

1 INTRODUCTION AND BACKGROUND

2 Q. PLEASE STATE YOUR NAME.

3 A. Korlon L. Kilpatrick II

4 Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

5 A. I am employed by the Board of Directors for Utilities of the Department of Public
6 Utilities of the City of Indianapolis d/b/a Citizens Energy Group ("Citizens
7 Energy Group"). Citizens Energy Group is the successor trustee of a public
8 charitable trust and, in that capacity, manages and controls a number of energy-
9 related businesses, including the gas utility that does business as Citizens Gas
10 ("Citizens Gas" or "Petitioner") and the steam utility that does business as
11 Citizens Thermal (the "Steam Utility"). Since September 2013, I have held the
12 position of Director, Regulatory Affairs.

13 Q. PLEASE DESCRIBE YOUR PROFESSIONAL BACKGROUND AND
14 EXPERIENCE.

15 A. I began my employment with Citizens Energy Group in 2010. Prior to joining
16 Citizens Energy Group, I worked for the Indiana Office of Utility Consumer
17 Counselor as a Utility Analyst. In that capacity, my work focused on economic
18 and financial analysis of various regulatory issues including demand-side
19 management / energy efficiency issues (DSM/EE) and cost of equity analysis. I
20 regularly attended Midwest ISO stakeholder committee meetings and served as
21 the Public Consumer Advocate sector representative to their Finance
22 subcommittee. Prior to that, I was part of the senior management team of a start-
23 up business, and prior to that, I worked for several years as a management

1 consultant performing economic and financial analysis for clients in various
2 industries.

3 **Q. PLEASE DESCRIBE THE DUTIES AND RESPONSIBILITIES OF YOUR**
4 **PRESENT POSITION.**

5 A. As Director of Regulatory Affairs, I am responsible for the development,
6 implementation, and administration of Citizens Energy Group's regulated
7 utilities' rates and charges and Terms and Conditions for Service. I prepare, or
8 supervise the preparation of, rate design testimony for Citizens Energy Group's
9 regulated utilities. Since 2010, I have been responsible for the preparation of
10 GCA and FAC changes and other miscellaneous rate matters.

11 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

12 A. I hold a Bachelor of Arts degree with a concentration in Computer Science from
13 Harvard College and a Master of Business Administration degree with a major in
14 Finance from the University of North Carolina at Chapel Hill.

15 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?**

16 A. Yes.

17 **Q. WHAT IS THE PURPOSE FOR YOUR TESTIMONY IN THIS**
18 **PROCEEDING?**

19 A. My testimony supports the relief requested by Petitioner in the Verified Petition
20 initiating this proceeding. Specifically, my testimony describes the rates and
21 charges of the Gas Transportation Agreement between Citizens Gas and the
22 Steam Utility (the "Proposed Agreement"), for which Petitioner seeks approval in
23 this proceeding. My testimony also briefly addresses the impact to Petitioner if

1 the Steam Utility were to stop purchasing gas transportation service or
2 significantly decrease its transportation volumes.

3 Q. HAVE YOU READ AND ARE YOU FAMILIAR WITH THE
4 AGREEMENT?

5 A. Yes.

6 RATES AND CHARGES

7 Q. PLEASE DESCRIBE THE RATES AND CHARGES ESTABLISHED IN
8 THE PROPOSED AGREEMENT.

9 A. The rates and charges the Steam Utility will pay under the Proposed Agreement
10 are set forth in Section 8. The charges are comprised of a monthly Facilities
11 Charge, a volumetric Transportation Rate, and a Gas Supply Charge. The latter is
12 applicable if the Steam Utility opts to procure natural gas supplies as a Retail
13 Customer.

14 Q. PLEASE DESCRIBE THE FACILITIES CHARGE.

15 A. The Proposed Agreement specifies that the Facilities Charge set forth in Section
16 8, paragraph (a) will be [REDACTED]
17 [REDACTED].

18 Q. PLEASE DESCRIBE THE TRANSPORTATION RATE.

19 A. The Transportation Rate set forth in Section 8, paragraph (b) of the Proposed
20 Agreement will be [REDACTED]. [REDACTED]
21 [REDACTED].

22 Q. PLEASE DESCRIBE THE GAS SUPPLY CHARGE.

1 A. The Gas Supply Charge set forth in Section 8, paragraph (c) of the Proposed
2 Agreement will be the Gas Rate No. S1 Variable Rate Supply for Gas Rate No.
3 D3 under Petitioner's Rider A. This rate may be amended from time to time
4 consistent with Petitioner's quarterly GCA filings and its monthly price updates.

5 **Q. WILL THERE BE ANY BALANCING SERVICES ASSOCIATED WITH**
6 **THE PROPOSED AGREEMENT?**

7 A. No. There will be no direct customer charges for balancing services. If the Steam
8 Utility is an end-user within a supplier group, their 3rd Party Supplier will be
9 subject to balancing-related charges in accordance with the terms and conditions
10 of Petitioner's Citizens Energy Select Program.

11 **Q. WILL THE RATES AND CHARGES ESTABLISHED IN THE**
12 **PROPOSED AGREEMENT COVER PETITIONER'S COST OF**
13 **PROVIDING SERVICE TO THE STEAM UTILITY?**

14 A. Yes. The rates and charges the Steam Utility will pay for gas service pursuant to
15 the Proposed Agreement were negotiated at arm's length; however, they exceed
16 the incremental cost of serving the Steam Utility's facilities. Therefore, the
17 Proposed Agreement's rates and charges not only will allow Petitioner to recover
18 its incremental costs of providing transportation service to the Steam Utility's
19 facilities, but also will provide a contribution to the recovery of Petitioner's fixed
20 costs.

21 **Q. WHAT WOULD BE THE IMPACT TO PETITIONER IF THE STEAM**
22 **UTILITY WERE TO STOP PURCHASING TRANSPORTATION**

1 **SERVICE FROM PETITIONER OR SIGNIFICANTLY DECREASE ITS**
2 **TRANSPORTATION VOLUMES?**

3 A. As with virtually every utility, Petitioner is a capital intensive business whose
4 non-gas costs primarily are fixed and thus do not vary substantially with customer
5 usage. Consequently, if the Steam Utility were to stop purchasing or decrease its
6 purchases of transportation service from Petitioner, very little if any non-gas costs
7 would be avoided. The recovery of these costs, therefore, would effectively be
8 redistributed to remaining customers in a subsequent rate case.

9 **Q. HOW WOULD THE REVENUES ASSOCIATED WITH**
10 **TRANSPORATION SERVICE UNDER THE PROPOSED AGREEMENT**
11 **BE TREATED IN PETITIONER'S NEXT GENERAL RATE CASE?**

12 A. The revenue associated with the service would be used to recover Petitioner's
13 revenue requirement. The resulting rate design would be updated to reflect the
14 inclusion of these revenues.

15 **CONCLUSION**

16 **Q. DO YOU HAVE AN OPINION ON WHETHER THE PROPOSED**
17 **AGREEMENT IS REASONABLE AND JUST?**

18 A. Yes, I do.

19 **Q. WHAT IS THAT OPINION?**

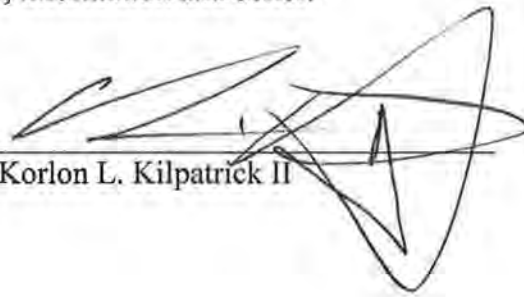
20 A. The Proposed Agreement is reasonable, just and economically advantageous to
21 Petitioner, the Steam Utility, and the customers of both utilities, and should be
22 approved by the Commission.

1 **Q. DOES THAT CONCLUDE YOUR PREPARED DIRECT TESTIMONY IN**
2 **THIS PROCEEDING?**

3 **A. Yes, at this time.**

VERIFICATION

The undersigned affirms under the penalties for perjury that the foregoing testimony is true to the best of his knowledge, information and belief.


Korlon L. Kilpatrick II