

**FILED**  
June 26, 2018  
**INDIANA UTILITY  
REGULATORY COMMISSION**

**STATE OF INDIANA**

**INDIANA UTILITY REGULATORY COMMISSION**

**PETITION OF SWITZERLAND COUNTY )  
NATURAL GAS COMPANY, INC. FOR )  
AUTHORITY TO CHANGE ITS RATES, ) CAUSE NO. 45117  
CHARGES, TARIFFS, RULES, AND )  
REGULATIONS**

**DIRECT TESTIMONY**

**OF**

**EARL L. RIDLEN, III**

**ON BEHALF OF**

**SWITZERLAND COUNTY NATURAL GAS COMPANY, INC.**

SWITZERLAND COUNTY NATURAL GAS COMPANY, INC.  
DIRECT TESTIMONY OF EARL L RIDLEN, III

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**Q.1. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is Earl L. Ridlen, III; my business address is 1776 N. Meridian, Suite 500, Indianapolis, Indiana 46202.

**Q.2. WHAT IS YOUR OCCUPATION?**

A. I am a Certified Public Accountant and financial advisor. The vast majority of my work relates to various utility entities including natural gas distributing companies, such as South Eastern Indiana Natural Gas Company, Inc., the Petitioner in this Cause.

**Q.3. BY WHOM ARE YOU EMPLOYED?**

A. I am employed by LWG CPA's & Advisors ("LWG").

**Q.4. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND, OR PROFESSIONAL EXPERIENCES WHICH YOU BELIEVE ARE RELEVANT TO THE OPINIONS YOU OFFER IN THIS TESTIMONY?**

A. I hold a Bachelor of Arts degree from Franklin College. I am licensed by the state of Indiana as a Certified Public Accountant. I have held various positions with the accounting firms of Dauby, O'Connor, and Zaleski; Kelley, Hardesty and Smith; and LWG. In 2011, I was elected by the partners of LWG to manage our firm following in the footsteps of the long time managing partner Duane C. Mercer. I am a member of the Indiana CPA Society, and the American Institute of Certified Public Accountants. My past work has also included providing advice on capital return on investment for various utilities.

**Q.5. WHAT IS THE SCOPE OF YOUR TESTIMONY IN THIS CASE?**

1 A. Switzerland County Natural Gas (Petitioner or Switzco) engaged my firm to analyze  
2 Petitioner's current financial status, and advise Petitioner on its revenue requirement. My  
3 personal work was primarily focused on determining a reasonable return on Petitioner's  
4 used and useful property; and to consider whether changes in the federal income tax  
5 created by the Tax Cuts and Jobs Act of 2017 would impact its cost of capital going  
6 forward. Prior to this work, I, along with colleagues at LWG, audited Petitioner's books  
7 and records for the fiscal year ending September 30, 2017.

8 **Q.6. MR. RIDLEN ON WHAT UTILITIES HAVE YOU PROVIDED YOUR OPINION**  
9 **ON THE REASONABLE RETURN ON INVESTMENTS?**

10 A. I have worked with and provided my opinion to Community Natural Gas Co., Inc.;  
11 Midwest Natural Gas Corporation; Boonville Natural Gas Corporation; South Eastern  
12 Indiana Natural Gas Company, Inc.; and numerous rural electric membership  
13 corporations.

14 **Q.7. HAVE YOU ADVISED INDIVIDUAL INVESTORS ON INVESTING IN**  
15 **COMMON EQUITY STOCK?**

16 A. Yes, I have. In fact, I was recognized by the Indianapolis Monthly magazine as a five  
17 star wealth manager.

18 **Q.8. TURNING TO THIS PETITIONER, WOULD YOU DESCRIBE IN GENERAL**  
19 **THE ANALYSIS YOU MADE RELATIVE TO DETERMINING AN**  
20 **APPROPRIATE RETURN ON ITS EQUITY INVESTMENT?**

21 A. Following our audit of Petitioner's books and records, I examined Petitioner's capital  
22 structure; considered the costs associated with various elements of the capital structure;  
23 considered other utilities' reported earnings on equity; and reviewed the Commission's

1 Orders in numerous cases, including the most recent case of Midwest Natural Gas  
2 Corporation. I also considered the risks impacting the Petitioner including the impact of  
3 the Tax Cuts and Jobs Act of 2017 on capital. On the basis of my experience, I was able  
4 to form an opinion as to a reasonable return on the Petitioner's equity capital.

5 **Q.9. DO YOU HAVE A RECOMMENDATION FOR A REASONABLE RATE OF**  
6 **RETURN ON EQUITY FOR THIS PETITIONER AT THIS TIME?**

7 A. Yes, I do. I am recommending a return of at least 10.25%. Though I believe a higher rate  
8 of return could be justified.

9 **Q.10. IS THERE A REASON, WHY YOU AND YOUR FIRM, WERE ASKED TO**  
10 **PROVIDE TESTIMONY ON RETURN ON EQUITY?**

11 A. As we discussed various aspects of this base rate case and discussed this filing with the  
12 Petitioner's management, we believed that my testimony on rate of return on equity was  
13 more likely to lead to a return on equity that could quickly be accepted resulting in a  
14 settlement on the cost of capital. We proposed this approach to Petitioner's management  
15 and the management agreed.

16 **Q.11. MR. RIDLEN, DID YOU PERFORM A DISCOUNTED CASH FLOW ANALYSIS**  
17 **OR A CAPITAL ASSET PRICING MODEL ANALYSIS ON THE PETITIONER?**

18 A. No I did not.

19 **Q.12. HOW DID YOU DETERMINE WHAT IS AN APPROPRIATE RETURN ON**  
20 **EQUITY GOING FORWARD FOR THIS PETITIONER?**

21 A. As part of my evaluation of Petitioner, I reviewed financial information and financial  
22 ratios of Vectren, NIPSCO and industry averages. I considered several market  
23 approaches to valuation as defined in the Statement of Standards for Valuation Services

1 of the American Institute of Certified Public Accountants. This analysis includes  
2 developing conclusions and opinions based on the Price to Book ratios, Price to Earnings  
3 ratios, Price to Sales ratios, among others. This analysis also includes specific  
4 application of the marketability and risk for entities such as the Petitioner when compared  
5 to others. In light of that, I recognized that Petitioner's stock is not listed, that its service  
6 area is not diversified, and that it faces regulatory risk reflected in the Commission's  
7 denial of its Phase I tariff in Cause No. 45032. Based on this analysis I was able to  
8 conclude that Petitioner should be authorized a 10.25% return on its equity capital.

9 **Q.13. ARE THERE OTHER REASONS THAT SUPPORT YOUR RECOMMENDED**  
10 **RETURN ON EQUITY?**

11 A. Yes, there are. Petitioner's current authorized return on equity of 9.90% was based upon  
12 information filed in 2010. Since 2010, it is undeniable that the economy of this country  
13 and specifically the State of Indiana has improved.

14 **Q.14. MR. RIDLEN CAN YOU EXPLAIN WHY THE CAPITAL STRUCTURE OF THE**  
15 **PETITIONER WAS SET AT DECEMBER 31 INSTEAD OF SEPTEMBER 30**  
16 **WHICH WOULD MATCH THE TEST YEAR PERIOD?**

17 A. Yes, Petitioner has adjusted its income tax rate in this rate case to match the new tax rate  
18 of 21% created by the Tax Cuts and Jobs Act of 2017 (the Act) and in effect as of 2018.  
19 The amount of deferred taxes included in the capital structure should recognize the  
20 impact of the Act. By moving the entire capital structure up to December 31, 2017,  
21 Petitioner is matching the forward looking operating adjustments for the new income tax  
22 rate to the results of booking those differences into deferred taxes.

1 **Q.15. HAS PETITIONER EARNED ITS AUTHORIZED NET OPERATING INCOME**  
2 **AND DOES THAT RESULT IMPACT YOUR CONCLUSION ON AN**  
3 **APPROPRIATE RETURN ON EQUITY?**

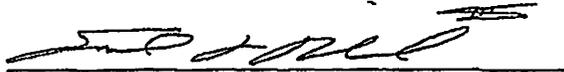
4 A. Petitioner has not earned its net operating income since the period ending June 30, 2014.  
5 In fact to the extent that the Petitioner was required to reduce rates to eliminate the cost  
6 of its last rate case from base rates and was unable to adjust base rates for the increase in  
7 its federal income tax rate the Petitioner no longer has the opportunity to earn a  
8 reasonable return.

9 **Q.16. DOES THIS CONCLUDE YOUR PREFILED DIRECT TESTIMONY?**

10 A. Yes, it does.

**VERIFICATION**

I affirm under the penalties of perjury that the foregoing is true to the best of my knowledge, information and belief as of the date here filed.

A handwritten signature in black ink, appearing to read "Earl L. Ridlen, III", written over a horizontal line.

Earl L. Ridlen, III

**CERTIFICATE OF SERVICE**

The undersigned certifies that a copy of the foregoing has been served upon the following counsel of record by electronic mail this 26<sup>th</sup> day of June, 2018:

Indiana Office of Utility Consumer Counselor  
115 West Washington Street, Suite 1500S  
Indianapolis, IN 46204



L. Parvin Price