normal in Respondent's
20 service area. Midwest is proposing a volumetric refund to
21 customers that is class specific. We believe the refund should
22 occur in the same four calendar months, of 2019, it was created in
23 2018. This gives us the best opportunity to refund the over

1 collection back to the customers that created it, generally in
2 proportion to their contribution. Spreading it over all 12 calendar
3 months tends to favor industrial customers with a significant
4 summer base load over the weather-sensitive customers that
5 helped create the refund. The refund will be divided over the GCA
6 estimated sales volumes, which are generally based upon the
7 average of several years. At the end of April 2019, we would
8 reconcile the refund dollars, with any differences being included in
9 GCA variances at that time.

10
11 **15. Q. HOW WOULD THE RECONCILIATION WORK?**

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

17
18 **16. Q. HOW MUCH OF A REFUND IS DUE CUSTOMERS?**

19 A. As determined in Exhibit DAO-1, the amount of refund to all
20 customers is \$147,949.16.

21
22 **17. Q. HAS YOUR APPROACH TO CALCULATIONS OF THE**
23 **APPROPRIATE AMOUNT OF REFUND BEEN CONSIDERED BY**
24 **ANYONE ELSE?**

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

3
4 **18. Q. WOULD YOU PLEASE EXPLAIN THE BILLING MECHANISM**
5 **YOU PLAN TO USE TO REFUND THE VARIOUS AMOUNTS TO**
6 **CUSTOMERS?**

7 A. We have currently made a determination of how much per therm
8 will be refunded to customers by class. The amount per therm was
9 based on developing monthly sales estimates as we would for the
10 GCA. We will utilize a negative tracker to be multiplied by metered
11 consumption, which will act as a reduction of the customer bill. All
12 Tariff A customers will receive a refund of \$0.0186 per month, Tariff
13 B customers will receive a refund of \$0.0080 per month, Tariff C
14 customers will receive a refund of \$0.0058 per month, and Tariff E
15 will receive a refund of \$0.0026 per month. All classes will receive
16 the same amount per therm over the four months. School
17 Transport customers, while identified as a separate Tariff, use Tariff
18 A and B base rates, depending on the meter size. Those volumes
19 would be combined with other Tariff A and B customers
20 respectively. The per therm tracker will then be reconciled as
21 described previously. We plan on using the same estimated
22 volumes in the GCA used here to determine the per therm amount.
23 We would not expect any changes, but we would need to consider

1 any new information between now and when the GCAs for these
2 months are filed. Any changes will be addressed in GCA
3 testimony.

4
5 **19. Q. DID YOU DISCUSS THIS BILLING MECHANISM APPROACH**
6 **WITH ANYONE ELSE?**

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

9
10 **20. Q. MR. OSMON, DO YOU BELIEVE YOUR PROPOSAL ABOVE IS**
11 **THE MOST FAIR WAY OF REFUNDING THE OVER**
12 **COLLECTION TO MIDWEST'S CUSTOMERS?**

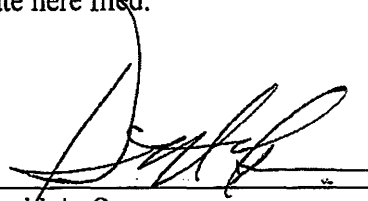
13 A. Recognizing the software Midwest has available, and the analysis
14 we were able to perform internally, I believe this approach is the
15 best available approach for Midwest. .

16
17 **21. Q. DOES THIS CONCLUDE YOUR PREFILED DIRECT TESTIMONY**
18 **IN THIS CAUSE?**

19 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.

A handwritten signature in black ink, appearing to read 'David A. Osmon', is written over a horizontal line. The signature is stylized and cursive.

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:

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L. Parvin Price

Midwest Natural Gas Corporation
Determination of Refund Credit Tracker

DAO-1
1 of 2

	Metered	NTA	Normalized		Estimated	Tariff	Tariff	Tariff	Tariff
	Volume	Volume	Volume	%	Deliveries	A	B	C	E
January									
Residential	2,132,046	(358,049)	1,773,997	47.57%		1,610,245			
Sm Comm	407,052	(67,179)	339,873	9.11%		308,374			
Sm PA	43,426	(7,346)	36,080	0.97%		32,835			
Lg Comm	959,944	(125,682)	834,262	22.37%			757,225		
Lg PA	334,621	(42,950)	291,671	7.82%			264,707		
Industrial	453,280		453,280	12.16%				411,614	
Total GCA	<u>4,330,369</u>	<u>(601,206)</u>	<u>3,729,163</u>	<u>100.00%</u>	<u>3,385,000</u>				
Sch Tport	731	(86)	645	0.04%		614			
Sch Tport	18,264	(2,029)	16,235	0.93%			14,276		
Industrial Transport	1,733,979		1,733,979	99.04%					1,520,110
Total Transport	<u>1,752,974</u>	<u>(2,115)</u>	<u>1,750,859</u>	<u>100.01%</u>	<u>1,535,000</u>				
Total All Volumes	<u>6,083,343</u>	<u>(603,321)</u>	<u>5,480,022</u>		<u>4,920,000</u>				
February									
Residential	1,353,704	256,044	1,609,748	51.74%		1,572,896			
Sm Comm	242,046	42,930	284,976	9.16%		278,464			
Sm PA	26,613	5,419	32,032	1.03%		31,312			
Lg Comm	565,153	111,867	677,020	21.76%			661,504		
Lg PA	190,725	41,042	231,767	7.45%			226,480		
Industrial	275,592		275,592	8.86%				269,344	
Total GCA	<u>2,653,833</u>	<u>457,302</u>	<u>3,111,135</u>	<u>100.00%</u>	<u>3,040,000</u>				
Sch Tport	437	116	553	0.04%		532			
Sch Tport	9,097	2,078	11,175	0.83%			11,039		
Industrial Transport	1,342,782		1,342,782	99.13%					1,318,429
Total Transport	<u>1,352,316</u>	<u>2,194</u>	<u>1,354,510</u>	<u>100.00%</u>	<u>1,330,000</u>				
Total All Volumes	<u>4,006,149</u>	<u>459,496</u>	<u>4,465,645</u>		<u>4,370,000</u>				
March									
Residential	1,050,868	(94,246)	956,622	47.42%		988,707			
Sm Comm	174,452	(12,811)	161,641	8.01%		167,009			
Sm PA	20,464	(2,140)	18,324	0.91%		18,974			
Lg Comm	508,222	(63,581)	444,641	22.04%			459,534		
Lg PA	180,874	(25,577)	155,297	7.70%			160,545		
Industrial	280,650		280,650	13.91%				290,231	
Total GCA	<u>2,215,530</u>	<u>(198,355)</u>	<u>2,017,175</u>	<u>99.99%</u>	<u>2,085,000</u>				
Sch Tport	510	(95)	415	0.03%		413			
Sch Tport	8,696	(1,325)	7,371	0.48%			6,600		
Industrial Transport	1,517,294		1,517,294	99.49%					1,367,987
Total Transport	<u>1,526,500</u>	<u>(1,420)</u>	<u>1,525,080</u>	<u>100.00%</u>	<u>1,375,000</u>				
Total All Volumes	<u>3,742,030</u>	<u>(199,775)</u>	<u>3,542,255</u>		<u>3,460,000</u>				
April									
Residential	840,501	(260,347)	580,154	44.56%		505,756			
Sm Comm	136,761	(40,030)	96,731	7.43%		84,331			
Sm PA	15,696	(5,096)	10,600	0.81%		9,194			
Lg Comm	409,246	(103,850)	305,396	23.46%			266,271		
Lg PA	130,476	(37,952)	92,524	7.11%			80,699		
Industrial	216,506		216,506	16.63%				188,749	
Total GCA	<u>1,749,186</u>	<u>(447,275)</u>	<u>1,301,911</u>	<u>100.00%</u>	<u>1,135,000</u>				
Sch Tport	372	(137)	235	0.02%		223			
Sch Tport	4,990	(1,396)	3,594	0.26%			2,899		
Industrial Transport	1,368,758		1,368,758	99.72%					1,111,878
Total Transport	<u>1,374,120</u>	<u>(1,533)</u>	<u>1,372,587</u>	<u>100.00%</u>	<u>1,115,000</u>				
Total All Volumes	<u>3,123,306</u>	<u>(448,808)</u>	<u>2,674,498</u>		<u>2,250,000</u>				
Estimated Tariff Sales January - April, 2019					<u>15,000,000</u>	<u>5,609,879</u>	<u>2,911,779</u>	<u>1,159,938</u>	<u>5,318,404</u>
Refund Due Customers					<u>\$ 147,949.16</u>	<u>\$ 104,125.23</u>	<u>\$ 23,291.98</u>	<u>\$ 6,711.77</u>	<u>\$ 13,820.18</u>
Refund Tracker Per Therm					<u>\$ 0.0186</u>	<u>\$ 0.0080</u>	<u>\$ 0.0058</u>	<u>\$ 0.0026</u>	

Midwest Natural Gas Corporation
Determination of Refund Due Customer

DAO-1
2 of 2

Four-Month Summary

	January				February				March				April				Total			
	Base Rate Over Collection	NTA Over Charge/ (Credit)	Net Overcollection	Blocks	Base Rate Over Collection	NTA Over Charge/ (Credit)	Net Overcollection	Base Rate Over Collection	NTA Over Charge/ (Credit)	Net Overcollection	Base Rate Over Collection	NTA Over Charge/ (Credit)	Net Overcollection	Base Rate Over Collection	NTA Over Charge/ (Credit)	Net Overcollection	Base Rate Over Collection	NTA Over Charge/ (Credit)	Net Overcollection	
Tariff A:																				
Residential	0																			
1 - 100	\$ 22,018.90				\$ 19,607.94			\$ 17,132.88			\$ 14,635.54			\$ 73,395.26						
> 100	13,323.29				4,535.64			2,188.23			1,100.08			21,147.24						
	<u>35,342.19</u>	(4,815.76)	30,526.43		<u>24,143.58</u>	3,443.79	27,587.37	<u>19,321.11</u>	(1,267.61)	18,053.50	<u>15,735.62</u>	(3,501.67)	12,233.95	<u>94,542.50</u>	(6,141.25)	88,401.25				
Sm Comm	0																			
1 - 100	2,208.92				2,006.68			1,775.49			1,574.57			7,565.66						
> 100	3,934.68				1,856.36			1,108.41			741.57			7,641.02						
	<u>6,143.60</u>	(903.56)	5,240.04		<u>3,863.04</u>	577.41	4,440.45	<u>2,883.90</u>	(172.31)	2,711.59	<u>2,316.14</u>	(538.40)	1,777.74	<u>15,206.68</u>	(1,036.86)	14,169.82				
Sm PA	0																			
1 - 100	194.83				189.50			179.20			161.69			725.22						
> 100	448.23				225.81			150.29			98.37			922.70						
	<u>643.06</u>	(98.80)	544.26		<u>415.31</u>	72.89	488.20	<u>329.49</u>	(28.78)	300.71	<u>260.06</u>	(68.54)	191.52	<u>1,647.92</u>	(123.23)	1,524.69				
Sch Tport ≤ 415	0																			
<= 415	3.86				3.86			3.86			3.68			15.26						
> 100	7.14				3.19			4.17			2.43			16.93						
	<u>11.00</u>	(1.16)	9.84		<u>7.05</u>	1.56	8.61	<u>8.03</u>	(1.28)	6.75	<u>6.11</u>	(1.84)	4.27	<u>32.19</u>	(2.72)	29.47				
Total Tariff A	\$ 42,139.85	\$(5,819.28)	\$ 36,320.57		\$ 28,428.98	\$ 4,095.65	\$ 32,524.63	\$ 22,542.53	\$(1,469.98)	\$ 21,072.55	\$ 18,317.93	\$(4,110.45)	\$ 14,207.48	\$ 111,429.29	\$(7,304.06)	\$ 104,125.23				
Tariff B:																				
Lg Comm	0																			
1 - 500	2,085.07				1,845.21			1,690.63			1,542.81			7,163.72						
501 - 1,000	1,032.05				686.98			594.92			477.56			2,791.51						
> 1,000	3,713.89				1,834.17			1,650.20			1,242.55			8,440.81						
	<u>6,831.01</u>	(711.36)	6,119.65		<u>4,366.36</u>	633.17	4,999.53	<u>3,935.75</u>	(359.87)	3,575.88	<u>3,262.92</u>	(587.79)	2,675.13	<u>18,396.04</u>	(1,025.85)	17,370.19				
Lg PA	0																			
1 - 500	493.97				481.36			471.04			456.02			1,902.39						
501 - 1,000	310.52				264.72			243.12			219.85			1,038.21						
> 1,000	1,440.83				664.21			628.41			366.52			3,099.97						
	<u>2,245.32</u>	(243.10)	2,002.22		<u>1,410.29</u>	232.30	1,642.59	<u>1,342.57</u>	(144.77)	1,197.80	<u>1,042.39</u>	(214.81)	827.58	<u>6,040.57</u>	(370.38)	5,670.19				
Sch Tport > 415	0																			
> 415	11.76				11.76			11.76			11.76			47.04						
501 - 1,000	8.16				8.16			8.16			8.16			32.64						
> 1,000	92.05				40.17			37.90			16.92			187.04						
	<u>111.97</u>	(11.48)	100.49		<u>60.09</u>	11.76	71.85	<u>57.82</u>	(7.50)	50.32	<u>36.84</u>	(7.90)	28.94	<u>266.72</u>	(15.12)	251.60				
Total Tariff B	\$ 9,188.30	\$(965.94)	\$ 8,222.36		\$ 5,836.74	\$ 877.23	\$ 6,713.97	\$ 5,336.14	\$(512.14)	\$ 4,824.00	\$ 4,342.15	\$(810.50)	\$ 3,531.65	\$ 24,703.33	\$(1,411.35)	\$ 23,291.98				
Tariff C:																				
Industrial	0																			
1 - 3,000	236.35				211.36			204.06			169.22			820.99						
> 3,000	2,225.58				1,305.13			1,337.01			1,023.06			5,850.78						
Tariff C Total	\$ 2,461.93	\$ -	\$ 2,461.93		\$ 1,516.49	\$ -	\$ 1,516.49	\$ 1,541.07	\$ -	\$ 1,541.07	\$ 1,192.28	\$ -	\$ 1,192.28	\$ 6,711.77	\$ -	\$ 6,711.77				
Tariff E:																				
Industrial Tr	0																			
1 - 175,000	2,275.71				2,032.22			2,088.64			2,284.77			8,681.34						
> 175,000	1,694.01				1,095.25			1,404.24			945.34			5,138.84						
Tariff E Total	\$ 3,969.72	\$ -	\$ 3,969.72		\$ 3,127.47	\$ -	\$ 3,127.47	\$ 3,492.88	\$ -	\$ 3,492.88	\$ 3,230.11	\$ -	\$ 3,230.11	\$ 13,820.18	\$ -	\$ 13,820.18				
Total All Tariffs	\$ 57,759.80	\$(6,785.22)	\$ 50,974.58		\$ 38,909.68	\$ 4,972.88	\$ 43,882.56	\$ 32,912.62	\$(1,982.12)	\$ 30,930.50	\$ 27,082.47	\$(4,920.95)	\$ 22,161.52	\$ 156,664.57	\$(8,715.41)	\$ 147,949.16				