FILED
SEPTEMBER 28, 2016
INDIANA UTILITY
REGULATORY COMMISSION

**STATE OF INDIANA**

**INDIANA UTILITY REGULATORY COMMISSION**

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| **VERIFIED PETITION OF WESTFIELD GAS, LLC, D/B/A CITIZENS GAS OF WESTFIELD FOR (1) AUTHORITY TO INCREASE RATES AND CHARGES FOR GAS UTILITY SERVICE AND APPROVAL OF A NEW SCHEDULE OF RATES AND CHARGES; (2) APPROVAL OF CERTAIN REVISIONS TO ITS TERMS AND CONDITIONS APPLICABLE TO GAS UTILITY SERVICE; AND (3) APPROVAL PURSUANT TO INDIANA CODE SECTION 8-1-2.5-6 OF AN ALTERNATIVE REGULATORY PLAN UNDER WHICH IT WOULD CONTINUE ITS ENERGY EFFICIENCY PROGRAM PORTFOLIO AND ENERGY EFFICIENCY RIDER** | ) | **CAUSE NO. 44731** |

**INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR**

**PUBLIC'S EXHIBIT NO. 1**

**TESTIMONY OF MARK H. GROSSKOPF**

**SEPTEMBER 28, 2016**

Respectfully submitted,

Daniel M. Le Vay
Attorney No. 22184-49
Deputy Consumer Counselor

**TESTIMONY OF OUCC WITNESS MARK H. GROSSKOPF**
**CAUSE NO. 44731**
**WESTFIELD GAS, LLC, D/B/A CITIZENS GAS OF WESTFIELD**

## I. INTRODUCTION

**Q: Please state your name and business address.**

A: My name is Mark H. Grosskopf, and my business address is 115 W. Washington Street, Suite 1500 South, Indianapolis, Indiana 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 a Senior Utility Analyst. For a summary of my educational and professional experience and my preparation for this case, please see the Appendix attached to my testimony.

**Q: What is the purpose of your testimony?**

A: I address certain elements in Westfield Gas, LLC, d/b/a Citizens Gas of Westfield's ("Petitioner" or "Westfield Gas") request for a rate increase, including depreciation expense, rate base, capital structure, and the overall need for a rate increase. I discuss Petitioner's proposed new depreciation rates, proposed fair value rate base, Petitioner's per books original cost rate base, return on fair value rate base, and return on original cost rate base. I also discuss Petitioner's proposed continuation of a decoupling mechanism known as the Sales Reconciliation Component ("SRC") and Energy Efficiency Funding Component ("EEFC") funded through Appendix E – Energy Efficiency Adjustment. I sponsor accounting schedules to support the OUCC's recommended *pro forma* adjustments and to implement the OUCC's recommended cost of equity. The accounting schedules I prepared incorporate all adjustments the OUCC used to calculate the OUCC's recommended total *pro forma* revenue requirements and the resulting recommended rate decrease.

## II. OUCC WITNESS INTRODUCTION

**Q: Please introduce the other OUCC's witnesses who are testifying in this case.**

A: The following OUCC witnesses are testifying on various rate case topics.

**Ms. Debra K. Wilcox** addresses Petitioner's operating and maintenance expense adjustments. Specifically, she addresses Petitioner's pro forma payroll and payroll tax expenses, out-of-period expenses, and IURC fee.

**Mr. Leja D. Courter** expresses the OUCC's concern regarding the amount of rate case expense included in this case by Petitioner. Mr. Courter testifies on the balance of ratepayer and shareholder interests, and the amount of rate case expense that Westfield Gas should reasonably recover through new base rates.

**Ms. April M. Paronish** addresses Petitioner's energy efficiency expenditure tracking proposal. Specifically, she addresses the lack of an energy efficiency plan, portfolio budgets, energy savings goals, and ratepayer protections through oversight and reporting.

**Mr. Bradley E. Lorton** testifies that Westfield Gas requests a 9.0% cost of equity to be used in a weighted cost of capital applied to a fair value rate base. Mr. Lorton recommends the Commission adopt the OUCC's proposed cost of equity of 8.80% based on his Distributed Cash Flow ("DCF") and Capital Asset Pricing Model ("CAPM") analysis, to be used in the weighted cost of capital applied to an original cost rate base.

**Mr. Brien R. Krieger** notes the many changes that have occurred since this utility's last cost of service study nearly 30 years ago and recommends Petitioner be required to perform and present a cost of service study in its next rate case. Mr. Krieger updates the allocators from that study using current data to demonstrate the changes in cost of service that may be supported by a new study.

## III. REVENUE REQUIREMENT SCHEDULES

**Q: Does the OUCC agree with Petitioner's proposed *pro forma* increase in revenue from existing rates?**

A: No. Westfield Gas requests a rate increase of 9.21%, to increase Petitioner's annual revenue by $361,071. The OUCC's review supports a decrease in Petitioner's *pro forma* revenue requirement of $34,081, resulting in a 0.87% rate decrease.

**Q: What attachments and schedules do you sponsor showing the pertinent calculations related to your testimony?**

A: I sponsor the following attachments and schedules:

Attachment MHG-1: OUCC Revenue Requirement Schedules

- Schedule 1: Comparison of Petitioner's and OUCC's Revenue Requirements, and Comparison of Income Statement Adjustments.
- Schedule 2: Petitioner's Balance Sheet as of December 31, 2015.
- Schedule 3: Petitioner's Income Statement for the Twelve Months Ended December 31, 2015.
- Schedule 4: Original Cost Rate Base at April 30, 2016.
- Schedule 5: *Pro Forma* Net Operating Income Statement.
- Schedule 6: *Pro Forma* Present Rate Adjustments.
- Schedule 7: *Pro Forma* Proposed Rate Adjustments.
- Schedule 8: Capital Structure as of December 31, 2015.

Attachment MHG-2: Comparison of Fair Value and Original Cost ROR, NOI, and Revenue Increase / (Decrease)

Attachment MHG-3: Minutes of the Meeting of the Board of Directors of Citizens Gas of Westfield, LLC, and Consent of the Members and Board of Directors of Citizens Gas of Westfield, LLC.

Attachment MHG-4: SRC/EEFC Cost-Benefit Summary

Attachment MHG-5: Decoupling Revenue and Energy Efficiency Program Cost Benefit Analysis

Attachment MHG-6: Authorized SRC Recovery Analysis

**Q: Please describe the schedules in Attachment MHG-1.**

A: Page 1 of Schedule 1 summarizes the main components of the revenue requirements, incorporating the OUCC's adjustments as compared to Petitioner's proposed revenue requirements, resulting in the calculation of the OUCC's recommended revenue increase. Pages 2 and 3 of Schedule 1 compare Petitioner's and the OUCC's proposed revenue and expense adjustments at present rates and each parties' calculation of the revenue conversion factor. Schedule 2 and Schedule 3 represent Petitioner's unadjusted Balance Sheet and Income Statement as of the end of the test year. Schedule 4 shows the OUCC's calculation of Petitioner's original cost rate base as of April 30, 2016. Schedule 5 is the *Pro Forma* Net Operating Income Statement reflecting all *pro forma* revenue and expense adjustments proposed by the OUCC. The OUCC's proposed adjustments yield revised *pro forma* revenue, operating expenses and net operating income, resulting in a revised proposed rate increase. Schedule 6 shows the results of the OUCC's calculated adjustments to operating expenses and taxes. Schedule 7 uses the OUCC's proposed revenue increase to gross up bad debt, the IURC fee, Indiana utility receipts tax, and federal and state income taxes.

Schedule 8 reflects Petitioner's capital structure with a revised cost of equity proposed by the OUCC.

**Q: Why is Petitioner's *pro forma* State and Federal income tax expense shown as $0?**

A: Westfield Gas is a Limited Liability Corporation, and as such does not have any of its own liability for state and federal taxes. Income of limited liability companies creates a state and federal tax liability for its owners. As such, it is the OUCC's position that, where the utility itself has no tax liability, there should be no revenue requirement for taxes. Moreover, in this case, Westfield Gas's taxes would flow through several entities to the corporate parent company. Westfield Gas's corporate parent is the Department of Public Utilities of the City of Indianapolis (d/b/a Citizens Energy Group), and being a municipal entity is exempt from state and federal taxes. Therefore, state and federal tax expense is not part of Westfield Gas's revenue requirements and is shown as $0.

## IV. DEPRECIATION EXPENSE

**Q: Does Petitioner propose an adjustment to the depreciation rates used during the test year?**

A: Yes. Westfield Gas currently uses depreciation rates based on a 2005 depreciation study that were approved in Cause No. 43624. Petitioner proposes new depreciation rates based on a 2009 depreciation study prepared by the consulting firm Gannett Fleming. The 2009 depreciation rates are generally lower than the 2005 rates currently in use, lowering the revenue requirement for depreciation expense. On page 28 of her direct testimony, Petitioner's witness

Sabine Karner compares the test year depreciation rate from the 2005 study with the proposed depreciation rate from the 2009 study.

**Q: Does Westfield Gas pay a share of the depreciation expense for Corporate Support Services ("CSS") and Shared Field Services ("SFS")?**

A: Yes. As proposed, Westfield Gas is allocated a share of the total CSS and SFS depreciation expense. The CSS and SFS depreciation rates are also from the 2009 depreciation study and were approved by the Commission for Citizens Gas in Cause No. 43975.

**Q: What is your assessment of the depreciation expense proposed by Petitioner in this Cause?**

A: I reviewed the 2005 and 2009 depreciation studies and the Commission Orders in Cause Nos. 43624 and 43975 approving the rates in these depreciation studies. Petitioner's proposed depreciation expense adjustment updates the *pro forma* depreciation rates to those summarized in the 2009 depreciation study. The depreciation rates for Westfield Gas, CSS, and SFS were all derived from the 2009 depreciation study previously approved in other Causes. I agree with Petitioner's depreciation expense adjustment using rates derived from the 2009 depreciation study.

## V. <u>FAIR VALUE RATE BASE</u>

**Q: Do you agree Petitioner's proposed fair value rate base should be used to calculate Petitioner's revenue requirement?**

A: No. I recommend the Commission use the original cost of Westfield Gas's rate base to calculate revenue requirements. Moreover, the fair value proposed by Westfield Gas is not appropriate. I reviewed the Accounting Report On Fair

Value of Assets ("Fair Value Report") sponsored by Petitioner's witness Scott Miller for accuracy of Petitioner's fair value calculations. However, as I describe in more detail, I do not support Petitioner's proposed fair value rate base. I included Petitioner's fair value rate base on Schedule 4, Attachment MHG-1 for illustrative purposes only.

**Q: Please discuss the standard used by the Commission to determine Petitioner's fair value rate base.**

A: Quoting from Indiana American Water Company, Cause No. 43680 (page 20), the Commission expressed the view that Reproduction Cost New Less Depreciation ("RCNLD") is just one of the methods of valuation the Commission may consider:

> As the Indiana Supreme Court has said:
>
> [T]he courts will not limit the Commission to any one or more methods of valuation, be it prudent investment, original cost, present value, or cost of reproduction. This court has held that cost of reproduction depreciated is a proper item to be considered under the statute in arriving at a fair value figure.
>
> Pub. Serv. Comm'n v. City of Indianapolis, 131 N.E.2d 308, 318 (Ind. 1956).

Quoting from South Haven Sewer Works, Inc. in Cause No. 41903 the Commission states as follows on page 2 of its final order:

> More recently the Indiana Court of Appeals in Indianapolis Water Company v. Public Service Commission, 484 N.E. 2d 635 (1985) indicated the following:
>
>> In our determination of fair value, this is not an either/or situation regarding the use of original costs or reproduction costs new less depreciation. But rather fair value is the conclusion or final figure drawn from all the various factors offered in evidence. While original cost is one of the factors

> the Commission may consider while arriving at fair value is not in of itself an accurate reflection of the fair value of the utility's property.

Both the Commission and the Courts of this state have acknowledged that when a utility has asked for rates to be based on its fair value, the Commission is not limited to choosing between a utility's original cost or its RCNLD study. The net original cost should not be disregarded in favor of the results of an RCNLD study rather *both* should be considered.

**Q: What method does Westfield Gas use to determine its proposed fair value of rate base?**

A: Petitioner offers RCNLD as the fair value of its assets, included in the Fair Value Report sponsored by Petitioner's witness Scott Miller.

**Q: Is fair value the same as RCNLD?**

A: No. RCNLD is one of the inputs the Commission may use to determine the fair value of Petitioner's plant.

**Q: Please discuss some of your general concerns with Petitioner's RCNLD calculation.**

A: Petitioner's plant was not constructed in one massive construction project but rather was constructed in a piecemeal fashion over several decades. The RCNLD calculation estimates a cost that assumes the plant would be reconstructed as it currently exists. For plant designed and constructed over several decades, under different management and different demand growth assumptions, it is unlikely that a new plant would be designed and constructed in an identical fashion. Many technical advances have occurred throughout Westfield Gas's existence. These technological advances are not only in the type of plant being constructed, but in the equipment and personnel associated with constructing the plant. Even if efficiently designed at the time of construction, Petitioner's plant could be designed and constructed today in a more efficient manner than its current structure. Thus, to the extent there are shortcomings or inefficiencies incorporated into an unadjusted RCNLD calculation, the results of that calculation will overstate the fair value of the utility.

**Q: Did Mr. Miller adjust his RCNLD calculation for technology improvements?**

A: It does not appear he has. Mr. Miller does not mention a technology adjustment in his testimony and I was unable to find one in the Fair Value Report.

**Q: Is a technology improvement adjustment needed for a proper RCNLD valuation?**

A: Yes. As it relates to physical assets, the impact of technological change is to require a successively smaller dollar investment over time to produce a given volume of product or service output. Worded differently, technology improvements should lead to productivity improvements and cost efficiencies.

The need to make a technology adjustment to account for improvements in productivity is well accepted by utility witnesses. There have been several cases where a utility's witness recommended accounting for improvements in productivity and adjusted the results of their RCNLD study. Dr. Wilbur Lewellen did so in Northern Indiana Public Service Company, Cause No. 41746, Dr. Jon Boquist made a similar recommendation in both Indiana American Water Company, Cause Nos. 40103 and 42520, and Daniel Haddock did so in Indiana American Water Company, Cause No. 43187. All four testimonies relied on productivity indexes from the Bureau of Labor Statistics and recommended using productivity indexes from 1.2% to 2.5%.

**Q: Has the Commission consistently used an RCNLD study to determine fair value for other utilities?**

A: No. While the Commission regularly recognizes RCNLD as one of the measures to determine a utility's fair value, it consistently determines that an RCNLD amount does not equal fair value.[1]

**Q: What is your conclusion regarding Petitioner's recommended fair value figure?**

A: Because Petitioner's plant would not be built in the same manner if constructed today and because no adjustment for technology was considered, Petitioner's RCNLD value of its rate base is overstated and should not be used by itself to determine Petitioner's fair value.

## VI. RETURN ON ORIGINAL COST RATE BASE

**Q: What rate base do you recommend be used to set Petitioner's rates?**

A: As shown on Schedule 4 in Attachment MHG-1, based on Petitioner's books and records as of April 30, 2016, I calculated Petitioner's original cost rate base to be $7,610,271. I recommend that value be used to establish Petitioner's rates.

**Q: How does Petitioner's request for a return on fair value rate base compare to a return on original cost rate base?**

A: Petitioner requested an inflation adjusted 9% return on equity for a fair value rate base of $11,041,650, yielding a net operating income of $986,091. Petitioner's resulting revenue increase based on fair value is $361,071, or 9.21%. To match Petitioner's requested NOI using an original cost rate base, Petitioner would need a return on equity of 13.06%. (Attachment MHG-2, Column (b).) OUCC witness

[1] See Causes 44576, 42029, 40703, 40103, 39595, 39215, 38880, and 38347.

Bradley Lorton's analysis concluded that an appropriate cost of equity to apply to Petitioner's original cost rate base is 8.80%, which is at the top of his range. A 13.06% return on equity ("ROE") far exceeds a reasonable rate of return on utility plant in service and is well above ROE's approved by the Commission in recent years. By comparison, using the OUCC's recommended 8.80% ROE for an original cost rate base of $7,610,271 yields a net operating income of $664,550. All things being equal to Petitioner's proposed revenue requirements, except an 8.80% ROE for an original cost rate base, the proposed revenue increase would be $33,625, or 0.86%. (Attachment MHG-2, Column (c).) The disparity in magnitude of rate increases, using the OUCC's ROE on an original cost rate base as compared to Petitioner's requested inflation adjusted ROE on a fair value rate base, indicates the majority of the requested increase is due to the return on fair value rate base and not due to increased operating expense.

**Q: Does Petitioner's requested return on fair value rate base benefit customers in the provision of utility service?**

A: No. As illustrated above, the main driver for a rate increase is not due to increased operating costs. The lion's share of the increase is for additional profit to the utility from an inflation adjusted 9.0% ROE on a fair value rate base. A rate increase is not necessary to fund a monetary shortfall in utility operations, because an operational monetary shortfall does not exist. As evidenced by Petitioner's Board of Directors Meeting Minutes, Westfield Gas was authorized to pay dividends totaling $775,000 to a parent company on four occasions during the test year. (Attachment MHG-3.) These dividends benefit the parent company, not the utility customers.

**Q: What net operating income is generated using a fair return on Petitioner's fair value rate base?**

A: Mr. Lorton calculated a fair rate of return of 6.14%. When applied to Petitioner's fair value rate base, the resulting NOI is $672,876. This is very close to the NOI of $664,550 resulting from the OUCC's recommended 8.80% ROE on original cost rate base. (Attachment MHG-2, Columns (c) and (d)) My testimony discusses the reasonableness of the return on an original cost rate base as calculated in my revenue requirements schedules. (Attachment MHG-1) My testimony also points to the insufficiency in the RCNLD calculation in determining Petitioner's fair value, resulting in an overstatement of Petitioner's proposed fair value rate base. Because the NOI based on a fair return is so close to the NOI based on original cost, I recommend the Commission use original cost rate base to set its revenue requirements.

## VII. DECOUPLING (SRC) / ENERGY EFFICIENCY FUNDING (EEFC)

**Q: Explain the Energy Efficiency Rider that Petitioner requests continuation of in this Cause.**

A: The Energy Efficiency Rider ("EER") is comprised of two components; the Sales Reconciliation Component known as the SRC, and the Energy Efficiency Funding Component known as the EEFC. The SRC is a decoupling mechanism that decouples volumes of gas sold from the revenue associated with the gas sold. The EEFC is a funding mechanism for the utility's energy efficiency programs and efforts. The SRC was intended to ensure full margin revenue recovery when customer usage is declining, removing a disincentive for the utility to promote energy efficiency. The SRC tracks declining usage and the associated declining revenue, and the EEFC funds energy efficiency activities. The SRC and EEFC are collected from utility customers through the EER rate factors.

**Q: Are you familiar with prior causes in which the SRC and EEFC were approved?**

A: Yes. I was involved in Cause No. 43624 where Petitioner received initial approval for the SRC and EEFC in March 2010. I have since been involved in the review of annual compliance filings required by the Commission for recovery of the energy efficiency program costs and operating margins lost as a result of reduced sales volumes. I also filed testimony in Cause No. 44124 where Petitioner first requested continuation of the SRC and EEFC.

**Q: Please explain how the SRC is administered.**

A: The SRC is used to recover operating margins lost as a result of reduced volumes of sales caused by declining customer usage. An order granted margin ("OGM") is established in a rate case and, from that, an order granted margin per customer ("OGMPC") is calculated. Petitioner makes an annual compliance filing with the Commission, requesting recovery of the difference between actual margins for the most recent fiscal year and adjusted order granted margins approved in the most recent rate case. The order granted margin is adjusted for customer growth or decline, giving Petitioners an *adjusted* OGM to compare to the actual margin. The difference is the amount approved for recovery from ratepayers through the SRC. By eliminating the effect of changes in customer count, the SRC only covers the effect of declining sales margins due to declining usage per customer, but the SRC does not discriminate among the causes of declining customer usage.

The SRC compensates Petitioner for lost revenue from any source, including usage reductions resulting from energy efficiency programs promoted by the utility, declining usage attributable to a customer's own reaction to higher utility bills, replacement of older appliances with more energy efficient ones, or any other factors influencing customer usage.

**Q: What other amounts are recovered through the EER?**

A: The EER also includes an EEFC to recover the cost of energy efficiency efforts throughout Petitioner's service territories. Along with the SRC, the total EEFC amount is applied to projected sales volumes for the upcoming year to develop a per therm factor for each component. The SRC and EEFC components are added together to come up with an Energy Efficiency Adjustment Rate applicable to Westfield Gas Rate Schedules D20 and D40 (Residential and Commercial classes). The authorized recoverable margins from the SRC and the recoverable program costs from the EEFC are compared to actual amounts recovered, and under- or over-recovery variances are reconciled for recovery through the SRC and EEFC in subsequent years.

**Q: Did you conduct a cost-benefit analysis for the SRC and EEFC rates charged to the customers?**

A: Yes, I attached three exhibits to my testimony. The SRC/EEFC Cost-Benefit Summary (Attachment MHG-4) is a cost benefit analysis of authorized SRC revenue recovery compared to lost margin revenue, and energy efficiency program cost recovery compared to gas cost savings since the inception of Petitioner's recovery mechanisms. The Decoupling Revenue and Energy Efficiency Program Cost Benefit Analysis (Attachment MHG-5) is a calculation of average actual gas cost savings and lost base revenue for periods coinciding with the SRC filings. Average gas costs on line 10 and therm sales on line 6 were derived from Petitioner's Gas Cost Adjustment ("GCA") filings. Authorized SRC recovery on line 2 is taken from Petitioner's annual compliance filings and actual gas savings on lines 8 and 11 were taken from performance updates filed each year by Petitioner. Lost base unit revenue on line 7 is calculated by dividing actual margin on line 5, taken from annual SRC filings, by therm sales on line 6, taken from GCA filings.

**Q: Please explain the results of your SRC recovery mechanism analysis reflected in your attachments.**

A: Two key elements of Attachment MHG-5 are shown as Authorized SRC Recovery on line 2, and Lost Base Revenue on line 9. Authorized SRC Recovery is the monetary benefit to the utility through the SRC decoupling mechanism, totaling $2,462,074. The Authorized SRC Recovery amount reflects the actual monetary value to Petitioner for declining margin per customer for the respective periods indicated, whether caused by Petitioner's energy efficiency efforts or resulting from consumer behaviors outside the utility's control. Since the authorized SRC recovery amounts will be reconciled with any under- or over-recovery in a subsequent period, the authorized SRC recovery amounts shown on Attachment MHG-5 accurately reflects the value of the decoupling mechanism to Petitioner for the periods shown.

Lost Base Revenue, shown on line 9 of Attachment MHG-5, reflects the value of the margins lost as a direct result of Joint Petitioner's energy efficiency programs, totaling $139,076. The actual gas savings in net therms on line 8 are added from one year to the next to reflect the cumulative effect of energy efficiency from one year to the next. The resulting cumulative Actual Gas Savings – Net Therms represent the lost sales in therms as a result of Petitioner's energy efficiency programs. Multiplying the Actual Gas Savings – Net Therms on line 8 by the average annual Base Unit Revenue factor on line 7 provides a reasonable estimate of the monetary value of Lost Base Revenue shown on line 9.

**Q: Please summarize your cost/benefit analysis of the SRC margin recovery as compared to lost margin from the energy efficiency programs.**

A: To date, Petitioner has benefited from decoupling with increased sales margins of $2,462,074, as shown on line 2 of Attachment MHG-5. This amount has been recovered from ratepayers. In comparison, as a result of energy efficiency programs, Petitioner has lost base revenues in the amount of $139,076 as shown on line 9. As shown on Attachment MHG-4, the cost to Westfield from lost revenue caused by energy efficiency activities is only 5.65% of the cumulative financial benefit received by Westfield through decoupled rates. This indicates a significant difference between the benefits to Westfield from decoupling and lost margins resulting from energy efficiency programs.

**Q: Please summarize your cost/benefit analysis of the SRC margin recovery and energy efficiency activities from the ratepayers' perspective.**

A: The $2,462,074 in SRC margin recovery is paid by the ratepayers. The cost of the energy efficiency programs were also paid by the ratepayers, bringing the total increase in rates to $2,641,186 over the last 6 years. Over the same period, I calculated that ratepayers saved $314,775 due to the energy efficiency programs. Attachment MHG-4 summarizes the costs to the ratepayer and savings to the ratepayer.

**Q: Should the SRC mechanism be continued?**

A: It is clear that ratepayers bear the cost burden of energy efficiency, through funding the programs and by making up the difference from declining revenue margins. Based on my analysis and the current design of the SRC mechanism, I recommend the Commission deny Petitioner's request for continuation of the SRC mechanism.

**Q: Are there other reasons to deny continuation of the SRC mechanism?**

A: Yes. Since ratepayers pay through the SRC mechanism any decline in margin revenue resulting from energy saving efforts on their own initiative or society as a whole, they only stand to save on the cost of the gas commodity. This does not eliminate, but diminishes the incentive for consumers to conserve energy. In addition, Westfield receives recovery of declines in margin revenue resulting from a potential variety of factors. A guarantee of revenue levels diminishes a utility's incentive to reduce or maintain expense levels and generally control its cost to serve.

**Q: Is decoupled revenue received through the SRC a significant revenue source for Petitioner?**

A: Yes. Decoupling revenue is a significant and excessive source of revenue. As shown on Attachment MHG-6, the SRC Recovery as a % of Margin is a significant amount of revenue. This level of SRC revenue as a percent of margin revenue is indicative of declining usage, on average, per customer during periods of customer growth. However, fixed cost recovery is imbedded in Petitioner's OGM revenue, approved in Petitioner's last rate case. OGM is broken down to the OGMPC. Fixed costs are therefore embedded in the OGMPC. So when customers are added, and an annual SRC is calculated using the OGMPC, additional fixed cost recovery is collected from new customers.

**Q: Is additional fixed cost recovery from each new customer necessary for the utility to recover all of its revenue requirements?**

A: Fixed costs are costs that do not change with an increase or decrease in the delivery of utility services. Fixed costs are expenses that must be paid by the utility regardless of volumes sold or number of customers. Every new customer pays additional fixed costs over and above the fixed costs imbedded in the rates set in the last rate case. Decoupling revenue enabling Westfield to receive full margin revenue for each new customer only compounds the issue of duplicative fixed cost recovery. Even in the absence of decoupling, new customers add additional revenue in periods of customer growth, assisting the utility in recovery of its revenue requirements. However, fixed costs are not permanently fixed and will change over time as operations reach various levels of growth. When the utility's revenues are no longer sufficient, a rate case will allow a full review of all revenue requirements through the regulatory process. A rate case updates all revenue requirements, making decoupling and the SRC unnecessary, and gives more responsibility for managing the overall revenue requirements back to the utility.

## VIII. OUCC RECOMMENDATIONS

**Q: Please summarize your recommendations related to operating revenue and expenses.**

A: As shown on Schedules 1 and 5 of Attachment MHG-1, the OUCC's adjustments to revenue, operating expenses, and taxes result in a non-gas cost revenue percentage decrease of 0.87%, for a total recommended revenue decrease of $34,081.

**Q: Please summarize your recommendations related to rate base.**

A: I recommend an original cost rate base of $7,610,271. OUCC witness Lorton recommends a Return on Equity (ROE) of 8.80%. The resulting return on original cost rate base is $664,550. A fair value rate base determination that exceeds original cost should be less than that proposed by Petitioner, to which a fair return of 6.14% should be applied.

**Q: What are your other recommendations in this Cause?**

I also recommend Petitioner be denied decoupling revenue and continuation of the SRC mechanism. Witness Paronish recommends denial of the energy efficiency funding. The SRC recovery and EEFC funding through Appendix E – Energy Efficiency Rider is therefore unnecessary.

**Q: Does this conclude your testimony?**

A: Yes.

## AFFIRMATION

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

Mark H. Grosskopf

Mark H. Grosskopf
Senior Utility Analyst
Indiana Office of Utility Consumer Counselor
Cause No. 44731
Westfield Gas, LLC

September 28, 2016

Date

**APPENDIX MHG-1 TO TESTIMONY OF**
**OUCC WITNESS MARK H. GROSSKOPF**

**Q: Please describe your educational background and experience.**

A: I graduated from Indiana University in May 1980, receiving a Bachelor of Science degree in business with a major in accounting. I worked in auditing and accounting positions at various companies from 1980 to 1995. I joined the OUCC in April of 1995 and have worked as a member of the OUCC's Natural Gas Division since June of 1999. I became a Certified Public Accountant in November of 1998. I also completed both weeks of the National Association of Regulatory Utility Commissioners Annual Regulatory Studies program at Michigan State University. I completed an additional week of the Advanced Regulatory Studies Program hosted by the Institute of Public Utilities Regulatory Research and Education at Michigan State University.

**Q: Have you previously testified before the Commission?**

A: Yes, I have testified as an accounting witness in various causes involving water, wastewater, electric, and gas utilities, including but not limited to, rate cases, pipeline safety adjustment cases, 7-Year Plan, and Transmission, Distribution, and Storage System Improvement Charge ("TDSIC") Tracker cases.

**Q: Please describe the review and analysis you conducted to prepare your testimony.**

A: I reviewed Petitioner's testimony, exhibits and supporting documentation for Westfield Gas's case-in-chief, and analyzed Petitioner's responses to OUCC discovery requests. I reviewed Commission Orders for Westfield Gas's previous rate case and decoupling and energy efficiency program (SRC/EEFC) filings, and reviewed applicable depreciation studies from prior rate cases for Westfield Gas and Citizens Gas.

WESTFIELD GAS, LLC
D/B/A CITIZENS GAS OF WESTFIELD
CAUSE NO. 44731

Comparison of Petitioner's and the OUCC's
Revenue Requirement

| Description | Per Petitioner | Per OUCC | Sch Ref |
|---|---|---|---|
| Rate Base | $11,041,650 | $7,610,271 | 4 |
| Times: Rate Of Return | 8.93% | 8.73% | 8 |
| Net Operating Income | 986,091 | 664,550 | |
| Economic Less Book Depreciation | 0 | 0 | |
| Return on Rate Base | 986,091 | 664,550 | |
| Less: Adjusted Net Operating Income | 631,530 | 698,013 | 5 |
| Increase In Net Operating Income | 354,561 | (33,463) | |
| Times: Revenue Conversion Factor | 1.0184 | 1.0185 | 1 |
| Recommended Revenue Increase (Decrease) | $361,071 | ($34,081) | |
| Overall Percentage Increase (Decrease) | 9.21% | -0.87% | |

WESTFIELD GAS, LLC
D/B/A CITIZENS GAS OF WESTFIELD
CAUSE NO. 44731

Comparison of Income Statement Adjustments
Test Year Ending December 31, 2015

| Adjustment | Per Petitioner | Per OUCC | OUCC More/Less |
|---|---|---|---|
| Operating Revenues | | | |
| Normal Weather Adjustment | $58,780 | $58,780 | $0 |
| Customer Charge Revenue Adjustment | 11,795 | 11,795 | 0 |
| Unbilled Gas Revenue Adjustment | 1,204 | 1,204 | 0 |
| NTA Adjustment | 4,174 | 4,174 | 0 |
| Correction Factor Adjustment | (17) | (17) | 0 |
| Non-Weather Related Adjustment | 583,292 | 583,292 | 0 |
| Gas Price Adjustment | (536,641) | (536,641) | 0 |
| Other Revenue | (596,886) | (596,886) | 0 |
| Total Operating Revenues | (474,299) | (474,299) | 0 |
| Gas Cost | | | |
| Normal Weather Adjustment | 29,902 | 29,902 | 0 |
| Non-Weather Related Gas Cost Adj. | 301,565 | 301,565 | 0 |
| Gas Price Adjustment | (536,641) | (536,641) | 0 |
| Miscellaneous | 23,056 | 23,056 | 0 |
| Total Gas Costs | (182,118) | (182,118) | 0 |
| Gross Margin | (292,181) | (292,181) | 0 |
| Operating Expenses | | | |
| Amortized Regulatory Expense | 97,350 | 44,250 | (53,100) |
| Net Write-Off Non-Gas Cost | (15,380) | (15,380) | 0 |
| Payroll | (16,383) | (28,702) | (12,319) |
| Payroll Taxes | (995) | (1,261) | (266) |
| CSS Redistribution | (80,429) | (80,429) | 0 |
| Distribution Expenses | (28,338) | (28,338) | 0 |
| Business Insurance Expense | 25,764 | 25,764 | 0 |
| Out of Period Expenses | 6,226 | 5,064 | (1,162) |
| Non-Recurring Expenses | (3,293) | (3,293) | 0 |
| Non-Allowed Expenses | (168) | (168) | 0 |
| IURC Fee | (522) | (157) | 365 |
| Utility Receipt Tax | (29,716) | (29,716) | (0) |
| Property Tax | 9,489 | 9,489 | 0 |
| Payroll Tax | (87) | (87) | 0 |
| Depreciation and Amortization | (133,154) | (133,154) | 0 |
| Total Operating Expenses | (169,636) | (236,118) | (66,482) |
| Net Operating Income | ($122,545) | ($56,063) | $66,482 |

WESTFIELD GAS, LLC
D/B/A CITIZENS GAS OF WESTFIELD
CAUSE NO. 44731

Revenue Conversion Factor

| Description | Per Petitioner | Per OUCC | Line No. |
|---|---|---|---|
| Gross Revenue Change | 100.0000% | 100.0000% | 1 |
| Less: Bad Debt Adj. Factor (at .0030) | 0.003 | 0.003 | 2 |
| Subtotal | 99.7000% | 99.7000% | 3 |
| Less: IURC Fee 2016 (.001171996) | 0.1075% | 0.1168% | 4 |
| Subtotal | 99.7000% | 99.7000% | 5 |
| Less: Utility Gross Receipts Tax (at 1.4%) | 0.013958 | 0.013958 | 6 |
| Subtotal | 99.5925% | 99.5832% | 7 |
| Less: State Adj. Gross Inc. Tax (at 8.5%) | 0.0000% | 0.0000% | 8 |
| Subtotal | 98.1967% | 98.1874% | 9 |
| Less: Federal Income Tax (at 34%) | 0.0000% | 0.0000% | 10 |
| Change In Net Operating Income | 98.1967% | 98.1874% | |
| Revenue Conversion Factor | 1.0184 | 1.0185 | |

Formula Notes:

Line 3 equals Line 1 minus Line 2

Line 5 equals Line 1 minus Line 2

Line 7 equals Line 1 minus Line 2 minus Line 4

Line 9 equals Line 7 minus Line 8 minus Line 6

WESTFIELD GAS, LLC
D/B/A CITIZENS GAS OF WESTFIELD
CAUSE NO. 44731

Balance Sheet as of December 31, 2015

## ASSETS

| | |
|---|---|
| Utility Plant at original cost: | |
| Utility Plant in Service | $9,945,213 |
| Less: Accumulated Amortization | (3,486,925) |
| Net Utility Plant In Service at original cost | 6,458,288 |
| Acquisition Adjustment, net | 2,390,929 |
| Net Plant in Service | 8,849,217 |
| Construction Work In Progress | 306,639 |
| Total Net Utility Plant | 9,155,856 |
| Current Assets: | |
| Cash on Hand | 282,936 |
| Accounts Receivable - net | 441,572 |
| Accrued Utility Revenue | 27,219 |
| Natural Gas in Storage | 551,631 |
| Recoverable Gas Costs | 0 |
| Prepayments and Deposits | 180,968 |
| Total Current Assets | 1,484,326 |
| Deferred Charges: | 725,359 |
| Total Assets | $11,365,541 |

WESTFIELD GAS, LLC
D/B/A CITIZENS GAS OF WESTFIELD
CAUSE NO. 44731

Balance Sheet as of December 31, 2015

CAPITALIZATION AND LIABILITIES

| | |
|---|---|
| Stockholders Equity: | |
| Common Stock and Additional Paid-In Capital | $6,957,469 |
| Retained Earnings | 3,561,761 |
| Total Capitalization | 10,519,230 |
| Current Liabilities: | |
| Accounts Payable and Accrued Expenses | 617,506 |
| Refundable Gas Cost | 111,469 |
| Customer Deposits | 86,535 |
| Other Current Assets | 30,801 |
| Total Current Liabilities | 846,311 |
| Total Stockholders Equity and Liabilities | $11,365,541 |

WESTFIELD GAS, LLC
D/B/A CITIZENS GAS OF WESTFIELD
CAUSE NO. 44731

Income Statement For The Twelve Months Ended December 31, 2015

| | |
|---|---|
| Operating Revenues | $4,395,109 |
| Cost of Goods Sold | (1,844,753) |
| Gross Margin | 2,550,356 |
| Other Operating Expenses: | |
| Operations & Maintenance | 1,068,682 |
| Depreciation & Amortization | 554,657 |
| Taxes | 172,941 |
| Total Other Operating Expenses | 1,796,280 |
| Net Utility Operating Income | 754,076 |
| Other Income/(Expense) - Net | 558 |
| Interest Charges | (86) |
| Net Income | $754,548 |

Attachment MHG-1
Schedule 4

WESTFIELD GAS, LLC
D/B/A CITIZENS GAS OF WESTFIELD
CAUSE NO. 44731

## Original Cost Rate Base at April 30, 2016

| | |
|---|---|
| Original Cost of Utility Plant In Service at 4/30/16 | $10,367,958 |
| Less: Accumulated Depreciation | (3,601,521) |
| Add: Allocated Portion of CSS Plant (net of depreciated historic cost) | 458,538 |
| Add: Allocated Portion of SFS Plant (net of depreciated historic cost) | 9,763 |
| Net Utility Plant in Service | 7,234,738 |
| 13 Month Average Inventory | 375,533 |
| Total Original Cost Rate Base | $7,610,271 |

## Fair Value Rate Base (per Petitioner)

| | |
|---|---|
| Fair Value Rate Base (per Petitioner's witness Scott Miller) | $10,666,117 |
| Less: Accumulated Depreciation | 0 |
| Net Utility Plant in Service | 10,666,117 |
| 13 Month Average Inventory | 375,533 |
| Total Original Cost Rate Base | $11,041,650 |

WESTFIELD GAS, LLC
D/B/A CITIZENS GAS OF WESTFIELD
CAUSE NO. 44731

Pro Forma Net Operating Income Statement

| Description | Twelve Mos. Ending 12/31/2015 | Adjustments | Sch. Ref. | Pro Forma Present Rates | Adjustments | Sch. Ref. | Pro Forma Proposed Rates |
|---|---|---|---|---|---|---|---|
| Operating Revenues | | | | | | | |
| Test Year Revenues | $4,395,109 | | | $3,920,810 | ($34,081) | | $3,886,729 |
| Normal Weather Adjustment | | $58,780 | Pet. | | | | |
| Customer Charge Revenue Adjustment | | 11,795 | Pet. | | | | |
| Unbilled Gas Revenue Adjustment | | 1,204 | Pet. | | | | |
| NTA Adjustment | | 4,174 | Pet. | | | | |
| Correction Factor Adjustment | | (17) | Pet. | | | | |
| Non-Weather Related Adjustment | | 583,292 | Pet. | | | | |
| Gas Price Adjustment | | (536,641) | Pet. | | | | |
| Other Revenue | | (596,886) | Pet. | | | | |
| Total Operating Revenues | 4,395,109 | (474,299) | | 3,920,810 | (34,081) | 7-1 | 3,886,729 |
| Gas Cost | | | | | | | |
| Test Year Gas Costs | $1,844,753 | | | $1,662,635 | $0 | | $1,662,635 |
| Normal Weather Adjustment | | $29,902 | Pet. | | | | |
| Non-Weather Related Gas Cost Adj. | | 301,565 | Pet. | | | | |
| Gas Price Adjustment | | (536,641) | Pet. | | | | |
| Miscellaneous | | 23,056 | Pet. | | | | |
| Total Gas Costs | 1,844,753 | (182,118) | | 1,662,635 | 0 | | 1,662,635 |
| Gross Margin | 2,550,356 | (292,181) | | 2,258,175 | (34,081) | | 2,224,094 |
| Operating Expenses | | | | | | | |
| Test Year Other Operating Expenses | 1,068,682 | | | 986,032 | | | 985,890 |
| Amortized Regulatory Expense | | 44,250 | (1) | | | | |
| Net Write-Off Non-Gas Cost | | (15,380) | Pet. | | (102) | 7-3 | |
| Payroll | | (28,702) | (2) | | | | |
| Payroll Taxes | | (1,261) | (3) | | | | |
| CSS Redistribution | | (80,429) | Pet. | | | | |
| Distribution Expenses | | (28,338) | Pet. | | | | |
| Business Insurance Expense | | 25,764 | Pet. | | | | |
| Out of Period Expenses | | 5,064 | (4) | | | | |
| Non-Recurring Expenses | | (3,293) | Pet. | | | | |
| Non-Allowed Expenses | | (168) | Pet. | | | | |
| IURC Fee | | (157) | (5) | | (40) | 7-2 | |
| Utility Receipt Tax | 61,222 | (29,716) | (6) | 31,506 | (476) | 7-4 | 31,030 |
| Property Tax | 109,638 | 9,489 | Pet. | 119,127 | | | 119,127 |
| Payroll Tax | 2,081 | (87) | Pet. | 1,994 | | | 1,994 |
| Depreciation and Amortization | 554,657 | (133,154) | Pet. | 421,503 | | | 421,503 |
| Total Operating Expenses | 1,796,280 | (236,118) | | 1,560,162 | (618) | | 1,559,544 |
| Net Operating Income | $754,076 | ($56,063) | | $698,013 | ($33,463) | | $664,550 |

Federal Tax Proof:

| | | |
|---|---|---|
| Net Operating Income | $664,550 | |
| Add: Federal Income Tax | 0 | |
| Add: Federal Income Tax Deferred | 0 | |
| Less: | | |
| Federal Taxable Income | 664,550 | |
| Tax Rate | 0.00% | |
| Gross Federal Income Tax | 0 | |
| Less: Investment Tax Credit | 0 | |
| Pro Forma Federal Income Tax | $0 | 0 |
| | | 0 |

State Tax Proof:

| | | |
|---|---|---|
| Federal Taxable Income | $664,550 | |
| Add: State Income Tax | 0 | |
| Add: Utility Receipts Tax | 31,030 | |
| Add: | | |
| State Taxable Income | 695,580 | |
| Tax Rate | 0.00% | |
| Pro Forma State Income Tax | $0 | 0 |
| | | 0 |

Utility Receipts Tax Proof:

| | | |
|---|---|---|
| Total Operating Revenues | $2,224,094 | |
| Less: Wholesale Customer Receipts | 0 | |
| Less: Exemption | (1,000) | |
| Less: Pro Forma Bad Debt | (6,673) | |
| Taxable Gross Receipts | 2,216,421 | |
| Tax Rate | 1.40% | |
| Pro Forma Utility Receipts Tax | $31,030 | 31,030 |
| | | 0 |

WESTFIELD GAS, LLC
D/B/A CITIZENS GAS OF WESTFIELD
CAUSE NO. 44731

Pro Forma Present Rate Adjustments

(1)

Rate Case Expense

| | |
|---|---|
| Adjustment to Petitioner's Expense per Public's Exhibit No. 3 | |
| 1/2 Rate Case Expense per OUCC Witness Courter | $132,750 |
| Amortize over 3 years | 3 |
| Adjustment - Increase/(Decrease) | $44,250 |

(2)

Payroll

| | |
|---|---|
| Adjustment to Petitioner's Expense per Public's Exhibit No. 2 | ($28,702) |
| Adjustment - Increase/(Decrease) | ($28,702) |

(3)

Payroll Tax

| | |
|---|---|
| Adjustment to Petitioner's Expense per Public's Exhibit No. 2 | ($1,261) |
| Adjustment - Increase/(Decrease) | ($1,261) |

(4)

Out of Period Expense

| | |
|---|---|
| Adjustment to Petitioner's Expense per Public's Exhibit No. 2 | $5,064 |
| Adjustment - Increase/(Decrease) | $5,064 |

(5)

IURC Fee

| | |
|---|---|
| Adjustment to Petitioner's Expense per Public's Exhibit No. 2 | ($157) |
| Adjustment - Increase/(Decrease) | ($157) |

WESTFIELD GAS, LLC
D/B/A CITIZENS GAS OF WESTFIELD
CAUSE NO. 44731

Pro Forma Present Rate Adjustments

(6)

Indiana Utility Receipts Tax

| | | |
|---|---|---|
| Pro Forma Margin Revenue at Present Rates | $2,258,175 | |
| Less: Exemption | (1,000) | |
| Less: Pro Forma Bad Debts | (6,775) | |
| Pro Forma Margin Revenue Subject to Tax | 2,250,400 | |
| Utility Gross Receipts Tax Rate | 1.40% | |
| Pro Forma Utility Gross Receipts Tax at Present Rates | 31,506 | |
| Less: Utility Receipts Tax Per Books at 12/31/15 | (61,222) | |
| Utility Receipts Tax Adjustment - Increase/(Decrease) | | (29,716) |

(7)

State and Federal Income Tax

| | Federal Income Tax | State Income Tax |
|---|---|---|
| Pro Forma Present Rate Operating Revenue Increase | $3,920,810 | $3,920,810 |
| Less: Operations and Maintenance | (2,648,667) | (2,648,667) |
| Depreciation | (421,503) | (421,503) |
| Taxes Other Than Income | (152,627) | (152,627) |
| State Income Tax | 0 | |
| Add Back: | | |
| Utility Receipts Tax | | 31,506 |
| Taxable Income | 698,013 | 729,519 |
| Multiply by: Federal Income Tax Rate | 0.00% | |
| Multiply by: State Adjusted Gross Income Tax Rate | | 0.00% |
| Pro Forma State Income Tax Expense | | 0 |
| Pro Forma Federal Income Tax Expense | 0 | |
| Less: Test Year Expense | 0 | 0 |
| Adjustment - Increase/(Decrease) | $0 | $0 |

WESTFIELD GAS, LLC
D/B/A CITIZENS GAS OF WESTFIELD
CAUSE NO. 44731

Pro Forma Proposed Rate Adjustments

(1)
Proposed Rate Increase

| | |
|---|---|
| Pro Forma Present Rate Sales | $3,920,810 |
| Times: Rate Increase | -0.87% |
| Adjustment - Increase | ($34,081) |

(2)
Proposed IURC Fee

| | |
|---|---|
| Proposed Rate Increase | ($34,081) |
| Times: Current Effective Rate (from Revenue Conversion Factor - Sch. 1) | 0.1168% |
| Adjustment - Increase | ($40) |

(3)
Proposed Bad Debt Adjustment

| | |
|---|---|
| Proposed Rate Increase | ($34,081) |
| Times: Current Effective Rate (from Revenue Conversion Factor - Sch. 1) | 0.3000% |
| Adjustment - Increase | ($102) |

(4)
Proposed Utility Receipts Tax

| | |
|---|---|
| Proposed Rate Increase | ($34,081) |
| Times: Current Effective Rate (from Revenue Conversion Factor - Sch. 1) | 1.3958% |
| Adjustment - Increase | ($476) |

(5)
Proposed State Adjusted Gross Income Tax

| | |
|---|---|
| Proposed Rate Increase | ($34,081) |
| Times: Current Effective Rate (from Revenue Conversion Factor - Sch. 1) | 0.0000% |
| Adjustment - Increase | $0 |

(6)
Proposed Federal Income Tax

| | |
|---|---|
| Proposed Rate Increase | ($34,081) |
| Times: Current Effective Rate (from Revenue Conversion Factor - Sch. 1) | 0.0000% |
| Adjustment - Increase | $0 |

WESTFIELD GAS, LLC
D/B/A CITIZENS GAS OF WESTFIELD
CAUSE NO. 44731

Capital Structure
as of December 31, 2015

| Description | Amount | Percent of Total | Cost | Weighted Cost |
|---|---|---|---|---|
| Common Equity | $10,519,230 | 99.18% | 8.80% | 8.728% |
| Long Term Debt | 0 | 0.00% | 0.00% | 0.000% |
| Customer Deposits | 86,535 | 0.82% | 0.50% | 0.004% |
| Deferred Income Taxes | 0 | 0.00% | 0.00% | 0.000% |
| Total | $10,605,765 | 100.00% | | 8.732% |

WESTFIELD GAS, LLC
D/B/A CITIZENS GAS OF WESTFIELD
CAUSE NO. 44731

Comparison of Fair Value and Original Cost ROR, NOI, and Revenue Increase/(Decrease)

| Description | (a) Petitioner's NOI on Fair Value | (b) Petitioner's NOI on Original Cost | (c) NOI from 8.80% ROE on Original Cost | (d) Fair Return on Fair Value Rate Base |
|---|---|---|---|---|
| Rate Base | $11,041,650 | $7,610,271 | $7,610,271 | $11,041,650 |
| Times: Rate Of Return | 8.93% | 12.96% | 8.73% | 6.09% |
| Net Operating Income | 986,091 | 986,102 | 664,550 | 672,876 |
| Economic Less Book Depreciation | 0 | 0 | 0 | 0 |
| Return on Rate Base | 986,091 | 986,102 | 664,550 | 672,876 |
| Less: Adjusted Net Operating Income | 631,530 | 631,530 | 631,531 | 631,531 |
| Increase In Net Operating Income | 354,561 | 354,572 | 33,019 | 41,345 |
| Times: Revenue Conversion Factor | 1.0184 | 1.0184 | 1.0184 | 1.0184 |
| Recommended Revenue Increase | $361,071 | $361,084 | $33,625 | $42,104 |
| Overall Percentage Increase (Decrease) | 9.21% | 9.21% | 0.86% | 1.07% |

WESTFIELD GAS, LLC
D/B/A CITIZENS GAS OF WESTFIELD
CAUSE NO. 44731

Capital Structure
as of December 31, 2015

| Description | Amount | Percent of Total | Cost | Weighted Cost |
|---|---|---|---|---|
| Common Equity | $10,519,230 | 99.18% | 8.80% | 8.728% |
| Long Term Debt | 0 | 0.00% | 0.00% | 0.000% |
| Customer Deposits | 86,535 | 0.82% | 0.50% | 0.004% |
| Deferred Income Taxes | 0 | 0.00% | 0.00% | 0.000% |
| Total | $10,605,765 | 100.00% | | 8.732% |

| Description | Amount | Percent of Total | Cost | Weighted Cost |
|---|---|---|---|---|
| Common Equity | $10,519,230 | 99.18% | 13.06% | 12.953% |
| Long Term Debt | $0 | 0.00% | 0.00% | 0.000% |
| Customer Deposits | $86,535 | 0.82% | 0.50% | 0.004% |
| Deferred Income Taxes | $0 | 0.00% | 0.00% | 0.000% |
| Total | $10,605,765 | 100.00% | | 12.958% |

| Description | Amount | Percent of Total | Cost | Weighted Cost |
|---|---|---|---|---|
| Common Equity | $10,519,230 | 99.18% | 6.14% | 6.090% |
| Long Term Debt | $0 | 0.00% | 0.00% | 0.000% |
| Customer Deposits | $86,535 | 0.82% | 0.50% | 0.004% |
| Deferred Income Taxes | $0 | 0.00% | 0.00% | 0.000% |
| Total | $10,605,765 | 100.00% | | 6.094% |

# MINUTES OF THE MEETING OF THE BOARD OF DIRECTORS OF CITIZENS GAS OF WESTFIELD, LLC HELD ON FEBRUARY 16, 2015

A Regular Meeting of the Board of Directors of Westfield Gas, LLC dba Citizens Gas of Westfield, LLC (CGW), held in conjunction with the Boards of Directors of Citizens Wastewater of Westfield, LLC (CWWW), Citizens Water of Westfield, LLC (CWW), Citizens Westfield Utilities, LLC, Kinetrex Energy Liquefaction Company, LLC, Kinetrex Energy Exploration & Production Company, LLC (KEEP), and Southern Madison Utilities, LLC dba Citizens of South Madison, LLC, convened at 3:00 p.m. EST, Monday, February 16, 2015, at the principal offices of the Corporation, 2020 North Meridian Street, Indianapolis, Indiana.

Board members present: John R. Brehm, Jennett M. Hill, and Michael D. Strohl.

Others present: Aaron D. Johnson, President of the Company and Craig Moore, Vice President of the Company.

The meeting was called to order by John Brehm, who was designated as Chairman of the Board.

Mr. Johnson then recommended the Board authorize CGW to approve a dividend payable to Citizens Westfield Utilities, LLC of $245,000 from CGW based on financial review and performance of the Gas subsidiary. The Board approved and authorized approval of the dividend.

There being no further business, the meeting adjourned at 5:00 p.m.

Craig Moore, Secretary

# MINUTES OF THE MEETING OF THE BOARD OF DIRECTORS OF CITIZENS GAS OF WESTFIELD, LLC HELD ON MAY 19, 2015

A Regular Meeting of the Board of Directors of Westfield Gas, LLC dba Citizens Gas of Westfield, LLC (CGW) (the Board), held in conjunction with the Boards of Directors of Citizens Westfield Utilities, LLC (CWU), Citizens Wastewater of Westfield, LLC (CWWW), Citizens Water of Westfield, LLC (CWW), Kinetrex Energy Exploration & Production Company, LLC (KEEP), and Kinetrex Energy Liquefaction Company, LLC (Kinetrex) convened at 10:00 a.m. EST, Tuesday, May 19, 2015, at 2020 North Meridian Street, Indianapolis, Indiana.

Board members present: Carey B. Lykins, Jeffrey A. Harrison, John R. Brehm, Jennett M. Hill, and Michael D Strohl.

Others present: Aaron D. Johnson, President and Chief Executive Officer and Craig Moore, Vice President.

The meeting was called to order by Mr. Lykins, who was designated as Chairman of the Board.

Mr. Johnson recommended the Board authorize direction for CGW to approve a dividend payable to Citizens Westfield Utilities, LLC of $145K based on financial review and performance of the Gas subsidiary. The Board approved and authorized approval of the dividend.

There being no further business, the meeting adjourned at 12:00 p.m.

Craig Moore, Secretary

**CONSENT OF THE MEMBERS AND BOARD OF DIRECTORS
OF CITIZENS GAS OF WESTFIELD, LLC
TO ACTION WITHOUT A MEETING**

The undersigned, being the sole member of and all the members of the board of directors (the "Board") of Citizens Gas of Westfield, LLC, an Indiana limited liability company (the "Company"), hereby consent and agree that the following action may be and the same hereby is taken without a meeting of either the sole member or the Board:

RESOLVED, that a dividend in the amount of One Hundred Ninety Five Thousand Dollars ($195,000) is hereby declared as of the date hereof and payable to Company's sole member, Citizens Westfield Utilities, LLC, no later than September 15, 2015.

Dated this 28th day of August, 2015.

Sole Member:

CITIZENS WESTFIELD UTILITIES, LLC

By: ______________________
Aaron Johnson, President

Board of Directors:

______________________
Jeff A. Harrison

______________________
John R. Brehm

______________________
Jennett M. Hill

______________________
Michael D. Strohl

# CONSENT OF THE MEMBERS AND BOARD OF DIRECTORS OF CITIZENS GAS OF WESTFIELD, LLC <u>TO ACTION WITHOUT A MEETING</u>

The undersigned, being the sole member of and all the members of the board of directors (the "Board") of Citizens Gas of Westfield, LLC, an Indiana limited liability company (the "Company"), hereby consent and agree that the following action may be and the same hereby is taken without a meeting of either the sole member or the Board:

RESOLVED, that a dividend in the amount of One Hundred Ninety Thousand Dollars ($190,000) is hereby declared as of the date hereof and payable to Company's sole member, Citizens Westfield Utilities, LLC, no later than December 15, 2015.

Dated this 1st day of December, 2015.

Sole Member:

CITIZENS WESTFIELD UTILITIES, LLC

By: ______________________
Aaron Johnson, President

Board of Directors:

______________________
Jeff A. Harrison 11-30-15

______________________
John R. Brehm

______________________
Jennett M. Hill

______________________
Michael D. Strohl

# Westfield Gas
## Cause No. 44731
## SRC/EEFC Cost-Benefit Summary

| | Cost to Ratepayer | Savings to Ratepayer | Benefit to Utility | Cost to Utility |
|---|---|---|---|---|
| Authorized SRC Recovery (Attachment MHG-5, line 2) | $2,462,074 | | $2,462,074 | |
| Lost Base Revenue (Attachment MHG-5, line 9) | | $139,076 | | $139,076 |
| Gas Cost Savings (Attachment MHG-5, line 12) | | $175,699 | | -- |
| Total EE Program Funding (Attachment MHG-5, line 14) | $179,112 | | -- | |
| Total Cost / Benefit | $2,641,186 | $314,775 | $2,462,074 | $139,076 |
| | | 11.92% | | 5.65% |

**Westfield Gas**
**Cause No. 44731**
**Decoupling Revenue and Energy Efficiency Program Cost Benefit Analysis**

| **Westfield:** | | | | | | | | Line No. |
|---|---|---|---|---|---|---|---|---|
| EE Rider / SRC Filing Date | Fiscal 2010 | Fiscal 2011 | Calendar 2012 | Calendar 2013 | Calendar 2014 | Calendar 2015 | | 1 |
| | | | | | | | Totals | |
| Authorized SRC Recovery | $176,209 | $441,191 | $554,838 | $337,970 | $363,706 | $588,160 | $2,462,074 | 2 |
| Order Granted Margin | $512,123 | $1,772,992 | $1,772,992 | $1,772,992 | $1,772,992 | $1,772,992 | $9,377,083 | 3 |
| SRC Recovery as a % of Margin | 34.41% | 24.88% | 31.29% | 19.06% | 20.51% | 33.17% | 26.26% | 4 |
| Actual Margin | $452,199 | $1,696,630 | $1,604,423 | $1,851,299 | $1,879,725 | $1,770,093 | $9,254,369 | 5 |
| Therm Sales (Note 1) | 4,028,610 | 4,230,480 | 3,587,132 | 4,902,474 | 5,180,020 | 4,195,528 | 26,124,244 | 6 |
| Base Unit Revenue | $0.1122 | $0.4010 | $0.4473 | $0.3776 | $0.3629 | $0.4219 | $0.3542 | 7 |
| Actual Gas Savings - Net Therms | 474 | 14,260 | 57,990 | 61,791 | 93,842 | 118,463 | 346,820 | 8 |
| Lost Base Revenue | $53 | $5,719 | $25,937 | $23,334 | $34,053 | $49,980 | $139,076 | 9 |
| Average Gas Cost Charge from GCA | $0.5879 | $0.5988 | $0.5324 | $0.5072 | $0.5584 | $0.4412 | $0.5066 | 10 |
| Actual Gas Savings - Net Therms | 474 | 14,260 | 57,990 | 61,791 | 93,842 | 118,463 | 346,820 | 11 |
| Gas Cost Savings | $279 | $8,539 | $30,874 | $31,340 | $52,401 | $52,266 | $175,699 | 12 |
| Estimated Net Margin and Gas Cost Savings | $332 | $14,258 | $56,811 | $54,674 | $86,455 | $102,245 | $314,775 | 13 |
| Authorized Energy Portfolio Cost Recovery | $27,255 | $31,343 | $27,255 | $25,272 | $31,343 | $36,644 | $179,112 | 14 |

Note 1: Therm Sales for fiscal years 2010-2011 from OUCC analysis in Cause No. 44124. Therm Sales for calendar years 2012-2015 from GCA Filings.

**Westfield Gas**
**Cause No. 44731**
**Authorized SRC Recovery Analysis**

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | Total |
|---|---|---|---|---|---|---|---|
| **Westfield:** | | | | | | | |
| Totals | | | | | | | |
| Authorized SRC Recovery | $176,209 | $441,191 | $554,838 | $337,970 | $363,706 | $588,160 | $2,462,074 |
| Order Granted Margin | $512,123 | $1,772,992 | $1,772,992 | $1,772,992 | $1,772,992 | $1,772,992 | $9,377,083 |
| SRC Recovery as a % of Margin | 34.41% | 24.88% | 31.29% | 19.06% | 20.51% | 33.17% | 26.26% |
| Actual Margin | $452,199 | $1,696,630 | $1,604,423 | $1,851,299 | $1,879,725 | $1,770,093 | $9,254,369 |
| Therm Sales (Note 1) | 4,028,610 | 4,230,480 | 3,587,132 | 4,902,474 | 5,180,020 | 4,195,528 | 26,124,244 |
| Base Unit Revenue | $0.1122 | $0.4010 | $0.4473 | $0.3776 | $0.3629 | $0.4219 | $0.3542 |

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | Total |
|---|---|---|---|---|---|---|---|
| **Westfield:** | | | | | | | |
| Rate D20 - Residential | | | | | | | |
| Authorized SRC Recovery | $86,803 | $226,825 | $299,347 | $261,332 | $219,688 | $311,665 | $1,405,660 |
| Order Granted Margin | $332,536 | $1,152,889 | $1,152,889 | $1,152,889 | $1,152,889 | $1,152,889 | $6,096,981 |
| SRC Recovery as a % of Margin | 26.10% | 19.67% | 25.96% | 22.67% | 19.06% | 27.03% | 23.06% |
| Actual Margin | $338,925 | $1,205,803 | $1,157,911 | $1,235,623 | $1,326,527 | $1,318,154 | $6,582,943 |
| Therm Sales (Note 1) | 2,266,940 | 2,547,010 | 2,196,809 | 2,649,393 | 3,000,553 | 2,656,582 | $15,317,287 |
| Base Unit Revenue | $0.1495 | $0.4734 | $0.5271 | $0.4664 | $0.4421 | $0.4962 | $0.4298 |

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | Total |
|---|---|---|---|---|---|---|---|
| **Westfield:** | | | | | | | |
| Rate D40 - Commercial | | | | | | | |
| Authorized SRC Recovery | $89,406 | $214,366 | $255,491 | $76,638 | $144,018 | $276,495 | $1,056,414 |
| Order Granted Margin | $179,587 | $620,103 | $620,103 | $620,103 | $620,103 | $620,103 | $3,280,102 |
| SRC Recovery as a % of Margin | 49.78% | 34.57% | 41.20% | 12.36% | 23.22% | 44.59% | 32.21% |
| Actual Margin | $113,274 | $490,827 | $446,512 | $615,676 | $551,198 | $451,939 | $2,669,426 |
| Therm Sales (Note 1) | 1,761,660 | 1,683,470 | 1,390,323 | 2,253,081 | 2,179,467 | 1,538,946 | $10,806,947 |
| Base Unit Revenue | $0.0643 | $0.2916 | $0.3212 | $0.2733 | $0.2529 | $0.2937 | $0.2470 |

Note 1:
Therm Sales for fiscal years 2010-2011 from OUCC analysis in Cause No. 44124. Therm Sales for calendar years 2012-2015 from GCA Filings.

## CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing ***Indiana Office of Utility Consumer Counselor Public's Exhibit No. 1 Testimony of Mark H. Grosskopf*** has been served upon the following counsel of record in the captioned proceeding by electronic service on September 26, 2016.

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