

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF SOUTH EASTERN INDIANA NATURAL)
GAS COMPANY, INC. FOR AUTHORITY TO CHANGE ITS)
RATES, CHARGES, TARIFFS, RULES, AND) **CAUSE NO. 45027**
REGULATIONS)

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

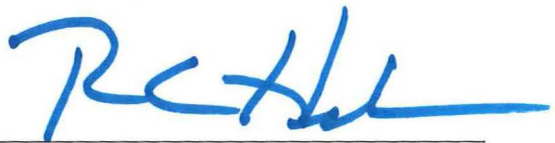
PUBLIC'S EXHIBIT NO. 1-S

SETTLEMENT TESTIMONY OF OUCC WITNESS

HEATHER R. POOLE

July 25, 2018

Respectfully submitted,



Randall C. Helmen
Attorney No. 8275-49
Chief Deputy Consumer Counselor

SETTLEMENT TESTIMONY OF HEATHER R. POOLE
CAUSE NO. 45027
SOUTH EASTERN INDIANA NATURAL GAS COMPANY, INC.

I. INTRODUCTION

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

2 A: My name is Heather R. Poole, and my business address is 115 West Washington
3 Street, Suite 1500 South, Indianapolis, IN 46204.

4 **Q: By whom are you employed and in what capacity?**

5 A: I am employed by the Indiana Office of Utility Consumer Counselor (“OUCC”)
6 as the Assistant Director of the Natural Gas Division. I have worked as a member
7 of the OUCC’s Natural Gas Division since December of 2010.

8 **Q: Did you file direct testimony in this case?**

9 A: Yes. My direct testimony in this case was filed on March 28, 2018 as Public’s
10 Exhibit No. 1.

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

12 A: My settlement testimony supports a Settlement Agreement (“Agreement”)
13 between the Parties in this Cause: South Eastern Indiana Natural Gas Company,
14 Inc. (“South Eastern”), and the OUCC (collectively, the “Settling Parties”). The
15 Agreement resolves all issues between South Eastern and the OUCC in this case.
16 My settlement testimony focuses on those items in which differences existed
17 between the OUCC’s case-in-chief and South Eastern’s rebuttal position. I
18 discuss the pertinent matters agreed to in the Agreement, such as the settled cost
19 of equity, the amount of long-term debt to be included in the capital structure, and
20 pro forma expense adjustments.

1 **Q: Is the Agreement a product of arms-length negotiations between the Settling**
2 **Parties?**

3 A: Yes. The Agreement represents a compromise reached in the settlement
4 negotiation process, with give and take by both of the Settling Parties. The
5 Settling Parties devoted considerable time and effort to fairly balance South
6 Eastern's interests and those of the ratepayers.

7 **Q: What review and analysis have you conducted to prepare your settlement**
8 **testimony?**

9 A: I reviewed the petition, testimony, exhibits, workpapers and supporting
10 documentation submitted in this Cause by both South Eastern and the OUCC. I
11 participated in settlement negotiations with South Eastern. I also reviewed the
12 Joint Settlement Agreement and attachments.

II. ISSUES RESOLVED IN SETTLEMENT

A. Cost of Equity

13 **Q: What cost of equity did each party propose in this Cause?**

14 A: South Eastern proposed a 10.25% cost of equity, while the OUCC proposed a
15 9.10% cost of equity.

16 **Q: What cost of equity have the Settling Parties agreed to in this Cause?**

17 A: The Settling Parties agreed to a 10.10% cost of equity. The OUCC considers this
18 a fair and reasonable result when combined with other considerations and
19 compromises made in this Agreement. Further, this return is the same as the
20 return recently granted to Midwest Natural Gas in Cause No. 44880.

B. Long-Term Debt

1 **Q: What long-term debt amount did each party propose to include in the capital**
2 **structure in this Case?**

3 A: South Eastern proposed to include \$250,000 of long-term debt at a cost of 6.50%
4 in the capital structure. In its case-in-chief, the OUCC questioned whether South
5 Eastern had any long-term debt, even though it had long-term debt on its balance
6 sheet. In rebuttal testimony, South Eastern stated the long-term debt had been
7 paid off, and indicated the check to pay off the loan was mistakenly recorded as
8 dividends instead of loan payments. For purposes of settlement, the Parties
9 agreed to leave the long-term debt in the capital structure, which results in a lower
10 overall weighted average cost of equity and a lower income tax expense in the
11 revenue requirements.

C. Rate Base

12 **Q: What differences existed between the Settling Parties for the value of rate**
13 **base in this Cause?**

14 A: The only difference between South Eastern and the OUCC's rate base position
15 was for the amount of working capital. The parties agreed on the methodology of
16 calculating working capital, but because working capital is dependent on the
17 expense adjustments made during the case, the two parties differed in the amount
18 of working capital to include in rate base.

19 **Q: What working capital amount have the Settling Parties agreed upon in the**
20 **Settlement?**

21 A: As a result of all settled expense adjustments, the Settling Parties agreed to a
22 working capital amount of \$109,919 in the Agreement.

1 **Q: What is the overall rate base calculated in the Agreement?**

2 A: The overall rate base calculated in the Agreement is \$2,110,816, as referenced in
3 Exhibit D attached to the Agreement.

D. Payroll and Related Expense

4 **Q: What payroll expense adjustment was proposed by each party?**

5 A: The OUCC proposed to decrease test year payroll expense by (\$1,346). South
6 Eastern proposed to increase test year payroll expense by \$47,533 in rebuttal
7 testimony.

8 **Q: What payroll expense adjustment do the Settling Parties agree to in this**
9 **Cause?**

10 A: The Settling Parties agree to increase test year payroll expense by \$22,533.

11 **Q: Does the adjustment to payroll expense affect other adjustments?**

12 A: Yes. As a result of the adjustment to test year payroll expense, other expense
13 items will need to be adjusted. Those amounts are as follows: the test year
14 pension contribution adjustment is \$2,253; the test year 401(k) contribution
15 adjustment is \$1,407; and the test year payroll tax expense adjustment is \$1,724.

E. Directors' Fees

16 **Q: What directors' fees expense adjustment was proposed by each party?**

17 A: South Eastern did not propose a test year adjustment to directors' fees. The
18 OUCC proposed removing directors' fees from the revenue requirements,
19 resulting in a test year adjustment of (\$24,000).

20 **Q: What test year director's fees adjustment do the Settling Parties agree to in**
21 **this Cause?**

22 A: The Settling Parties agree to leave directors' fees at the test year amount of
23 \$24,000. The Settling Parties also agree that South Eastern will maintain minutes

1 of its Board of Directors' meetings going forward, and will establish corporate
2 by-laws.

F. Property Insurance Expense Adjustment

3 **Q: What property insurance expense adjustment was proposed by each party?**

4 A: The OUCC proposed a decrease to test year property insurance expense of
5 (\$12,869). South Eastern proposed a decrease to test year property insurance
6 expense of (\$7,620) in rebuttal testimony.

7 **Q: What test year property insurance expense adjustment do the Settling**
8 **Parties agree to in this Cause?**

9 A: The Settling Parties agree to decrease test year property insurance expense by
10 (\$7,620).

G. Rate Case Expense Adjustment

11 **Q: What rate case expense adjustment was proposed by each party?**

12 A: South Eastern proposed to increase test year rate case expense by \$9,292. The
13 OUCC proposed an increase to test year rate case expense of \$3,004. The OUCC
14 also recommended South Eastern change its rates in the future for purposes of
15 eliminating the amortization of rate case expense after five full years of recovery
16 if a new rate case has not been filed.

17 **Q: What rate case expense adjustment do the Settling Parties agree to in this**
18 **Cause?**

19 A: The Settling Parties agree to a test year rate case expense adjustment of \$9,292.
20 The Settling Parties also agree South Eastern will change its tariff to remove the
21 element include in its revenue requirement for rate case expense recovery, unless

1 it has filed a new base rate case prior to the expiration of the five-year
2 amortization period.

H. Flow-Through Adjustments

3 **Q: What flow-through adjustments are impacted by the Agreement?**

4 A: The calculation of the IURC Fee, Utility Receipts Tax, Federal Income Tax and
5 State Income Tax are all affected by the Agreement. All flow-through
6 adjustments included in the revenue requirement schedules attached to the
7 Agreement are the result of the settlement adjustments made.

III. OVERALL REVENUE REQUIREMENT

8 **Q: What overall rate increase was proposed in each parties' case-in-chief?**

9 A: The OUCC proposed a revenue increase of \$166,169, or 16.11% excluding the
10 cost of gas. In rebuttal testimony, South Eastern proposed a revenue increase of
11 \$283,602, or 27.49% excluding the cost of gas.

12 **Q: Have the Settling Parties prepared joint settlement revenue requirement**
13 **schedules?**

14 A: Yes. The joint settlement revenue requirement schedules are attached to the Joint
15 Settlement Agreement.

16 **Q: What is the Settling Parties' proposed revenue requirement after taking into**
17 **account all settlement positions?**

18 A: After taking into account the settlement reached on all issues, the Settling Parties
19 propose a revenue increase of \$250,651, or 24.30% excluding the cost of gas.

IV. CONCLUSION

1 **Q: Does the OUCC recommend Commission approval of the Agreement?**

2 A: Yes. The Settling Parties each made material concessions when they entered into
3 the proposed Agreement. The terms of the Agreement demonstrate the give and
4 take of settlement negotiations in resolving multiple contested issues in a manner
5 acceptable to all Settling Parties. The Agreement also reduces the risk and
6 expense of litigation of multiple issues. Therefore, the OUCC considers the
7 Agreement to be in the public interest, and recommends the Commission approve
8 the Agreement. The Settling Parties' testimony and exhibits provide evidence to
9 support the Agreement.

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

11 A: Yes.

AFFIRMATION

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

Heather R Poole

Heather R. Poole

Assistant Director to the Natural Gas Division

Indiana Office of Utility Consumer Counselor

Cause No. 45027

South Eastern Indiana Natural Gas Co., Inc.

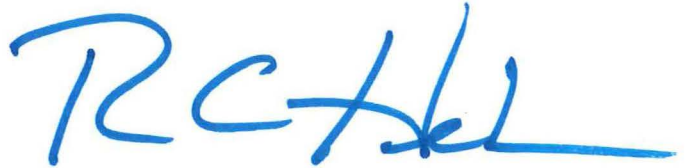
July 25, 2018

Date

CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing *Indiana Office of Utility Consumer Counselor Public's Exhibit No. 1-S Settlement Testimony of OUCC Witness Heather R. Poole* has been served upon the following counsel of record in the captioned proceeding by electronic service on July 25, 2018.

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