

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

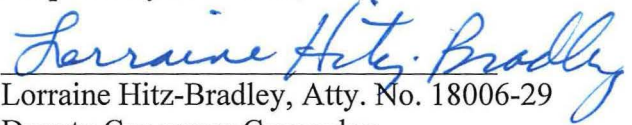
**PETITION OF SWITZERLAND COUNTY NATURAL)
GAS COMPANY, INC. FOR AUTHORITY TO)
CHANGE ITS RATES, CHARGES, TARIFFS, RULES,) CAUSE NO. 45117
AND REGULATIONS)**

INDIANA OFFICE OF UTILITY'S CONSUMER COUNSELOR'S

PROPOSED ORDER

JANUARY 25, 2019

Respectfully submitted,


Lorraine Hitz-Bradley, Atty. No. 18006-29
Deputy Consumer Counselor

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**

BY THE COMMISSION:

Stefanie N. Krevda, Commissioner

Carol Sparks Drake, Administrative Law Judge

On June 26, 2018, Switzerland County Natural Gas Company, Inc. (“Petitioner” or “Switzco”), filed its Verified Petition with the Indiana Utility Regulatory Commission (“Commission”) seeking authority to change its existing rates, charges, tariffs, rules and regulations. On the same day, Petitioner filed its direct testimony, and on June 27, 2018 filed workpapers and exhibits. On July 9, 2018, the Office of the Utility Consumer Counselor (“OUCC”) filed its *Motion of Non-Compliance with GAO 2013-5 and Motion for Procedural Relief* (“Motion”). In the Motion, the OUCC indicated Petitioner had not provided notice at least 30 days before it initiated its base rate case with the Commission or with the OUCC. The OUCC’s Motion asked the Commission to deny Petitioner’s right to proceed pursuant to Ind. Code § 8-1-2-42.7; or in the alternative, add an additional 30 days to the OUCC’s schedule in this proceeding. On July 12, 2018, Petitioner responded it had provided notice to the OUCC about its intent to file a base rate case, noting such notice was initially provided on July 19, 2017 and was periodically referenced thereafter. Petitioner’s Reply also indicated its willingness to meet with the OUCC to discuss a procedural schedule for this base rate case, but nothing had been shown that would prevent the case from being completed within 300 days.

On July 18, 2018, the OUCC replied, stating the requirements of the Commission’s GAO 2013-5 is to allow stakeholders to make plans based upon reliable and sufficiently detailed information about a utility’s future action. The OUCC reiterated its request for relief under Ind. Code § 8-1-2-42.7 or that an additional 30 days be added to the OUCC’s schedule. On August 2, 2018, Petitioner and the OUCC (hereinafter the “Parties”) filed their Stipulation and Agreement which proposed a procedural schedule and withdrew the OUCC’s Motion. The Presiding Officers issued its docket entry of August 3, 2018 granting the Stipulation and establishing the procedural schedule. On September 24, 2018, Petitioner filed a copy of its Notice to its customers as ordered by the Presiding Officers’ docket entry of August 3, 2018.

On November 2, 2018, the OUCC filed its case-in-chief. On November 30, 2018, Petitioner filed its rebuttal testimony and exhibits. On December 12, 2018, the Presiding Officers issued a docket entry asking questions related to Petitioner’s rebuttal testimony. On December 18, 2018, Petitioner filed its Response to the Presiding Officers’ docket entry.

The Commission held an evidentiary hearing on December 21, 2018 at 9:30 a.m. in Room 222 of the PNC Center, 101 W. Washington Street, Indianapolis, Indiana. At the hearing, Petitioner and the OUCC were present and participated. No members of the general public appeared or sought to participate.

Based on the applicable law and evidence of record, the Commission now finds:

1. **Notice and Jurisdiction.** Due, legal, and timely notice of these proceedings was given and published as required by law. Petitioner is a public utility as defined in Indiana Code § 8-1-2-1. Petitioner seeks authority to change its existing rates, charges, tariffs, rules and regulations pursuant to Ind. Code §§ 8-1-2-1, -6, -42.7, and -61. Therefore, the Commission has jurisdiction over this Petitioner and the subject matter of this cause. Pursuant to the Parties' Stipulation, this Cause is considered to have been initiated on July 27, 2018 for purposes of meeting the 300 day procedural schedule required under Ind. Code § 8-1-2-42.7.

2. **Petitioner's Characteristics.** Petitioner is a public utility currently providing natural gas service to approximately 700 customers in Switzerland and Jefferson Counties, Indiana, pursuant to various prior Orders of the Commission.

3. **Existing Rates, Test Year, and Relief Requested.** Petitioner's current base rates are those initially established pursuant to the Commission's May 15, 2013 Order in Cause No. 44293. Pursuant to the Settlement Agreement included in Cause No. 44293, Petitioner's base rates were reduced in September 2017. Based on the Petition initiating this Cause and the Parties' stipulation, the test year for this proceeding is September 30, 2017, as adjusted for changes fixed, known, and measurable and occurring within 12 months following the end of such test year. Petitioner's cut-off date for determining the used and useful status of its utility plant in service, and the value of its rate base, is also September 30, 2017. Based on the Petition and Petitioner's case-in-chief, Petitioner sought to increase its rates by 7.71% inclusive of the cost of gas (or 15.26% over gross margin), which represents an additional operating revenue in the amount of \$83,699 over pro forma present rate revenue as of the test year, exclusive of the cost of gas.

4. **Evidence of the Parties.**

A. **Petitioner's Case-in-Chief. Bonnie J. Mann.** The testimony and exhibits of Petitioner's Witness Bonnie J. Mann of LWG CPAs and Advisors ("LWG") described her work as a Certified Public Accountant specializing in public utility matters. She explained she was retained by and met with Petitioner's Board of Directors beginning in February 2017 for purposes of reviewing Petitioner's financial records and forming an opinion on the appropriate level of revenue required to recover Petitioner's cost of service. She explained LWG's work included advising Petitioner's management on various adjustments that should be made in a rate case; and the preparation of testimony and exhibits supporting Petitioner's request to increase its rates and charges. Ms. Mann explained each adjustment to Petitioner's September 30, 2017 test year records; the results of such adjustments; the rate base as of September 30, 2017; and indicated Petitioner's rates and charges should be increased by 7.71% over pro forma rate revenue as of September 30,

2017, including the cost of gas; or an additional \$83,699 as set forth in her Exhibit BJM-1, (Exhibit C).

Earl L. Ridlen III. The testimony of Petitioner's Witness Earl L. Ridlen III of LWG described his work as a financial advisor analyzing current market conditions; unique factors associated with particular utilities; and his prior opinions to other small gas utilities on appropriate rates of return. He described his professional experience, which included work as a Certified Public Accountant with various accounting firms; his current role as the Managing Partner of LWG; and his prior work advising investors on investing in common equity stocks. Mr. Ridlen explained the analysis he performed for Petitioner which included a review of prior Commission Orders; review of the reported earnings of other utilities; and review of various ratios including price to book, price to earnings, and price to sales for Vectren, NIPSCO, and the natural gas utility industry. He explained his conclusion on a rate of return for this Petitioner was based upon such analysis; but also considered the risks associated with this particular utility including: its stock is not listed; its service area is not diversified; and it faces regulatory risks. Finally, he pointed out the overall economy of the United States, and specifically, the State of Indiana, had undeniably improved since Petitioner's last rate case, where a return on equity was established at 9.90% in Cause No. 43897-U. Mr. Ridlen concluded a return of 10.25% was the appropriate return on equity for this Petitioner at this time.

Kerry A. Heid. Petitioner's Witness Kerry A. Heid, a licensed professional engineer and independent rate consultant, explained his 40 years of experience working on utility rates including analyzing and presenting cost of service studies to this Commission. He explained he previously worked for Petitioner including in Petitioner's prior base rate case, Cause No. 44293. Mr. Heid described the cost of service study's purpose to allocate the pro forma revenue requirement to the rate classes of a utilities' customers based on the investment the utility had made in plant, and operating costs, associated with those customer classes. He began his review of Petitioner's proposed allocation by noting Petitioner has three customer classes. Rate 1R is a class designed to serve residential customers. Rate 1G is a class designed to serve nonresidential customers. Rate 2 is a class designed to serve large commercial and industrial customers whose annual volumes are greater than 10,000 therms. As of the test year, Rate 1R served 564 customers, Rate 1G served 130 customers, and Rate 2 served 13 customers. Mr. Heid explained based on his cost of service study, he believed the monthly customer charge for Rate 1R should be increased from \$10.86 per month to \$13 per month. He pointed out with this increase, Petitioner will still only collect 32% of the allocated fixed costs related to this customer class. For Rate 1G, Mr. Heid proposed a \$13 per month customer charge, noting the current charge for Rate 1G is the same as Rate 1R. For Rate 2, Mr. Heid proposed an increase in the customer charge from \$90.52 per month to \$100 per month. Mr. Heid explained all volumetric rate changes are reflected in his Exhibit KAH-8. He also pointed out he did not include a tariff in his exhibits, explaining the uncertainty of the impact on rates due to the Tax Cuts and Jobs Act of 2017 ("TCJA"), and this Commission's pending proceeding. In Mr. Heid's opinion, a better approach was to wait on a final order in this Cause and then file a final tariff.

B. **OUC Case-In-Chief.** **Isabelle L. Gordon.** OUC Utility Analyst Isabelle Gordon discussed the OUC's proposed adjustments to Petitioner's revenue requirements including operating revenues and expenses, rate base, and capital structure. Ms. Gordon

recommended Petitioner's pro forma revenue requirement increase be reduced to \$18,306, resulting in an increase in gross margin of 3.33%.

Ms. Gordon testified she made corrections to Petitioner's revenue requirement schedules as filed in its Exhibit BJM-1. She included deferred tax in the calculation of synchronized interest. Ms. Gordon also included Petitioner's Belterra Note Payable in her calculation of synchronized interest and the capital structure.

Ms. Gordon testified Petitioner calculated new National Oceanic and Atmospheric Administration ("NOAA") averages for the Normal Temperature Adjustment ("NTA") by weather normalizing test year Heating Degree Days ("HDD") using both the 1971-2000 NOAA averages and the 1981-2010 NOAA averages. She stated Petitioner used the variance between the two normalizations to find the necessary adjustment for the test year. Ms. Gordon agreed with Petitioner's methodology, but she found errors in its calculation. The corrections result in a decrease to sales revenue of (\$1,527).

Ms. Gordon disagreed with several components of Petitioner's natural gas purchased adjustment calculation. She stated she updated Petitioner's unaccounted for gas ("UAFG") calculation using the UAFG approved in Petitioner's GCAs 88, 92, 95, 97, and 99; Petitioner's calculation relied on GCAs 68, 88, 92, 95, and 97. Additionally, Ms. Gordon disagreed with Petitioner's estimated cost of purchased gas, noting that Petitioner's supplemental workpaper calculated the cost of purchased gas as \$3.8295 per Dth. She testified the difference between her estimated cost and Petitioner's estimated cost is due to the Utility Receipts Tax ("URT"). Ms. Gordon testified Indiana URT is not appropriately included in the calculation of estimated cost of purchased gas for the purpose of calculating Petitioner's cost of UAFG.

Ms. Gordon testified she agreed with Petitioner's amortization period of five years for rate case expense based on the average calculated in Ms. Mann's testimony on page 5, lines 16-17. After accounting for Mr. Rutter's adjustment to rate case expense and the rate case expense imbedded in Petitioner's test year, she stated her adjustment is an increase of \$1,844.

Ms. Gordon testified Petitioner's IURC fee adjustment did not remove bad debts from applicable revenue at present rates. She stated Petitioner did not use the current IURC rate, which was effective July 1, 2018. She noted her adjustment to the new NOAA averages for the NTA and to the natural gas purchased adjustment impacted her IURC fee adjustment.

Ms. Gordon addressed Petitioner's lack of a miscellaneous expense adjustment. She stated Petitioner included within the test year several expenses that should not be recovered in rates, including advertising, donations, and gifts. She testified Petitioner provided no evidence the included advertisements met the exception outlined in 170 Ind. Adm. Code. 1-3-3. Ms. Gordon also noted Petitioner included outside service expense related to the current proceeding. She stated rate case expenses should be deferred and included in rate case expense, rather than in general outside service expense.

Ms. Gordon agreed with Petitioner's methodology used in calculating utility receipts tax and state and federal income taxes. She stated changes to these calculations are a result of changes to pro forma revenue and expenses.

Ms. Gordon testified the capital structure's purpose is to fund rate base. Therefore, the appropriate date of the capital structure is the date of Petitioner's rate base cut-off. She stated using a capital structure as of December 31, 2017 does not reflect the connection between Petitioner's capital structure and rate base. Ms. Gordon addressed long term debt which was not included in Petitioner's capital structure. She stated Petitioner did not include the Belterra Note Payable in its proposed capital structure. As a result, the value of Petitioner's rate base was greater than the amount of capital used to fund that rate base. She testified that excluding the Belterra Note Payable provides an incomplete picture of the funding available to Petitioner, and is inappropriate considering the immense value provided to Petitioner from the Belterra note. Ms. Gordon stated that according to the loan agreement, the note carries no interest. Ms. Gordon also made an adjustment to long-term debt to include a service truck note in the amount of \$25,000 in the capital structure. Ms. Gordon stated this loan was included in the trial balance as of December 31, 2017, but not in the trial balance as of September 30, 2017, even though the date of the note was September 22, 2017.

Ms. Gordon addressed Petitioner's customer deposit policy. She testified Petitioner requires \$100 deposits from its customers, but in response to OUCC Data Request ("DR") 6.2, provided no indication it allows customers to make installment payments. Her testimony recommended the Commission conduct its own review to ensure Petitioner is evaluating customer creditworthiness and communicating pertinent information to its customers, with the information being provided to the Commission within forty-five days of a Final Order in this Cause.

Amy E. Larsen. OUCC Utility Analyst Amy Larsen testified on Petitioner's operating expense adjustments. Specifically, Ms. Larsen testified on payroll expense, retirement contribution expense, health insurance expense, payroll taxes and property taxes.

Ms. Larsen disagreed with Petitioner's adjustment to payroll expense. First, Ms. Larsen disagreed with Petitioner applying a 3% increase to test year wages. Ms. Larsen testified Petitioner should apply the actual percentage increase approved by the Board of Directors on May 22, 2017. Ms. Larsen also disagreed with Petitioner including bonuses in its payroll adjustment. Ms. Larsen testified bonuses are not necessary to the provision of utility service. Ms. Larsen also testified about the October 2, 2018 Board of Directors meeting regarding the increase in employees' salaries. Ms. Larsen disagreed with allowing this additional salaries' expense to be included in Petitioner's payroll adjustment. Ms. Larsen testified Petitioner did not provide any additional testimony or evidence of the proposed salary increases. Ms. Larsen testified the October 2, 2018 Board of Directors meeting, and decision to increase salaries, happened more than 12 months after the test year cutoff, and should not be included in the payroll adjustment. Ms. Larsen recommended removing the bonuses and adjusting for a 2% increase, with a final adjustment of \$2,184.

Ms. Larsen disagreed with Petitioner's adjustment to retirement contribution expense as a result of her disagreement with Petitioner's payroll expense increase, as payroll expense flows

through to retirement contribution expense. Ms. Larsen recommended an adjustment to retirement contribution expenses of \$218.

Ms. Larsen disagreed with Petitioner's adjustment for health insurance expense. Ms. Larsen testified Petitioner's adjustment included a \$300 reimbursement for each employee per month for health insurance and \$184 per employee per month for Aflac services. Ms. Larsen disagreed with this amount after reviewing the general ledger and determining Petitioner actually pays \$300 per month to two employees, and \$262.50 per month to the third employee. Ms. Larsen testified Petitioner's adjustment should be based on actual amounts. Ms. Larsen recommended an adjustment of \$712 to the health insurance contribution expense.

Ms. Larsen disagreed with Petitioner's adjustment for payroll taxes as a result of her disagreement with Petitioner's payroll expense adjustment, as payroll expense flows through to payroll taxes. Ms. Larsen recommended an adjustment of \$167 for payroll tax expense.

Ms. Larsen disagreed with Petitioner's adjustment to property taxes. Ms. Larsen disagreed with Petitioner's amount for 2016 property taxes paid during 2017. Ms. Larsen stated Petitioner did not include all property tax invoices which were paid in 2017 for 2016. Additionally, Petitioner recorded an incorrect amount for one invoice that was originally included. Ms. Larsen recommended an adjustment of \$321 to property tax expense.

Edward T. Rutter. OUCC Chief Technical Advisor Edward T. Rutter testified Petitioner meets the requirements for Small-U filing, is able to use the Commission's Small-U rate change application form, and can submit a small utility filing to change its rates. He stated doing so would effectuate the Commission's purpose for the small utility filing process by allowing Petitioner to change its rates without incurring the expense of filing a full rate case.

Mr. Rutter testified to the unreasonableness of Petitioner's request to recover \$230,500 in rate case expense from ratepayers. He stated Petitioner is requesting an annual amortization increase of \$35,944 in this proceeding. He testified this amount of rate case expense results in each customer paying \$89.24 per year, or \$7.44 per month for five (5) years. He further pointed out the revenue requirement associated with the five (5) year amortization of rate case expense represents 59% of Petitioner's total requested increase. Mr. Rutter opined more than half of Petitioner's proposed revenue increase is attributable to rate case expense, which could have been minimized if Petitioner had filed a rate case pursuant to the Small-U rule.

Mr. Rutter testified in response to a data request, Petitioner had been invoiced for rate case expense through August 31, 2018 in the amount of \$72,418. He provided an estimate of an additional 65% or \$47,072 for rate case expense through the end of this proceeding, for a total recommended rate case expense of \$120,000. He testified the estimated rate case expense of \$120,000 should cover the cost of Petitioner's remaining rate case expense, including preparation and filing of any rebuttal testimony, witness preparation for the evidentiary hearing, attendance and testifying at the evidentiary hearing, and preparation of a proposed order. Mr. Rutter recommended the Commission reduce the amount to be included in rates by 50% to \$60,000, which means rate case expense will be shared equally between ratepayers and the utility. Mr. Rutter stated the reduction is based on his recommendation that when a small utility as defined in

170 I.A.C. 14-1 *et seq.* voluntarily chooses not to file a Small-U rate proceeding, it should only be entitled to collect 50% of the incurred or reasonably estimated rate case expense.

Mr. Rutter also recommended if new rates have not gone into effect five years after a final order in this Cause, Petitioner should submit a revised tariff showing a reduction in its rates to eliminate this amortization.

Leon A. Golden. OUCC Utility Analyst Leon Golden provided his analysis of Petitioner's proposed rate base calculations and its adjustments to depreciation expense. He testified Petitioner had not proposed changes in its depreciation rates from those previously accepted by the Commission. He testified he was able to tie Petitioner's test year depreciation expense found in its schedules with its income statement. Mr. Golden recommended a smaller decrease in Petitioner's depreciation expense, attributable to a truck loan identified by Ms. Gordon that was not recorded on Petitioner's financial statements. Mr. Golden's final adjustment to depreciation expense was a decrease of \$518.

Regarding Petitioner's rate base calculation, Mr. Golden testified he was able to confirm Petitioner's financial statements tied with its proposed total utility plant in service. He also testified he did not agree with the amount Petitioner proposed for total utility plant in service due to the removal of the Belterra Main. He referenced Ms. Gordon's testimony indicating the Belterra Note Payable, which was not included in Petitioner's proposed capital structure. This absence of the Belterra Note Payable resulted in a rate base greater than the capital used to fund the rate base. Therefore, Mr. Golden added the Belterra Main utility plant in service back into rate base. In addition, Mr. Golden added the truck loan as discussed above to Petitioner's utility plant in service. Mr. Golden also proposed a different amount for accumulated depreciation based on the removal of accumulated depreciation for the Belterra Main. Mr. Golden agreed with Petitioner's methodology of calculating working capital, but proposed an adjustment to Petitioner's working capital based on the adjustments made to Operation and Maintenance expense by OUCC witnesses Gordon, Larsen, and Rutter. Mr. Golden confirmed Petitioner does not keep an inventory of materials and supplies. Taking into account the adjustments noted above, Mr. Golden calculated a total original cost rate base of \$1,805,494.

Bradley E. Lorton. OUCC Utility Analyst Bradley E. Lorton testified regarding the cost of common equity capital, also referred to as the authorized ROE. Mr. Lorton explained that based on the results of the Discounted Cash Flow ("DCF") method, and Capital Asset Pricing Model ("CAPM"), a cost of equity of 9.1% would be a reasonable and appropriate ROE for Petitioner. Mr. Lorton testified neither his DCF nor CAPM analyses yielded a return near Petitioner's current 9.9% ROE, nor Petitioner's proposed 10.25% cost of equity for this Cause. Mr. Lorton testified Petitioner's proposed cost of equity of 10.25% was too high. Mr. Lorton presented data from S&P Global Market Intelligence showing the decline in average authorized ROE since 1990 for natural gas companies in the United States. He testified the average ROE for natural gas utilities in 2017 was 9.72%, and the quarterly averages were below 10% in all but two quarters since the first quarter of 2014.

Mr. Lorton testified his recommendation of a 9.1% ROE is reasonable for Petitioner. He testified his DCF result was 9.1%, while his CAPM result was 7.36%. He testified he used the

Duff & Phelps normalized risk free rate of 3.5% in his CAPM calculations as it remained higher than current long term bond yields. He stated the sum of the Duff & Phelps normalized risk free rate and normalized risk premium could only produce a market rate of return of 8.5%. He also testified he used a growth rate considerably higher than Value Line forecasts in his DCF analysis. He stated even with these factors, current trends do not justify a higher ROE. He noted macroeconomic considerations such as long term interest rates and inflation do not support increased ROE. He cited the testimony of OUCC Witness Jennifer L. Reed in this Cause, which elaborates on macroeconomic trends. He also cited the *Duke University CFO Magazine Business Outlook Survey* result of S&P 500 stocks over the next ten years yielding only a 6.34% return.

Mr. Lorton compared Petitioner's proposed ROE to those authorized for other natural gas utilities in 2017 cited by Regulatory Research Associates in Regulatory Focus in January 2018. Mr. Lorton observed that of the 24 utilities listed, only two were granted higher ROE's than Petitioner. He also stated 18 of the 24 utilities were authorized ROE's between 8.7% and 9.6%.

Mr. Lorton described the "Constant Growth" DCF model he used in his analysis. He stated the underlying principle of the DCF Model was the price of a firm's stock reflects the expected cash flows (i.e. dividends) associated with that stock, discounted at a rate equal to the cost of equity. Mr. Lorton explained the DCF Model, when combined with reasonable judgment, provides a realistic and reliable method of estimating a utility's cost of equity. Most of the controversy associated with DCF calculations focuses on the growth rate. He testified a reasonable growth rate estimate could be developed by evaluating variables such as dividends, earnings, and book value per share. Mr. Lorton stated the forward dividend yield calculation adjusted current dividend yield to reflect likely dividend growth in the subsequent year. He noted this was accomplished by increasing the current dividend yield for one-half of a year's growth in dividends, and this is known as the "half-year method."

Mr. Lorton explained he used the half-year method in his DCF analysis to convert current dividend yields to forward dividend yields, and this method is recognized as valid and reasonable by the Commission. Mr. Lorton's calculation yielded a 2.6% forward dividend yield for the Gas Utility Proxy Group, which, based on his comparison, equaled the average of the Value Line dividend yields for the same group. Mr. Lorton stated 6.5% was a reasonable growth rate for the Gas Utility Proxy Group. This growth rate resulted from analyzing both historical and projected earnings per share ("EPS"), dividends per share ("DPS"), and book value per share ("BPS") growth rates for the proxy group, along with long term economic growth historical data from the St. Louis Federal Reserve Bank. Mr. Lorton observed 6.5% is above the average economic growth rate since 1980.

Mr. Lorton calculated a 7.36% CAPM cost of equity and did not include an additional risk premium for small stocks in his calculation because Petitioner is a regulated utility. He stated the applicability of a small stock adjustment to regulated public utilities is questionable, and regulation reduced the financial risks faced by Petitioner. For support, Mr. Lorton cited to *Utility Stock and the Size Effect: An Empirical Analysis* as well as *Do Smaller Companies Warrant a Higher Discount Rate for Risk?: The "Size Effect" Debate* and quoted two Commission Orders, including the Order in Cause No. 43680, dated April 30, 2010, where the Commission rejected a proposed premium adjustment based on size. In that case, the Commission rejected Petitioner's equity size

premium adjustment because it could not be directly applied to regulated water utilities. Regulated water utilities do not experience the same risks as other small companies. Mr. Lorton stated the same principle could be applied to regulated natural gas companies.

Jennifer L. Reed. OUCC Utility Analyst Jennifer Reed testified on macroeconomic factors including interest rates, economic growth and inflation. Ms. Reed discussed the macroeconomic factors and trends influencing return on equity (“ROE”). Ms. Reed’s testimony of current macroeconomic trends supports Mr. Lorton’s recommendation of 9.1% as a reasonable ROE for Petitioner compared to Mr. Ridlen’s testimony requesting a 10.25% ROE.

Ms. Reed examined three macroeconomic variables influencing the cost of equity capital. First, she examined interest rates. Interest rates on 5-Year, 10-Year, 20-Year and 30-Year Treasury bonds remain low by historical standards, and recent increases have been modest. Yields on the U.S. Treasury Bonds have been commonly used to establish the risk-free rate of return in the Capital Asset Pricing Model (“CAPM”) and other risk premium analyses. Changes in the bond yields and interest rates affect investor expectations. Despite economic data and increases in the Federal Funds rate, long-term Treasury bond yields have remained low compared to earlier historical periods in the 1980s and 1990s. Ms. Reed stated that lower yields have occurred for the past two decades, and at the end of September 2018, long-term bond yields remained comparatively low.

One of the research documents Ms. Reed used in her analysis for the interest rate data was the *CFO Magazine Outlook Survey* (the “CFO Survey”) published by Duke University. In the Third Quarter of 2018, respondents of the CFO Survey were asked for their expectations on the future rate of return for S&P 500 companies as of August 20 when 10-Year Treasury bond annual yields were 2.83%. Their responses revealed an average expected return of 6.15% over the next year and 6.34% over the next 10 years. The OUCC’s recommended ROE for Petitioner of 9.1% is 295 basis points above the expectations of the respondents to the CFO Survey for the next year and 276 basis points above expectations for the next 10 years. The survey respondents expect over the next 10 years a 1-in-10 change of the annual S&P return being in a range from 9.13% to 10.24%. Ms. Reed testified Mr. Ridlen’s ROE recommendation of 10.25% is outside this 1-in-10 chance threshold established in the survey. Also, the return estimates apply to companies in the S&P 500, including companies considered more risky than regulated utilities.

Second, Ms. Reed examined economic growth trends. The Congressional Budget Office (“CBO”) forecasts real Gross Domestic Product (“GDP”) growth over the next 10 years to range from 3.3% in 2018, declining to 2.4% in 2019, 1.8% in 2020, 1.5% for the period 2021-2022, and 1.7% in the period 2023-2028. These projections do not point to a period of high inflation and large interest rate increases. Prior to the 1990’s, economic expansion periods included at least one or more years above 5% real (inflation adjusted) growth. The U.S. economy has not experienced that level of real GDP growth on an annual basis since 1984. Ms. Reed’s analysis of recent data indicated the U.S. economy is in a mature recovery. For calendar year 2017, the economy experienced a real annual growth rate of 2.6% (U.S. Department of Commerce, Bureau of Economic Analysis).

Third, Ms. Reed testified the economy remains in a relatively low inflation period, with the Federal Reserve still aiming to increase overall inflation to a sustainable 2% level. Even with energy price volatility in recent years, both “headline” inflation and core inflation remain low compared to earlier periods. While inflation fears are always a policy consideration for the Federal Reserve, recent experience and projections by the CBO indicate inflation is under control. The overall (also called “headline”) Consumer Price Index (“CPI”) has remained at 2.1% for the past two years (CPI data from www.bls.gov). The Federal Reserve Bank of Philadelphia projects core inflation at 2.3% in 2018 and 2.4% in 2019. It also projected continued low headline inflation. Ms. Reed testified her research and analysis shows inflation remains low by historical standards. Low inflation rates support lower interest rates and lower cost of financing capital investment, including utility plant investments.

Ms. Reed stated recent trends in interest rates, economic growth and inflation have shown upward movement, but do not suggest a return to an inflationary economy. Instead, recent trends point to a continuing but mature economic recovery. Inflation projections stay in the 2% range, and interest rate increases are expected to be gradual. Ms. Reed stated Petitioner’s proposed 10.25% ROE far exceeds market expectations, even for a more risky stock portfolio like the S&P 500 containing many industrial companies. Consequently, Mr. Lorton’s recommended ROE of 9.1% is more in line with current economic conditions.

Brien R. Krieger. OUCC Utility Analyst Brien R. Krieger testified regarding Petitioner’s cost of service study (“COSS”), proposed rate design, and monthly customer charge. Mr. Krieger did not object to Petitioner’s COSS, but disagreed with one of Petitioner’s proposed customer charges in its proposed rate design. He recommended the residential rate monthly customer charge be set at \$12.00 instead of \$13.00 as Petitioner proposed. Additionally, Mr. Krieger reviewed Petitioner’s prior COSS, Cause No. 42844 (Order, August 31, 2005).

Mr. Krieger pointed out the COSS similarities in Cause No. 42844 and this Cause, with allocation of distribution mains (31% of gross plant) and customer base. He stated both Causes divide FERC Account 376 – Distribution Mains, with approximately 85% allocated with rate class peak demand and 15% allocated on rate class number of customers. Residential and General Service customer counts are approximately equal in Cause 42844 (98.6%) and in Petitioner’s present Cause (97.8%). However, Rate 1 – Residential and General Service’s volume and peak demand has decreased since Cause No. 42844. In the present Cause, peak demands are almost equal for Rate 1 (49.8%) and Rate 2 (50.2%). Mr. Krieger noted Rate 2 is only 2% of the customer count, and is 67% of the total annual volume throughput, with Belterra Casino being more than half of Rate 2’s annual throughput.

Mr. Krieger stated allocating 85% of distribution mains with peak demand in Petitioner’s COSS is a strong weighting towards heat-sensitive loads, and represents the vast majority of Petitioner’s customers - residential and the hotel/casino. He agreed with Petitioner’s COSS allocation method for distribution mains. Mr. Krieger did not contest Petitioner’s allocation of Services, Meters, General Plant/Intangibles, and O&M because it assigns a reasonable share to the responsible rate classes, and is similar to methods and percentages in Cause No. 42844.

Petitioner proposed a total margin increase of 15.46% (Petitioner’s Exhibit KAH-5) with a

22.04% rate increase for Rate 1R/1G, and 8.60% for Rate 2. Mr. Krieger indicated Petitioner's COSS witness Mr. Heid did not change the subsidy dollar magnitude in existing rates, but the percent subsidy of each rate (paid or received) was reduced because all margin costs have increased. He stated Petitioner's cost of service is acceptable and recommended the Commission accept Petitioner's COSS as a basis for determining class revenue requirements.

Mr. Krieger disagreed with Petitioner's proposed residential monthly customer charge. Petitioner proposed to increase the customer charge from \$10.86 to \$13.00 for Rate 1R. His analysis showed the proposed residential monthly charge of \$13.00 is greater than three similar Indiana natural gas utilities. Also, there are three large Indiana natural gas utilities (Citizens Gas, Vectren North, and Vectren South) that have residential customer charges of \$12/month or less. Additionally, he stated Petitioner is requesting a 19.7% increase to the residential class and small general service (Rate 1) monthly customer charge, which is substantially greater than the OUCC's recommended overall rate increase of approximately 3.3%. Lastly, Mr. Krieger stated Petitioner did not provide revised tariff sheets in its case-in-chief, and revised tariffs need to be reviewed by the OUCC before implementation of new rates.

Mr. Krieger made the following recommendations:

- Use Petitioner's COSS as a basis to assign rate revenue requirements.
- Set the residential customer charge for Rate 1R at \$12.00.
- Set the customer charges for the other rate classes as recommended by Petitioner.
- Require Petitioner to file redlined and clean versions of the tariff sheets for the OUCC to review prior to Commission approval.

C. **Petitioner's Rebuttal. Bonnie J. Mann.** The Rebuttal Testimony and Exhibits of Petitioner's Witness Mann addressed the testimony and exhibits of OUCC Witnesses Gordon, Larsen, Golden, and Rutter. Turning to OUCC Witness Gordon, Ms. Mann noted the OUCC made two adjustments related to the estimated cost of natural gas for purposes of the revenue requirement. With respect to the cost of unaccounted for gas, Ms. Mann noted the OUCC used more recent data. Since new information had become available, and recognizing the rates are to be in place for a long period of time, Ms. Mann agreed with the use of this newer information and accepted the OUCC's adjustment. However, the second OUCC adjustment, related to the estimated cost of gas, was to reduce Petitioner's estimate for cost of gas. Ms. Mann pointed out the actual cost of gas as reflected on NYMEX Futures has increased above the price estimated and used by Petitioner in its original direct case. Ms. Mann also pointed out since this element of the revenue requirement is based on an estimate of costs, the OUCC should have recognized this new NYMEX information, and at a minimum not reduced Petitioner's estimated cost of gas. Next, Ms. Mann reviewed the OUCC's adjustment described as "miscellaneous expenses." Initially, Ms. Mann addressed the OUCC's downward adjustment to reduce outside services within the test year which the OUCC Witness believed were related to this particular rate case preparation. Ms. Mann pointed out these expenses were incurred by Petitioner in reducing its Tariff in 2017 at the OUCC's request. Therefore, these expenses should not be eliminated. Further, Ms. Mann noted the OUCC had reduced miscellaneous expense by \$269 based on the mistaken belief Petitioner had included inappropriate advertising expenses. However, Ms. Mann pointed out these expenses related to print advertisements in a local newspaper to advise customers they should "call before you dig." Since

the call before you dig information is an important aspect of delivering natural gas service, Ms. Mann opposed this OUCC adjustment.

Next, Ms. Mann addressed Ms. Gordon's change to the date of the capital structure used by Petitioner in its initial filing. Petitioner proposed the date of December 31, 2017. The OUCC proposed a date of September 30, 2017 indicating there was no precedent supporting Petitioner's proposal to use a different date than the test year date. Ms. Mann in rebuttal pointed to the use of a different date for the capital structure in filings before this Commission in Cause Nos. 44768 and 44062. She also noted both of those cases were fully litigated. Further, she pointed out the use of the December 31, 2017 date was to accommodate the recent positions taken by the OUCC in the tax investigation of Cause No. 45032. She pointed out deferred taxes are part of the capital structure. Had Petitioner used the capital structure of September 30, 2017, it would have been using deferred taxes in an amount and at a tax rate which won't exist going forward. As such, Petitioner believed the appropriate date for the capital structure was December 31, 2017 in keeping with the recent changes in the federal income tax rate.

Ms. Mann next addressed Ms. Gordon's adjustment to add elements to the capital structure. She pointed out Ms. Gordon believed new debt existed for purchase of a truck and such debt should be reflected in the capital structure. However, Ms. Mann pointed out the debt for the truck was already included in the capital structure as originally filed by Petitioner. A separate issue proposed by Ms. Gordon is that the Belterra Note should be included in the capital structure. Ms. Mann pointed out the Belterra Note flows from a settlement among Petitioner, the OUCC, and Belterra in 2005 in Cause No. 42844. Such 2005 Order also put into place the capital structure methodology still being used by Petitioner, including in its original filing. That capital structure did not include the Belterra Note, but also did not include the related extension of a main to the Belterra Resort. Such methodology on the capital structure established in Cause No. 42844, was continued in Cause No. 43897-U, and continued again in Petitioner's rate case, Cause No. 44293. Ms. Mann pointed out Petitioner and the OUCC treated the Belterra Note in those prior three rate cases in the same manner Petitioner is proposing to treat the Belterra Note in this case. Ms. Mann goes on to point out the OUCC has offered no evidence to explain why the treatment of the Belterra Note must now be changed from that previously agreed to and used in the last three rate cases. Therefore, Ms. Mann opposed the OUCC's adjustments to add elements to the capital structure.

Ms. Mann disagreed with Ms. Larsen's reduced payroll. Ms. Mann's disagreement relates both to the reduction of payroll due to bonuses, and the reduction of the payroll in light of the need to actually increase the payroll greater than Petitioner originally proposed. With respect to those portions of the payroll described as bonuses, Ms. Mann pointed out the employees count on such payments. In essence, such payments are part of their expected benefits. More importantly, just like any other benefit offered by Petitioner to its employees, the lack of such benefits creates significant problems for Petitioner in retaining its employees. This significant problem is evidenced by employees resigning their employment which led to the Board of Directors holding an emergency meeting and determining the need to increase all employees' pay immediately. As Ms. Mann pointed out, the loss of one employee led the Board to discover it would cost \$8,000 per week to replace that employee through a contractor. As Ms. Mann pointed out, the total increase in pay and the flow through effect to the benefits require an additional \$25,000 annually in payroll, and an additional \$4,413 in payroll tax and retirement contributions. Ms. Mann also

pointed out the approach taken by the OUCC would require Petitioner to use 62% of its earnings in order to cover the required additional operating expense necessary to maintain its employees. In Ms. Mann's opinion, this is not a sustainable position for Petitioner going forward. Therefore, Ms. Mann recommended the OUCC's payroll adjustment be rejected and additional dollars be provided in the revenue requirement to cover these increased costs of payroll and benefits.

Ms. Mann also addressed Ms. Larsen's suggestion that health insurance could be adjusted downward due to her belief one employee's health insurance contribution was not \$300 per year, but was in fact \$262.50 per year. Ms. Mann explained that as of January 1, 2018, the particular employee referenced by Ms. Larsen was actually receiving \$300 per year due to the increased cost of health insurance. As such, Ms. Mann objected to this additional OUCC downward adjustment.

Finally, Ms. Mann noted because of Petitioner's disagreement with the OUCC's adjustments on payroll, Petitioner also disagreed with the OUCC's adjustment to payroll tax which is a flow through based upon the amount of payroll included in the revenue requirement.

Next, Ms. Mann addressed the adjustments by Mr. Golden to utility plant. Mr. Golden proposed to change the utility plant by adding a truck to Petitioner's proposed rate base. However, Ms. Mann explained the truck referenced by Mr. Golden was already in the utility plant and rate base. A second adjustment proposed by the OUCC was to remove certain negative amounts related to the utility plant associated with the Belterra Note. Ms. Mann pointed out this adjustment to rate base is a change to the methodology that has been used by Petitioner to establish rate base in Cause Nos. 42844, 43897-U, and 44293. Ms. Mann pointed out if Mr. Golden proposes to change this methodology, he should explain the need to make such a change. Ms. Mann also pointed out this change in the methodology of calculating Petitioner's rate base is being proposed at the same time the OUCC is indicating Petitioner should have used, and should use in the future, the small utility filing process. Since this is a significant change from the last three cases, Ms. Mann suggested this adjustment should be rejected.

Next, Ms. Mann addressed Mr. Rutter. She pointed out Mr. Rutter calculated rate case expense based on a multiplier, but the OUCC never explained the basis of such a multiplier. With respect to rate case expense, Ms. Mann pointed to the last fully litigated small gas utility rate case – Midwest Natural Gas, Cause No. 44880. In that particular rate case, litigated in 2017, the Commission found \$260,000 in rate case expense to be reasonable. Here, Petitioner in 2018, is proposing rate case expense of \$230,000. Therefore, the amount of rate case expense, when compared to rate case expense incurred previously for other small gas utilities, is reasonable. We also note Witness Mann, in responding to the Commission's docket entry of December 12, 2018, and to additional questions raised during the hearing in this Cause, indicated the estimated rate case expense as of the date of its response has been reduced to \$171,426.

Next, Ms. Mann addressed Mr. Rutter's suggestion that Petitioner should have used the small utility filing process. She pointed out this particular proceeding required a cost of service study; required Petitioner to address testimony from seven different witnesses; this proceeding included an adjustment to Petitioner's capital structure and a separate adjustment to Petitioner's rate base all different from the prior three base rate cases. She pointed out the OUCC adjusts downward Petitioner's payroll and refused to acknowledge the Board boosted Petitioner's payroll,

because the Board's action fell three days outside of the 365 day window for changes to the test year. Ms. Mann also pointed out this particular Petitioner, while currently authorized to return equity of 9.9%, is facing an adjustment from the OUCC which would drive such return on equity down to 9.1%. She also pointed out the owners of this utility are not-for-profit entities. She concluded her rebuttal of OUCC Witness Rutter by pointing out that in the face of the various adjustments proposed by the OUCC, a small utility filing would not ultimately have been less expensive for this Petitioner.

Ms. Mann concluded her rebuttal testimony of the various OUCC positions by preparing a revised revenue requirement and attaching the same as Exhibit BJM-1R. Through such Exhibit and her testimony, she pointed to those areas of agreement on adjustments between Petitioner and the OUCC; and recognized Petitioner's disagreement with a number of the OUCC adjustments. Based on Exhibit BJM-1R, Petitioner now proposes an increase in its rates of 9.39% which would provide Petitioner increased revenue of \$102,179 and the opportunity to earn a net operating income of \$67,555.

Earl L. Ridlen III. The rebuttal testimony of Petitioner's Witness Ridlen addressed the recommendation of Mr. Lorton and Ms. Reed on the return on equity; Mr. Rutter on small U filings; and Ms. Gordon and Mr. Golden on Petitioner's capital structure and rate base. Beginning with the testimony of OUCC Witnesses Lorton and Reed, Mr. Ridlen pointed out Petitioner is currently authorized a 9.9% return on equity. He pointed out the current revenue requirement which includes such authorized return on equity was established in a small utility filing, Cause No. 43897-U. The OUCC now proposes a significantly lower return on equity – 9.1%; while criticizing Petitioner for not initiating this base rate case through another small utility filing. As Mr. Ridlen pointed out, while Petitioner was obtaining a 9.9% return on equity in a prior small utility filing, other small gas utilities were obtaining a 10.1% return on equity, citing to Indiana Utilities (Cause No. 44062). Mr. Ridlen suggested that if the OUCC wanted utilities, such as this Petitioner, to use the small utility filing, then the OUCC should begin with a return on equity which is being authorized to other small gas utilities. In that regard, Mr. Ridlen pointed out both Community Natural Gas (Cause No. 44768), and Midwest Natural Gas (Cause No. 44880), in fully litigated proceedings were authorized a return on equity in 2017 higher than the OUCC is proposing in this proceeding by a significant amount. He also pointed out both Community Natural Gas and Midwest Natural Gas were proceedings that were presented and ultimately decided by this Commission, not other Commissions in other jurisdictions. Further, both of these cases had been decided before Petitioner filed this particular base rate case. He also pointed out this Petitioner often appears with Community Natural Gas and Midwest Natural Gas as part of the small gas utility group that appears before the Commission on various issues. Thus, for the OUCC to propose a return on equity which is significantly lower than what has been authorized to similarly situated small gas utilities is, in his opinion, inappropriate. Further, Mr. Ridlen pointed out the current 9.9% return on equity was established by this Commission's Order in 2011. In Mr. Ridlen's opinion, the economy has improved significantly since the Commission's last Order for this Petitioner.

Next, Mr. Ridlen addressed the risks associated specifically with this Petitioner. He referenced regulatory risks, the risks associated with serving one very large customer, the lack of listing of Petitioner's stock, and Petitioner's size to point out this Petitioner actually faces risks greater than other small gas utilities whose return on equity most recently authorized was 10.1%.

With respect to size, he pointed out this Commission in the Midwest Natural Gas proceeding, Cause No. 44880 on page 12 specifically found a risk recognizing the small size of Midwest Natural Gas was required. He also pointed out in the Midwest Natural Gas case (Cause No. 44880), the OUCC proposed a return on equity of 8.8% and the Commission found a return of 10.1% was more appropriate. A similar change for Switzco would require a return on equity even higher than Petitioner is requesting.

Next, Mr. Ridlen discussed the OUCC's proposal that Petitioner should have used a small utility filing, and the OUCC's proposal to allow Petitioner to recover only half of its rate case expense. He pointed out the OUCC's filing inappropriately recommended a reduced return on equity from what is currently authorized; a change to Petitioner's capital structure methodology from what is currently being used; a change in the rate base methodology from what is currently being used; and the very limited staff this Petitioner employs. As Mr. Ridlen indicated, Petitioner would still need the assistance of accountants, engineers, and attorneys to seek and obtain the necessary increase in revenue regardless of the type of filing it had made. Mr. Ridlen also pointed to the Commission's own brochure on small utility filings noting the brochure suggests a small utility filing might be a way to obtain increased revenue. Yet, the OUCC's approach in its testimony appears to interpret the Commission's brochure not as an alternative, but rather a mandate.

Next, Mr. Ridlen addressed Ms. Gordon and Mr. Golden on their proposed change in the methodology used for calculating Petitioner's capital structure and its rate base. He pointed out the methodology used by Petitioner has been in place for over ten years. He pointed out the methodology on capital structure and the corresponding rate base was agreed to by Petitioner, the OUCC, and the Belterra Casino, an Intervenor in the proceeding where this methodology was established. Finally, he pointed out the basis for this methodology essentially was to provide Petitioner with a reasonable method of calculating its rate base and capital structure. In response to questions at the hearing, Mr. Ridlen explained the OUCC changes to the capital structure and rate base would not provide Petitioner with the ability to repay the Belterra Note which had been previously approved by this Commission for Petitioner.

Kerry A. Heid. The rebuttal testimony of Petitioner's Witness Heid addressed the positions of the OUCC as outlined by Messrs. Krieger and Rutter. Beginning with Mr. Krieger, Mr. Heid explained the OUCC had accepted the cost of service that had been prepared by and presented in the testimony for Petitioner. Mr. Heid also pointed out the OUCC had agreed to all monthly customer charge proposals for all rates except Rate 1R, which provides service to residential customers. Petitioner had proposed Rate 1R be increased to \$13 per customer per month. The OUCC proposed Rate 1R be increased, but only to \$12 per month. Mr. Heid pointed out the OUCC offered no fixed cost analysis. As Mr. Heid explained, Petitioner's proposed customer charge will recover 32% of the fixed cost allocated to Rate 1R. Next, Mr. Heid addressed the OUCC's chart reflecting monthly customer charges and pointed out three orders in 2018 of eight orders shown on the OUCC chart had monthly customer charges equal to or greater than the \$13 per month for residential customers under Rate 1R. Mr. Heid also pointed out the OUCC Witness in other cases has testified in support of a higher monthly customer charge for residential customers than being proposed by Petitioner in this case.

Next, Mr. Heid addressed the OUCC position on the sharing of rate case expenses as suggested by Mr. Rutter. Mr. Heid pointed out this is not the first time the OUCC had suggested a sharing of expense. Mr. Heid pointed to the Commission's decisions in Kokomo Gas & Fuel Co. (Cause No. 38096) and most recently in Community Natural Gas Company (Cause No. 44768). Mr. Heid pointed out the Commission rejected the OUCC's proposed sharing of rate case expense finding that sharing of rate case expense between the Company and ratepayers would unfairly disadvantage small utilities that do not have enough staff to handle a rate case. Mr. Heid also pointed out in those prior cases, the Commission found there was no supportive evidence explaining why the proposed split in those cases of 50/50 was appropriate. Here, he pointed out the OUCC has proposed a similar 50/50 sharing and such proposal should once again be rejected. Turning to the OUCC's suggestion that such a sharing would encourage Petitioner to file under a small utility filing, Mr. Heid pointed out there is nothing that mandates the use of a small utility filing versus the traditional rate case proceeding Petitioner has initiated here. He pointed out even with a small utility filing, the OUCC's brochure on such filing indicates the process will not change the standard of review or the utility's burden of proof. Notably, in this proceeding, Mr. Heid pointed out Petitioner is facing a number of complex issues, raised by seven OUCC witnesses. Mr. Heid opined that even if Petitioner had attempted to initiate a small utility filing, it is likely Petitioner would have been required to fully litigate this proceeding which would have caused Petitioner to incur significant rate case expense. Based on the Commission's prior decisions rejecting the sharing of rate case expense, and Mr. Heid's opinion that small utility filings are not mandated, Mr. Heid rejected Mr. Rutter's proposals.

5. **Discussion and Findings**

A. **Agreed Adjustments.** The evidence demonstrates the OUCC did not take issue with the following accounting adjustments reflected in Petitioner's Exhibit 1, Exhibit BJM-1:

- GCA Revenue
- Revenue Relating to a Tariff Rate Decrease
- Other Operating Revenues
- Property Insurance Expense
- Bad Debt Expense
- Tariff Change Expense
- Outside Services

In rebuttal, Petitioner agreed with the OUCC's calculation of the following adjustments, reflected in Petitioner's Exhibit No. 7:

- NOAA Average for NTA Revenue
- Property Tax Expense

The parties also agreed upon the methodology to be used to calculate the utility receipts taxes, income taxes, and the proposed rate increase adjustments. We find the evidence presented and discussed in Paragraph 4 supports the above adjustments to Petitioner's test year operating revenues and expenses.

B. **Rate Case Expense and Use of the Small U.** One thing the Parties are in agreement about is that rate case expense should be amortized over five years. We find such amortization is reasonable.

We begin our discussion with the OUCC's recommendation that Petitioner should have considered using the small utility filings offered pursuant to 170 I.A.C. 14-1 *et seq.* ("Small U"). Petitioner cites the OUCC's request as a "penalty" by proposing to eliminate 50% of its rate case expense. Instead, we view the OUCC's argument as a part of its overall emphasis on limiting the ratepayer impact of Petitioner's requested \$230,000 in rate case expense. It is uncontested Petitioner is a small utility, with approximately 700 customers. By any definition, and certainly under the "small U" rules, Petitioner would appear to be a good candidate for this process.

Petitioner argues it could not have used the Small U process, because "[i]t is not designed for rate cases where controversial issues are raised." Pet. Proposed Order, p. 12. Petitioner characterizes the OUCC's challenge to its compliance with the terms of Ind. Code § 8-1-2-42.7 as "complex", adding as further issues the OUCC's request to lower Petitioner's ROE, modify Petitioner's capital structure and other adjustments to Petitioner's proposed accounting schedules. We note the Small U is not a rubber stamp for a utility: a utility submits its proposed rate increase and the filing is reviewed by both IURC and OUCC technical staff. In that process, changes may be made. We find Petitioner's complaint of complexity foisted upon them by the OUCC is not well-founded, as the major issue in this case is an argument over the magnitude of an allowed, but highly mutable, expense – the cost to litigate a rate case. While the Small U filing is not mandated, the OUCC's point is that a very small utility such as Petitioner should seriously weigh the use of the Small U as a way to mitigate rate impact to its small number of customers.

The OUCC also argued for a reduction of Petitioner's rate case expense and recommended rate case expense be shared between the utility and ratepayers. While it is true Petitioner's board is made up of not-for-profit entities, sharing of rate case expense is not extraordinary, especially given its disproportionate percentage of Petitioner's total revenue increase. Petitioner cites to *Community Natural Gas Co., Inc.*, Cause No. 44768, 2017 WL 1131606 (IURC Mar. 22, 2017) for the proposition the Commission has rejected rate case expense sharing in the past. While we rejected a request for rate case expense sharing in *Community*, we also admonished Petitioner for its failure to provide adequately detailed rate case expense invoices. *Id.* *23. Petitioner should note that admonition, as we detail further below.

In this case, Petitioner has requested \$230,000 in rate case expense based on what rate case expense other small gas utilities were allowed. While that kind of rough measure may be appropriate in some circumstances, we find it is not a one-size-fits-all measure, especially when that size is very small. We examined the issue of rate case expense during the evidentiary hearing, questioning witnesses as an expression of our deep concern about the proposed impact on customers of the large amount of rate case expense requested.

The OUCC's first data request to Switzco asked for copies of all invoices regarding rate case expense, with detail regarding the "name of consultant, number of hours spent, hourly rate and total amount for all invoices...through June 30, 2018." *See*, Pub. Ex. 3, Att. ETR-2, p. 1. Switzco responded it had no invoices from Mr. Heid, but it did have invoices from Barnes &

Thornburg and London Witte Group “related to the base rate case and *other matters*.” *Id.* (emphasis added). However, Switzco denominated such material as confidential. *Id.* When the OUCC followed up with a request several months later, Switzco provided a one page summary of costs, listing Barnes & Thornburg, London Witte Group, and Mr. Heid, without identifying what work had been done to support each invoice. Pub. Ex. 3, Att. ETR-3. The actual rate case expense as of August 31, 2018 was \$72,418. *Id.*

We must view these facts in light of Petitioner’s response to the Presiding Officers’ Docket Entry on December 12, 2018. We noted the OUCC had identified several adjustments to Petitioner’s accounting schedules Petitioner stated it agreed with, but then noted the numbers did not match. Petitioner admitted its rebuttal testimony twice did not correctly reflect the OUCC’s corrections. Pet. Ex. 7, p. 1. When questioned at the hearing, Ms. Mann acknowledged she had made repeated errors, but stated she did not charge the client for correcting those errors. In the Docket Entry response, Switzco stated as of November 30, 2018, \$107,894 had been billed in rate expense, and estimated an additional \$63,532, for a total of \$171,426. In response to the docket entry questions, Ms. Mann provided a revised set of revenue requirement schedules showing a total rate case expense of \$101,000. Pet. Ex. 7, Schedule C-1, p. 3. When questioned at the hearing, Ms. Mann indicated neither the \$101,000 nor the \$171,426 was the rate case expense being requested in this case. However, Petitioner’s proposed order uses the \$171,426 as its ultimate rate case expense ask.

We have previously examined the issue of rate case expense that was disproportionately large compared to a utility’s customer base. In *Water Service Company of Indiana* (“WSCF”), the OUCC raised concerns because the amount of Petitioner’s proposed rate case expense was high given its small size, and noted WSCF’s larger affiliate sought a lower rate case expense despite its larger size. *Pet. of Water Serv. Co. of Ind.*, Cause No. 44104, 2013 WL 1345652, Order p. 25 (IURC Mar. 27, 2013). We held that:

the level of rate case expense proposed by the Petitioner is neither prudent nor reasonable for the complexity of the issues presented in this Cause or for a utility with such a small customer base....Not all expenditures are prudent and recoverable from ratepayers just because a utility claims to have incurred them. The utility has a responsibility to efficiently manage and control its costs.

Id., Order p. 25.

In another proceeding, the OUCC criticized the utility’s requested rate case expense in part because it was “72% of the annual increase in revenue[.]” *Re Riverside Water Co.*, Cause No. 42122, 2003 WL 21041242, Order at p. 7 (IURC Feb. 19, 2003). Similar to this case, the OUCC detailed its efforts to obtain further information about the rate case expense.

The OUCC noted that it had asked Petitioner to provide detailed support for its rate case expense....[Petitioner’s accountant and counsel] have advised Riverside Water to include estimated rate case expense of \$55,000 based upon their experience in similar rate cases....Petitioner added that the actual rate case expense will not be known until the conclusion of the rate case. At the hearing, Public’s

accounting witness Ms. Carraro acknowledged the OUCC had received a billing worksheet for accounting services totaling \$10,117 but added that Petitioner did not provide any invoices or detail related to legal fees as requested.

Moreover, it is not simply enough to prove that the fees were incurred, which Petitioner has not. Petitioner may only recover as a ratemaking expense legal and accounting fees which were reasonably incurred. Petitioner may not seek to recover attorney fees in a rate case before this Commission, and, then argue that the detailed billings are protected from discovery. Since we have no invoices to show generally what was incurred on the legal side, there is no basis by which we may conclude that approximately \$12,000 of legal fees incurred to date were reasonable. Moreover, the Petitioner's failure to respond to requests for invoices, even redacted invoices, effectively deprives the Public of the opportunity to challenge the reasonableness of the fees with direct evidence[.]

Id., pp. 8-9.

The OUCC and the Commission are faced with a similar dilemma in this case. The OUCC's attempts to get detail about rate case expense were rebuffed with an assertion of confidentiality and summary calculations. None of Switzco's statements of rate case expense provided more than a statement that Barnes & Thornburg, London Witte Group, or Mr. Heid charged a certain amount - no hours, individuals, topics or other detail were included. As we found in the *Riverside Water* case, "there is no basis by which we may conclude that...[the] legal fees incurred to date were reasonable." *Re Riverside Water, supra*, Order at 9. "Petitioner may only recover as a ratemaking expense legal and accounting fees which were reasonably incurred." *Id.* The repeated mistakes in Switzco's accounting and its opaque billing means it is impossible to determine true prudence. The OUCC calculated the yearly impact on customers as \$89.24, or \$7.44 per month. *See*, Pub. Ex. 3, p. 4, ll. 18-22. And we note Switzco's initial response regarding rate case invoices was that it had some "related to the base rate case and *other matters*." Pub. Ex. 3, Att. ETR-2, p. 1. This raises the very real specter Switzco may be seeking to recover for costs unrelated to its rate case. While rate case expense has long held to be an allowable amount to be included in rates, not all regulatory or legal matters are granted such treatment. In the absence of detailed invoices, we are left instead to wonder.

We agree with the OUCC the amount of rate case expense should be capped at \$120,000, shared equally between rate payers and Switzco. This reduction reflects what Switzco says it has incurred, adjusted downward for repeated errors and invoices that are totally opaque. Utilities – and the consultants and attorneys that serve them – cannot use rate case estimates that bear no relation to reality. Using the same estimate from previous cases may be easy, but ratemaking requires detail to ensure ratepayers are not paying inflated costs. Petitioner and its counsel are on notice to use a Small U case when possible, and provide detailed invoices to support actual work performed. That includes the number of hours of work performed, the individual performing the work, and the task at issue. This kind of detail is standard practice in attorney billing, and we find it is not too high a hurdle to overcome for Petitioner and its counsel.

In response to the concern Switzco expressed regarding harm to the non-profits that own Switzco, we have this final note. Utilities must make prudent choices. Ratepayers should not be burdened with the costs of imprudence. Our decision today underscores that fact and serves as a message to the management of Switzco. The OUCC proposed Petitioner submit a revised tariff showing a reduction in its rates to eliminate this amortization if new rates have not gone into effect five years after a final order in this Cause. We agree with the OUCC this is a reasonable request. Petitioner shall submit a revised tariff showing a reduction in its rates to eliminate rate case amortization if new rates have not gone into effect five years after a final order in this Cause.

C. **Cost of Natural Gas.** Petitioner and the OUCC have now agreed on the cost of natural gas as it relates to the calculation of unaccounted for gas based on newer information. Based on such agreement, we find the appropriate percentage of unaccounted for gas to be included in the calculation of the cost of natural gas is 1.58%. However, the Parties disagree on the appropriate estimate for the cost of natural gas going forward. Petitioner had estimated a natural gas cost based on NYMEX futures as of the time this case was initiated. The OUCC proposed to adjust that estimated cost downward due to Petitioner including utility receipts tax on the estimated cost of gas. OUCC witness Gordon testified “Indiana URT is collected by utilities on behalf of the consumer; it is not an expense Petitioner would pay on UAAG because no consumer receives those Dth.” Petitioner’s rebuttal noted that NYMEX costs reflect the cost of gas is actually increasing. Petitioner’s workpapers show a weighted average cost of gas of \$2.9988 before management fees and transportation fees.

The OUCC’s cross examination exhibit (Pub. Ex. CX-1) showed the cost of gas for the period of April 2019 through November 2019, and again during the period of March 2020 through December 2024, is lower than Petitioner’s weighted average cost of gas of \$2.9988. We agree with Ms. Gordon that utility receipts tax should not be included on the estimated cost of gas, since it is not an expense Petitioner will incur because no consumer receives those Dths. Furthermore, Public’s Ex. CX-1 indicates the cost of gas has actually decreased since Petitioner filed its case-in-chief. We believe the OUCC’s estimate for the cost of gas, particularly in light of decreasing costs of gas, is reasonable. Therefore, in the revenue requirement, we will use the OUCC’s calculated cost of natural gas.

D. **Miscellaneous Expenses.** The OUCC proposed an adjustment for miscellaneous expenses, and Petitioner rejected two categories as inappropriate. The first relates to the OUCC adjustment for outside services. The OUCC believed these were services performed as part of this rate case. Attachment ILG-4 attached to Public’s Exhibit No. 1 includes a listing of outside services the OUCC believed to be in relation to this rate case. Petitioner stated these expenses were incurred by it to reduce its Tariff in 2017 at the OUCC’s request. In rebuttal testimony, Petitioner indicated those expenses were included in Petitioner’s adjustment 3(h) to amortize the cost of those required tariff adjustments. We have reviewed Petitioner’s adjustment 3(h), and could not find any evidence in the record to indicate the items the OUCC pulled out are the same items included within the miscellaneous expense adjustment. Additionally, Petitioner did not include any supporting documentation to show these are the same expenses. Therefore, we agree with the OUCC this portion of the miscellaneous expense adjustment should be accepted.

Second, Petitioner rejected the OUCC's advertising expense adjustment included in the miscellaneous expenses in the amount of \$269. Petitioner stated this expense was incurred in order to advise its customers that they should "call before you dig," and included three samples of the advertisement. We agree the "call before you dig" campaign is an important part of pipeline safety. However, Petitioner only provided 3 examples of advertisements, when the OUCC removed 7 instances of the company's paid advertisements. Furthermore, Petitioner provided no evidence regarding which advertisements these 3 examples relate to, or proof the other instances actually referenced "call before you dig." Therefore, we accept the OUCC's elimination of these expenses as inappropriate advertising expenses. Overall, we agree with the OUCC's adjustment to reduce miscellaneous expenses by \$5,562.

E. **Capital Structure.** The next issue between the Parties relates to the capital structure. Petitioner proposed using December 31, 2017 in keeping with the changes in the federal income tax associated with the TCJA. We have previously ordered all regulated utility companies under Cause No. 45032 to begin implementing the changes in federal income tax. However, Petitioner is different from most other regulated utilities in that Petitioner's federal income tax rate increased as a result of the TCJA instead of a decrease in its federal income tax rate. Therefore, we do not find Petitioner's argument to have merit.

OUCC witness Gordon indicated the capital structure's purpose is to fund rate base. She stated the appropriate date of the capital structure is the date of Petitioner's rate base cut-off. Ms. Gordon stated using a capital structure of December 31, 2017 does not reflect the connection between Petitioner's capital and rate base. We agree with the OUCC that the use of September 30, 2017 as the date of the capital structure is appropriate in this case.

Next, Petitioner objected to the OUCC's adjustment of Petitioner's capital structure as originally filed by adding debt related to a service truck and the Belterra Note. OUCC witness Gordon indicated the new service truck loan was included on Petitioner's December 31, 2017 trial balance, but it did not appear on Petitioner's September 30, 2017 trial balance. In rebuttal, Ms. Mann stated when the debt was issued in September, it was included in a general ledger account that already included other debt. Ms. Mann stated between September and December, Petitioner moved the debt out of that account into a new account to make both loans easier to track. However, Ms. Gordon stated the two long term notes appearing in the September 30, 2017 trial balance had terms of 2014 to 2019 and 2013 to 2023, which do not match up with the term of the service truck loan. No supporting documentation or exhibits were included with Ms. Mann's rebuttal testimony to verify her claim that the amount was included in a general ledger account that already included other debt. Based on this lack of evidence, we are not confident this debt is already included in the capital structure. Therefore, we agree with Ms. Gordon that an additional \$25,000 in debt should be included.

With respect to the Belterra Note, the evidence before us indicates the Belterra Note was excluded from the capital structure based on a settlement among Petitioner, the OUCC, and Belterra in 2005 in Cause No. 42844. We approved that capital structure in Cause No. 42844. Since Cause No. 42844, we have approved this capital structure in two additional settled base rate case proceedings, Cause Nos. 43897-U and 44293. As evidenced by a review of Petitioner's rate base and capital structure, the value of Petitioner's rate base is greater than the amount of capital

used to fund that rate base. Therefore, excluding the Belterra Note Payable provides an incomplete picture of the funding available to Petitioner, and is inappropriate. At the hearing, Ms. Mann confirmed debt is included in the capital structure in typical rate cases. Ms. Mann went on to state the line to Belterra is used and useful, and those items that are used and useful are traditionally included in rate base. She also confirmed settlements in front of the Commission are not precedent going forward except to enforce the terms of the settlement. Ms. Gordon testified at the hearing, and was asked why the note payable to Belterra was excluded from the capital structure. Ms. Gordon explained the capital structure is intended to fund rate base. Ms. Gordon also quoted language from pages 4-5 of the settlement agreement in Cause No. 42844 stating:

This Settlement Agreement is without prejudice to and shall not constitute a waiver of any position that any party may take with respect to any or all of the issues of this case in any future regulatory proceeding, except to note that the Parties are in agreement that the compromise herein represents a reasonable resolution of the issues of this case and agree that the terms hereof should be enforced.

Ms. Gordon confirmed the same language is also included in the settlement agreements in Cause Nos. 43897-U and 44923.

We have evidence to support why the Belterra Note treatment in the capital structure should change in this case from that previously used in the prior three cases. Just because an issue was settled previously, does not prevent a party from re-examining the issue and recommending a change. This is especially so when viewing the disparity between what Switzco claims is utility plant in service, and what is actually providing used and useful service to the utility (the Belterra main). Therefore, we will accept the OUCC's change in the capital structure by the addition of debt related to both the service truck and the Belterra Note.

F. **Rate Base.** The OUCC's adjustment to Petitioner's rate base is based on the OUCC's adjustment to Petitioner's capital structure. As we have described, we have accepted the OUCC's adjustment to the capital structure and therefore, we accept the OUCC's adjustment to Petitioner's rate base. We note both Petitioner and the OUCC have proposed including working capital on the basis of pro forma operating and maintenance expenses. We agree Petitioner's rate base should include working capital, and agree with the Parties' methodology in calculating such working capital. We will include working capital in our finding on rate base below. Based on our findings above, including on the rate case expense to be included in the revenue requirement, we find Petitioner's fair value rate base should be calculated as follows:

Utility Plant in Service as of 9-30-17	\$3,419,460
Less Accumulated Depreciation	(\$1,659,298)
Net Utility Plant in Service	\$ 1,760,162
Working Capital	\$ 45,332
Total Original Cost Rate Base	\$ 1,805,494

G. **Cost of Capital/Fair Rate of Return.** The issue between the Parties on the cost of capital is the fair and reasonable return on equity capital to be used in the capital structure and the

resulting weighted cost of capital to be used as the fair return on Petitioner's rate base. The Parties appeared to agree the equity return must (1) be sufficient to attract capital on reasonable terms; (2) allow Petitioner to maintain its financial integrity to render continuous and reliable service; and (3) be commiserate with those available investments with corresponding risks. Petitioner requested a return on equity of 10.25% and a weighted cost/fair rate of return of 7.42%. The OUCC recommended a return on equity of 9.1% and a weighted cost of capital/fair rate of return of 2.63%. As we consider the evidence before us, we are cognizant of the wide range of results produced by the Parties' analysis and proposals. We also recognize that in the last fully litigated small gas utility base rate case – *Midwest Natural Gas Corporation*, Cause No. 44880, the utility was authorized a return on equity of 10.1%. As Mr. Ridlen pointed out both Community Natural Gas, Cause No. 44768, and Midwest Natural Gas, Cause No. 44880, in fully litigated proceedings were authorized a return on equity in 2017 higher than the OUCC proposed in this Cause.

Since the *Midwest Natural Gas* case was concluded, the economy has improved. Ms. Reed acknowledged real economic growth has occurred since Petitioner's last base rate case when a return on equity for this Petitioner was set at 9.9%, but she does not believe this economic growth translates into a higher return on equity. The OUCC's proposal specifically rejects a small size adjustment. Mr. Lorton presented evidence that regulation serves to reduce risk for smaller utilities making a size adjustment unnecessary. We find there is no need to adjust for firm size in a regulated, utility monopoly.

We find Petitioner's requested 10.25% return on equity is too high. However, we also find the OUCC's proposed return on equity of 9.1% is too low. The Commission finds, given the totality of the evidence provided and weighing the current economic trends and relatively low risk of a regulated gas utility, that a return on equity of 9.9% remains appropriate for Petitioner.

H. **Payroll.** The Parties disagreed on the adjustment for payroll to Petitioner's test year. Petitioner initially proposed an adjustment, which the OUCC reduced based in part on the decisions of Petitioner's Board of Directors reflected in its May 2017 Minutes described in the testimony of OUCC Witness Larsen. Ms. Larsen also made an adjustment to decrease payroll for bonuses paid to employees during the year. After the twelve months following the end of the test year, Petitioner's Board of Directors changed payroll again due to its employees resigning over pay and benefits. Petitioner's rebuttal testimony reflects the payroll over test year should be increased by \$25,000 and this increase should flow through to retirement contribution and payroll tax. Petitioner also provided us, through its Response to the Commission's Docket Entry, with a payroll analysis showing the annualized payroll that will actually occur as of October 2018.

We first turn our attention to the OUCC's removal of bonuses from payroll. The OUCC provided evidence through a data request response indicating bonuses were given to every employee and determined by the Board of Directors. *See*, Pub. Ex. 2, Att. AEL-1, p. 3. The OUCC asked Petitioner to describe how each bonus amount was derived, but it is unclear from Petitioner's response what metrics must be met for each employee to receive a bonus. In rebuttal testimony, Ms. Mann stated employees have come to expect these bonuses, which occur at Christmas time. However, the fact that Petitioner's employees expect the bonus each year is not sufficient evidence explaining why the bonuses are warranted. Without evidence supporting how each bonus amount was derived, we find the bonuses should be removed from payroll expense.

Next, we turn our attention to the newer issue of a payroll increase of \$25,000 approved by the Board of Directors on October 2, 2018. While we understand the importance of Petitioner responding to the requests of its employees for increased pay, we have to look to the evidence provided. Ms. Larsen stated the OUCC received an unsigned copy of the minutes from the Board of Director's meeting on October 2, 2018. Ms. Larsen also stated Petitioner provided no support indicating the salary increases are being paid by Petitioner. In rebuttal testimony, Ms. Mann stated the Board resolved to provide raises to all employees sufficient to bring back the employee who resigned and keep other employees. Ms. Mann went on to say the total of these salary increases is \$25,000 annually. At the hearing, Ms. Mann stated she considers a workpaper with the employee name and amount paid as appropriate evidence. Ms. Mann admitted no general ledger entries were provided.

We do not believe a workpaper provided with the employee name and amount paid is sufficient evidence needed to prove a payroll increase. Petitioner is asking to include costs that are outside of the normal timeframe of a rate case, but failed to provide the sufficient evidence to convince us these costs should be approved. Petitioner has not provided any evidence these increased payroll costs were actually approved by the Board of Directors. The OUCC indicated there was no evidence in the record indicating the salary increases were actually being paid by Petitioner, and Ms. Mann's rebuttal provided no evidence to support actual salary increases being paid. The pre-hearing conference order set forth the test year for determining Petitioner's actual and pro forma operating revenues, expenses, and operating income under present and proposed rates as be the 12 months ended September 30, 2017, adjusted for changes that are fixed, known, and measurable for ratemaking purposes and that occur within 12 months following the end of the test year. We understand this increase took effect two days after the twelve-month period from the end of the test year expired. If there was substantive evidence to support the salary increase, we might find reason to deviate to allow two day's grace. But due to the insufficiency of Petitioner's evidence, and the expense occurring outside the twelve-month period from the end of the test year, we reject Petitioner's request to increase payroll for \$25,000.

Last, we turn our attention to the OUCC's adjustment to reduce payroll for the May 2017 Board of Director's minutes. OUCC witness Larsen testified Petitioner had increased test year payroll by 3%, when the May 2017 Board of Director's minutes approved a 2% payroll raise for the upcoming year. We agree with Ms. Larsen that a 2% payroll raise is appropriate based on the May 2017 Board of Director's minutes. We therefore accept the OUCC's payroll adjustment of \$2,184.

I. **Retirement Contribution.** The Parties are in agreement as to the methodology to calculate, and the inclusion of, retirement contributions in Petitioner's revenue requirement. The only issue that separates the Parties is the mathematical result that flows from the payroll from which each of the Parties starts. Based on our decision above on payroll, we find Petitioner's retirement contribution over and above test year should be increased by \$218.

J. **Health Insurance.** Petitioner proposed to increase health insurance to recognize the additional costs associated with Petitioner's contribution to the health insurance of its employees. The OUCC reduced the adjustment by indicating Petitioner did not contribute the same

amount for health insurance for all of the employees. Petitioner's rebuttal testimony indicates all employees' contribution is now the same. However, Petitioner offered no evidence to support its testimonial claim that all employee's contribution is now the same, such as supporting workpapers or exhibits showing the increase. Without sufficient evidence in the record, we cannot accept Petitioner's rebuttal position. Therefore, we agree with the OUCC's adjustment to health insurance of \$712.

K. **Payroll Tax.** The Parties agreed as to the methodology associated with payroll tax. In light of our decision above about payroll, we agree the methodology used by both Petitioner and the OUCC should be used in calculating Petitioner's adjustment to test year. Such calculation results in an increase of \$167.

L. **IURC Fee.** Ms. Gordon stated Petitioner did not remove bad debts from applicable revenues at present rates, and also did not use the most recent IURC fee in its calculations. Ms. Gordon also stated adjustments were needed to the IURC fee adjustment due to other adjustments to revenue. Petitioner agreed with the OUCC's revenue changes in rebuttal, but did not make any changes to its IURC fee in its rebuttal schedules, and provided no rebuttal testimony to dispute the OUCC's calculation. A review of the Commission form to calculate the IURC fee indicates bad debt expense should be deducted. We also agree the most recently approved IURC fee should be used to calculate the amount to be collected in this Cause. Therefore, we agree with the OUCC's calculation of the IURC fee, resulting in an adjustment to test year expenses of \$9.

M. **Depreciation.** The Parties are in agreement as to the method of calculating depreciation and the percentages to be used relative to total utility plant, transportation equipment, and other depreciable assets. Because we have accepted the OUCC's rate base adjustment above, we agree with the OUCC the depreciation expense adjustment shown on the OUCC's schedules is appropriate and will be used in the revenue requirement for this Petitioner.

N. **Pro Forma Revenue Requirement.** Having considered the evidence of record, we find Petitioner's current rates and charges are insufficient to allow Petitioner appropriate funds for the safe and reliable operation of the utility and to earn a reasonable return on its investment in utility rate base. Based on our findings above, we believe Petitioner's pro forma revenue requirement is as illustrated by the following table:

Net Original Cost Rate Base	\$1,805,494
Fair Rate of Return	2.84%
Authorized Net Operating Income	\$51,276
Pro Forma Net Operating Income	<u>\$34,164</u>
Increase in Net Operating Income	\$17,112
Required Revenue Increase with Gross Up	\$23,517
Percentage Increase Required	4.27%

O. **Cost of Service.** Petitioner's Witness Heid sponsored a cost of service study. OUCC witness Krieger acknowledged such cost of service study was acceptable. Mr. Krieger agreed the monthly customer charge should be increased for all classes, but suggested a lower increase for Rate 1R. We have reviewed the evidence of record and recognize pursuant to the

accepted cost of service study, the monthly customer charge for Rate 1R of \$12 per customer per month would remain lower for this Petitioner's residential customers than the monthly residential customer charge being charged by some other Indiana natural gas utilities. However, as Mr. Krieger's testimony indicates, a \$12 monthly residential customer charge is the same as three other small Indiana natural gas utilities. Therefore, we agree with Petitioner's proposal on its cost of service allocations, but find increasing its Rate 1R monthly customer charge to \$12 per month is appropriate. An increase to \$12 is an increase of 10.5% from the current charge of \$10.86, and more closely correlates to the 4.27% overall rate increase approved above in paragraph 5(N), than the 19.7% increase Petitioner proposed.

P. **Customer Deposits.** No party disputed the amount of customer deposits included within the capital structure. However, Ms. Gordon raised concerns with Petitioner's customer deposit policy. Ms. Gordon stated Petitioner requires a \$100 deposit from each new customer, and Petitioner does not appear to account for any of the criteria of customer creditworthiness required in 170 I.A.C. 5-1-15(b) when providing service to new customers. Ms. Gordon also stated it does not appear Petitioner allows customers to make installment payments in compliance with 170 I.A.C. 5-1-15(c)(2)(A). Petitioner provided no rebuttal testimony on this topic. The OUCC recommended the Commission conduct its own review to ensure Petitioner is evaluating customer creditworthiness and communicating pertinent information to its customers. Compliance with the Commission's rules regarding customer deposits is an important issue, and we agree additional review of Petitioner's policies and procedures relating to customer deposits is warranted. Within forty-five (45) days of a Final Order in this Cause, Petitioner is to evaluate each customer's creditworthiness and provide the results in a compliance filing under this Cause. Additionally, Petitioner shall also provide a list of items to share with new customers at the time of service initiation, including information about deposit installation payments.

Q. **Tariffs.** As noted by Mr. Krieger, Petitioner failed to provide revised tariffs when it filed its case-in-chief. The Commission and the OUCC need to review revised tariffs when a new base rate case is filed. Petitioner shall provide redlined and clean versions of its tariffs with its case-in-chief in all future Small U and base rate case filings. Also, Petitioner shall provide redlined and clean versions of its tariffs to the Commission and the OUCC prior to implementation of new base rates resulting from the Order in this Cause.

R. **Other Matters.** We recognized above the OUCC's initial Motion seeking a denial of rate relief based on Petitioner having not filed a written notice with the Commission under our GAO 2013-5. The OUCC's Motion was withdrawn, and a procedural schedule was established. However, we note GAO 2013-5 was designed to provide guidance to regulated utilities and other parties in order to help process base rate cases within the 300 day window provided by the Indiana General Assembly. This GAO was designed to offer recommendations on best practices for regulated utilities preparing to file base rate cases, and help avoid ex parte issues regarding an upcoming rate case. These recommendations on best practices are not jurisdictional, but are more than a simple courtesy to the Commission and the OUCC, and the Commission encourages all regulated utilities to provide actual notice to the Commission and OUCC at least 30 days prior to filing a new base rate case.

IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:

1. Petitioner is authorized to increase its rates and charges in accordance with our findings above in order to produce additional revenue exclusive of the cost of gas of \$23,517 beyond that provided by its current rates and charges. This requires an increase in Petitioner's rates of 4.27%.
2. Petitioner shall file redlined and clean versions of a new tariff under this Cause with the Commission, and provide copies to the OUCC, prior to placing into effect the rates, and charges, approved by this Order. Such new tariff when filed and approved by the Commission's Energy Division shall cancel all present tariffs.
3. Within forty-five (45) days of a Final Order in this Cause, Petitioner is to evaluate each customer's creditworthiness and provide the results in a compliance filing under this Cause. Additionally, Petitioner shall also provide a consistent list of items to share with new customers at the time of service initiation, including information about deposit installation payments.
4. If new rates have not gone into effect five years after a final order in this Cause, Petitioner shall submit a revised tariff showing a reduction in its rates to eliminate rate case amortization.
5. This order shall be effective on and after the date of its approval.

HUSTON, FREEMAN, KREVDA, OBER, AND ZIEGNER CONCUR:

APPROVED:

**I hereby certify that the above is a true
and correct copy of the Order as approved.**

Mary M. Becerra
Secretary of the Commission

CERTIFICATE OF SERVICE

This is to certify that a copy of the *Indiana Office of Utility's Consumer Counselor's Proposed Order* has been served upon the following parties of record in the captioned proceeding by electronic service on January 25, 2019.

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