FILED

July 17, 2017

INDIANA UTILITY

REGULATORY COMMISSION

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF MIDWEST NATURAL GAS CORPORATION FOR APPROVAL OF A TDSIC PLAN FOR ELIGIBLE TRANSMISSION AND DISTRIBUTION IMPROVEMENTS PURSUANT TO IND. CODE § 8-1-39-1, et seq.	)))))	**CAUSE NO. 44942**

OUCC PREFILED TESTIMONY

OF

HEATHER R. POOLE – PUBLIC'S EXHIBIT #2

ON BEHALF OF THE

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

July 17, 2017

Respectfully submitted,

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

Scott Franson, Atty. No. 27839-49
Deputy Consumer Counselor

CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing ***OUCC Prefiled Testimony of Heather R. Poole*** has been served upon the following counsel of record in the captioned proceeding by electronic service on July 17 2017.

L. Parvin Price
BARNES & THORNBURG LLP
11 S. Meridian St.
Indianapolis, IN 46204
Email: parvin.price@,btlaw.com

Scott Franson
Deputy Consumer Counselor

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR
115 West Washington Street
Suite 1500 South
Indianapolis, IN 46204
infomgt@oucc.in.gov
317/232-2494 – Phone
317/232-5923 – Facsimile

TESTIMONY OF OUCC WITNESS HEATHER R. POOLE
CAUSE NO. 44942
MIDWEST NATURAL GAS CORPORATION

I. INTRODUCTION

Q: Please state your name and business address.

A: My name is Heather R. Poole, and my business address is 115 West Washington Street, Suite 1500 South, Indianapolis, IN 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 the Assistant Director of the Natural Gas Division. I have worked as a member of the OUCC's Natural Gas Division since December of 2010. For a summary of my educational and professional experience, as well as my preparation for this case, please see the Appendix attached to my testimony.

Q: Describe Midwest Natural Gas Corporation's ("Midwest") 7-Year Plan proposal.

A: Midwest seeks approval of a 7-Year Plan under Ind. Code §§ 8-1-39-10 and 11 for purposes of constructing certain distribution facilities in order to provide natural gas service to currently unserved rural areas within its service territory, and improve the reliability of its existing service. Midwest's 7-Year Plan consists of one project broken into six sub-parts. This project is expected to be completed by the end of calendar year 2020.

Q: What are your recommendations?

A: I recommend the Commission approve Midwest's proposed use of a 20-year margin revenue test for rural extensions, as part of the proposed 7-Year Plan in this case. I also make recommendations regarding Midwest's recovery of Transmission, Distribution and Storage System Improvement Charge ("TDSIC") costs included within the 7-Year Plan. OUCC witness Edward Rutter discusses the OUCC's review of Midwest's 7-Year Plan, as well as the cost estimates included within the 7-Year Plan.

II. 20-YEAR MARGIN REVENUE TEST

Q: What is Midwest's current margin revenue test?

A: Midwest's current margin revenue test was approved in its last base rate case (Cause No. 44063). It describes that a service connection will be made at the utility's expense if the estimated non-gas cost revenue from the estimated sale of gas to the customer for a six year period, commencing within a reasonable period of time following installation of such service, exceeds the cost of installation.

Q: Does Ind. Code 8-1-39 ("TDSIC Statute") provide for the use of a 20-year margin test?

A: Yes. Ind. Code § 8-1-39-11(c) states:

> Notwithstanding any law or rule governing extension of service, a public utility that provides gas service may, on a nondiscriminatory basis, extend service in rural areas without a deposit or other adequate assurance of performance from the customer, to the extent that the extension of service results in a positive contribution to the utility's overall cost of service over a twenty (20) year period.

Q: Did Midwest use a 20-year margin revenue test for the rural extension projects included in its 7-Year Plan?

A: Yes. As stated by Midwest's witness Mr. Cody Osmon on page 2, lines 7-19 of his testimony, "The estimated margin revenue from new customers connected to the extension, described as Daviess County-Odon South, reflect revenue which covers the estimated costs of these projects over the 20-year period." Mr. C. Osmon provides the margin revenue test in Exhibit CMO-1.

Q: Did Midwest propose any tariff changes related to the use of a 20-year margin revenue test?

A: No. In relation to new tariff language, Mr. Dave Osmon states in his testimony on page 18, lines 1-2, "We will defer to the direction of the Commission, and any suggestions that the OUCC may have, as they relate to referencing this 20-year analysis in our tariff."

Q: Does the OUCC have any recommendations relating to new tariff language related to the use of a 20-year margin revenue test?

A: Yes. The OUCC recommends Midwest adopt tariff language similar to that used by Southern Indiana Gas and Electric Company and/or Indiana Gas Company, Inc. Both of these companies currently use the 20-year margin test via a TDSIC filing, and both companies updated their Terms and Conditions for Service in consolidated Cause No. 44429. A copy of Southern Indiana Gas and Electric Company's terms and conditions for service related to the use of a 20-year margin revenue test can be found on Attachment HRP-1.

Q: Describe your review of Midwest's expected revenue to be received from each phase of the project.

A: I reviewed Midwest's expected revenue to be received from each phase of the project based on Midwest's Exhibit CAO-1. On page 3, lines 13-15 of his testimony, Mr. C. Osmon stated, "In order to determine the number of anticipated customers that are likely to connect to this new rural extension once it is completed, Midwest made contact with individuals in the area." On pages 4-5 of his testimony, Mr. C. Osmon goes on to explain why his estimated revenue calculation is conservative.

Using Midwest's current margin from the base rates in effect from Cause No. 44063, Midwest calculated the margin per customer per year. I reviewed Midwest's calculation of expected margins over the 20-year period, and found no errors. Midwest's calculated 20-year margin revenue test shows the revenue in all 6 phases on the project will cover the cost of the project.

Q: Describe your review of Midwest's expected construction costs for each project area.

A: OUCC witness Ed Rutter discusses the OUCC's review of Midwest's construction costs contained in Midwest's Exhibit DAO-1.

Q: Did Midwest include the cost of service lines and meters in determining the total construction costs for the 20-year margin test?

A: No. Midwest excluded these costs from its 20-year margin test and only included the cost of main extensions. The OUCC supports this decision, as I discuss below.

Q: Did Midwest prepare a calculation of the 20-year margin test with the cost of service lines and meters included?

A: No. However, in his testimony on page 15, lines 15-21, Mr. D. Osmon discusses the cost of service lines and meters, and the total overall cost related to these items for the project. I verified the 20-year margin revenue test does cover the entire construction cost, including the service lines and meters.

Q: Does the OUCC have any concerns with rural extensions being included in TDSIC filings for recovery?

A: Yes. Historically, utilities have invested in plant to serve new customers between rate cases. The utility then receives a revenue margin from each new customer through existing rates. These existing rates, and the margin per customer, are set in the utility's last base rate case. When those rates are set in the rate case, they include a return on utility plant investment (rate base), depreciation, O&M expenses, and taxes. When a utility adds a new customer it receives a revenue margin from that customer, which includes a return on investment, depreciation, O&M expenses, and taxes. Essentially, customer growth pays for itself. The utility receives an embedded return on investment, and embedded recovery of depreciation and other expenses from each new customer.

When a utility receives a revenue margin from new rural extension customers – and *also* receives, through TDSIC rates, a return on the new plant investment, depreciation, O&M expenses, and taxes – then the utility is receiving a double recovery. New customers are paying the revenue margin for new gas service, and all customers are paying the TDSIC rates for that same investment. Therefore, ratepayers are paying two returns on the same investment, double the depreciation expense, and at least incrementally, excess O&M expenses, and taxes.

Q: Is the OUCC recommending a margin credit for rural extension cost recovery, as has been recommended in other natural gas TDSIC cases?

A: No. The OUCC advocated for a margin credit in the Northern Indiana Public Service Company ("NIPSCO") TDSIC-1 filing in Cause No. 44403. However, there are differences between Midwest and NIPSCO's rural extension investments within the TDSIC mechanism.

Q: Please explain these differences.

A: First, in Cause No. 44403 TDSIC-1 and TDSIC-3, NIPSCO included one hundred percent (100%) of costs relating to rural extensions in the TDSIC filing for recovery. In this Cause, and as discussed above, Midwest has only included the cost of main extensions in its 7-Year Plan as part of the company's TDSIC costs. Midwest has excluded services and meters in its 7-Year Plan filing. In the event a TDSIC tracker filing is made, Midwest will retain the incremental non-gas cost revenue from new customers to offset the investments and costs not included in the TDSIC tracker filing. Therefore, no margin credit is needed at this time.

Secondly, as discussed below, Midwest has not indicated whether it will submit a TDSIC tracker filing to recover costs within the 7-Year Plan. If Midwest changes its methodology in the future regarding which rural extension costs are included in the TDSIC for recovery, the OUCC could suggest a margin credit at that time.

Q: Do you agree with Midwest's calculations of the 20-year margin revenue test, as provided in Midwest's Exhibit CMO-1?

A: Yes. I reviewed Midwest's calculation of both residential and commercial customer expected revenue, and found no errors. I also reviewed Midwest's calculation of the 20-year margin test if service lines and meters were included. I found nothing to indicate Midwest had calculated the 20-year margin revenue test incorrectly.

III. RECOVERY OF TDSIC COSTS

Q: Is Midwest seeking approval of a tracker to recover TDSIC costs included in its 7-Year Plan?

A: No. Mr. D. Osmon states on page 12, lines 20-21 of his testimony, "However we have not decided on whether we will make annual requests for recovery of these TDSIC costs through a TDSIC tracker." Furthermore, on page 13, lines 1-4 of his testimony, he states:

> I anticipate the Board of Directors will make a final decision on whether and when to file requests for recovery of its TDSIC construction after this proceeding has concluded, and at least one of the phases described above has been completed. Thus the earliest we would consider filing a TDSIC tracker would be 2018.

Q: Does Ind. Code 8-1-39 require Midwest to file a tracker to recover TDSIC costs included in a 7-Year Plan?

A: No. Ind. Code § 8-1-39-9(a) states:

> Subject to subsection (c), a public utility that provides electric or gas utility service *may* file with the commission rate schedules establishing a TDSIC that will allow the periodic automatic adjustment of the public utility's basic rates and charges to provide for timely recovery of eighty percent (80%) of approved capital expenditures and TDSIC costs. (*Emphasis* added.)

The statute does not indicate a gas utility *shall* or *must* file rate schedules establishing a TDSIC for the periodic automatic adjustment of a utility's basic rates and charges.

Q: Does Ind. Code 8-1-39 require Midwest to file a rate case before the end of the 7-Year Plan?

A: Yes. Ind. Code § 8-1-39-9(d) states:

> A public utility that implements a TDSIC under this chapter shall, before the expiration of the public utility's approved seven (7) year plan, petition the commission for review and approval of the public

utility's basic rates and charges with respect to the same type of utility service.

Q: Did Midwest agree to file a new base rate case before the end of Midwest's 7-Year Plan?

A: Although not stated in the case-in-chief, Midwest did indicate it will file a base rate case before an approved 7-year plan has expired in response to OUCC DR 1-1. (See Attachment HRP-2.)

Q: Do other natural gas utilities with approved 7-Year Plans provide updates to the OUCC on the status of their plans?

A: Yes. In the NIPSCO (Cause No. 44403), Southern Indiana Gas and Electric Company (Cause No. 44429), and Indiana Gas Company, Inc. (Cause No. 44430) TDSIC filings, each utility company provides an update of the 7-Year Plan at least annually with the filing of its TDSIC tracker. Community Natural Gas (Cause No. 44710) also provides an annual update to the OUCC on the status of its plan.

Q: Has Midwest proposed to provide updates to the OUCC at least annually?

A: Yes. On page 7, lines 11-12 of Mr. D. Osmon's testimony, he states, "we anticipate updating the Commission and the OUCC through the filing of annual reports." On page 12, lines 19-20, he goes on to state, "we will make annual reports on our progress and would propose to do so following each calendar year."

Q: Does the OUCC have any concerns relating to Midwest implementing a TDSIC tracker filing in the future?

A: Yes. If Midwest deems it appropriate to implement a tracker filing to recover costs included within the 7-Year Plan, the OUCC requests Midwest provide an advance copy of those revenue requirement schedules to the OUCC for review before submitting its first TDSIC tracker filing with the Commission.

IV. CONCLUSION

Q: What are your recommendations regarding Midwest's use of the 20-year margin revenue test?

A: I agree with Midwest's methodology of calculating the 20-year margin revenue test, and found no errors in Midwest's calculations. If Midwest files a TDSIC tracker filing in the future, and Midwest changes its methodology regarding which rural extension costs are included in the tracker filing for recovery, the OUCC could suggest a margin credit at that time.

Q: What are your recommendations regarding Midwest's recovery of TDSIC costs?

A: The OUCC recommends Midwest provide annual updates to both the Commission and the OUCC, and also file a base rate case before the end of its 7-Year Plan. If Midwest deems it appropriate to implement a tracker filing to recover costs included within the 7-Year Plan, the OUCC requests Midwest provide an advance copy of those revenue requirement schedules to the OUCC for review before submitting its first TDSIC tracker filing with the Commission.

Q: Does this conclude your testimony?

A: Yes.

GENERAL TERMS AND CONDITIONS APPLICABLE TO GAS SERVICE

6. EXTENSION OF COMPANY'S FACILITIES

A. The obligation of Company to provide any extension of facilities shall be subject to the Restrictions and Curtailments of Gas Service made effective pursuant to other provisions of Company's Terms and Conditions and as otherwise provided by law.

1) Company shall provide to any Customer, without charge, a Standard Installation. A Standard Installation shall consist of up to 150 feet of underground service pipe to be supplied by a distribution main operating at 60 psig or less along with a meter and other equipment necessary to provide the service. All costs in excess of such Standard Installation shall be included along with the cost of distribution mains in the economic tests described in Rules 6.B. and 6.C.

B. Except as provided for in Rule 6.C., upon request for Gas Service by a prospective Customer or a group of prospective Customers located in the same area, Company will extend without charge its facilities including distribution mains, underground service pipes, meters and other equipment necessary to provide the service provided:

1) that Company's estimate of its Non- Gas Cost revenue from such Gas Services provided to the prospective Customer(s) for a period of five and one-half (5.5) years is equivalent to or in excess of Company's estimate of the following:
   a. the cost of such distribution main(s), and
   b. the cost in excess of a Standard Installation as defined in Rule 6.A. (1). and;

2) the prospective patronage or demand is of such permanency as to warrant the capital expenditure involved.

C. Upon request for Gas Service by a prospective Customer in a Rural Area, or a group of prospective Customers located in the same Rural Area, that is (or are) eligible to receive service under Rate 110- Residential Sales Service or Rate 120-General Sales Service, Company will extend without charge its facilities including distribution mains, underground service pipes, and other equipment necessary to provide the service provided:

1) that Company's estimate of its Non-Gas Cost Revenue from such Gas Services provided to the prospective Customer(s) for a period of twenty (20) years is equivalent to or in excess of Company's estimate of the following:
   a. the cost of such distribution main(s), and
   b. the cost in excess of a Standard Installation as defined in Rule 6.A. (1). and;

2) the prospective patronage or demand is of such permanency as to warrant the capital expenditure involved; and

3) Company's capital investment in extension of facilities to such Rural Areas pursuant to Rule 6.C. (1) on and after January 1, 2014 through December 31, 2020 has not exceeded $1,000,000.

4) "Rural Area" is defined, for purposes of this Rule 6.C. as any area within Company's service territory that is unincorporated, or other areas as approved by the Commission.

GENERAL TERMS AND CONDITIONS APPLICABLE TO GAS SERVICE

D. If the cost of the facilities necessary to provide the Gas Service requested exceeds the applicable without-charge limit; Company may require either a deposit or adequate provision of the payment of a deposit equal to the cost of the facilities extension in excess of the without-charge limit.

E. Any refundable extension deposit accepted by Company shall be subject to refund until the expiration of the six-year contract period. For each Customer connected to the extension, Company shall refund an amount by which five and one-half (5.5) times the estimated annual Non-Gas Cost Revenue for gas appliances actually installed exceeds the estimated cost of connecting such Customer. At no time shall the aggregate refund made to any depositor exceed the amount of extension deposit received from such depositor.

F. Upon request for Gas Service by a prospective Customer where, in Company's opinion, the facilities extension is of such length and the prospective revenue which may be developed by it is so meager as to make it doubtful whether the revenue from the extension would ever pay a fair return on the investment involved, or in the case of a real estate development with slight or no immediate demand for service, or in the case of Industrial installations requiring slight or irregular service and requiring extensive equipment, such facilities extension requests shall be submitted to the Commission for investigation and determination as to the convenience and necessity of such extension, and if so required, the conditions under which they shall be made.

G. Targeted Economic Development Projects pursuant to Ind. Code Ch. 8-1-39 are excluded from the provisions of Rules 6.B.1 and 6.C.1.

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF MIDWEST NATURAL GAS CORPORATION FOR APPROVAL OF A TDSIC PLAN FOR ELIGIBLE TRANSMISSION AND DISTRIBUTION IMPROVEMENTS PURSUANT TO IND. CODE § 8-1-39-1, *et seq.*	))))	**CAUSE NO. 44942**

MIDWEST NATURAL GAS CORPORATION'S RESPONSE TO THE INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR'S FIRST SET OF DATA REQUESTS

Comes now Midwest Natural Gas Corporation, by counsel, and submits to the Indiana Office of the Utility Consumer Counselor ("OUCC") its response to the OUCC's First Set of Data Requests dated June 22, 2017, as follows:

Q 1-1: Indiana Code § 8-1-39-9(d) states:

> A public utility that implements a TDSIC under this chapter shall, before the expiration of the public utility's approved seven (7) year plan, petition the commission for review and approval of the public utility's basic rates and charges with respect to the same type of utility service.

Based on the statute language above, please confirm Petitioner will file a base rate case before the expiration of the seven-year plan.

A. Petitioner confirms.

AFFIRMATION

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

Heather Poole

By: Heather Poole
Indiana Office of
Utility Consumer Counselor

July 17, 2017
Date: