STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION


CAUSE NO. 45032 S11

PREFILED DIRECT TESTIMONY

OF

DAVID A. OSMON

ON BEHALF OF

MIDWEST NATURAL GAS CORPORATION
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 RELEVANT 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 Midwest. 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 order are that the Respondent should establish a regulatory liability for purposes of a 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 Midwest. Finally I will recommend for Midwest, 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.

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 SUBDOCTYPE?
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 MIDWEST 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 prescribe 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%.

DAO - 4
Corporations with federal taxable income of $10,000,000, or above, were subject to the 35% corporate tax rate. Midwest’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 Midwest.

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 Midwest 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 of customer 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 class of customer 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.

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. Midwest is proposing a volumetric refund to customers that is class 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 class 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 $147,949.16.

17. Q. HAS YOUR APPROACH TO CALCULATIONS OF 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 PLEASE 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 class. The amount per therm was based on developing monthly sales estimates as we would for the GCA. We will utilize a negative tracker to be multiplied by metered consumption, which will act as a reduction of the customer bill. All Tariff A customers will receive a refund of $0.0186 per month, Tariff B customers will receive a refund of $0.0080 per month, Tariff C customers will receive a refund of $0.0058 per month, and Tariff E will receive a refund of $0.0026 per month. All classes will receive the same amount per therm over the four months. School Transport customers, while identified as a separate Tariff, use Tariff A and B base rates, depending on the meter size. Those volumes would be combined with other Tariff A and B customers respectively. The per therm tracker will then be reconciled as described previously. We plan on using the same estimated volumes in the GCA used here to determine the per therm amount. We would not expect any changes, but we would need to consider DAO - 8
any new information between now and when the GCAs for these months are filed. Any changes will be addressed in GCA testimony.

19. 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.

20. Q. MR. OSMON, DO YOU BELIEVE YOUR PROPOSAL ABOVE IS THE MOST FAIR WAY OF REFUNDING THE OVER COLLECTION TO MIDWEST’S CUSTOMERS?
A. Recognizing the software Midwest has available, and the analysis we were able to perform internally, I believe this approach is the best available approach for Midwest.

21. 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.

[Signature]

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

[Signature]

L. Parvin Price
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<th>Residential</th>
<th>Sm Comm</th>
<th>Sm PA</th>
<th>Lg Comm</th>
<th>Lg PA</th>
<th>Industrial</th>
<th>Total GCA</th>
<th>Sch Tport</th>
<th>Sch Tport</th>
<th>Industrial Transport</th>
<th>Total Transport</th>
<th>Total All Volumes</th>
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<td>12.16%</td>
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<td>(25,577)</td>
<td>280,650</td>
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<td>(135)</td>
<td>(1,325)</td>
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<td>0.83%</td>
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Estimated Tariff Sales January - April, 2019

- Residential: $15,000,000
- Sm Comm: $5,609,879
- Sm PA: $2,911,779
- Lg Comm: $1,159,938
- Lg PA: $5,318,404

Refund Due Customers

- Residential: $15,000,000
- Sm Comm: $5,609,879
- Sm PA: $2,911,779
- Lg Comm: $1,159,938
- Lg PA: $5,318,404

Refund Tracker Per Therm

- Residential: $0.0186
- Sm Comm: $0.0080
- Sm PA: $0.0058
- Lg Comm: $0.0026
- Lg PA: $0.0026
### Four-Month Summary

#### April

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<th>Tariff Ab</th>
<th>Blocks</th>
<th>Base Rate</th>
<th>HTA Over</th>
<th>Net</th>
<th>Over</th>
<th>Charge/ (Credit)</th>
<th>Overcharge/ Undercharge</th>
<th>Net</th>
<th>Collection</th>
<th>Overcharge/ Undercharge</th>
<th>Net</th>
<th>Collection</th>
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#### Total

| Tariff B | July Comm | 0 | 2,085.07 | 1,945.21 | 1,906.36 | 1,543.81 | 1,619.72 | 2,791.51 | 6,489.81 |
| | 1 - 100 | 1,305.52 | 606.85 | 594.92 | 477.56 | 2,675.13 | 6,489.81 |
| | > 1,000 | 2,219.83 | 32,175.25 | (359.82) | 3,557.88 | 5,412.83 | 3,557.88 | 5,412.83 | 3,557.88 |
| LG PA | 0 | 609.97 | 481.36 | 471.04 | 456.02 | 1,902.39 | 414.81 | 414.81 | 414.81 |
| | 1,000 | 310.52 | 244.72 | 241.27 | 219.85 | 1,038.21 | 414.81 | 414.81 | 414.81 |
| Total Tariff B | $2,106.09 | $995.94 | $2,316.24 | $932.14 | $4,824.06 | $4,945.95 | (810.50) | $6,211.35 |

#### Total

| Tariff C | D | Industrial | 215.36 | 215.36 | 204.96 | 169.22 | 820.99 |
| | > 1,000 | 2,255.14 | 1,095.13 | 1,021.04 | 5,890.78 |
| Tariff C Total | $2,464.50 | $2,464.50 | $2,464.50 | $2,464.50 | $2,464.50 | $2,464.50 |

| Tariff E | Industrial Tr | 1 - 175,000 | 3,215.71 | 2,012.27 | 2,086.56 | 2,150.37 | 8,601.34 |
| | > 175,000 | 1,404.01 | 1,095.28 | 1,041.24 | 945.38 | 5,128.84 |

#### Total

| Total All Tariffs | $57,759.80 | $6,705.22 | $50,074.58 | $38,609.68 | $4,972.88 | $43,383.66 | $29,632.02 | $1,492.12 | $30,134.14 | $27,082.47 | $4,920.95 | $32,163.42 | $156,644.37 | $8,715.43 | $147,949.16 |