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JUN 06 2017

**INDIANA UTILITY
REGULATORY COMMISSION**

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF SOUTHERN INDIANA GAS)
AND ELECTRIC COMPANY D/B/A VECTREN)
ENERGY DELIVERY OF INDIANA, INC. FOR (1))
APPROVAL OF AN ADJUSTMENT TO ITS GAS)
SERVICE RATES THROUGH ITS CSIA RATE)
SCHEDULE, (2) AUTHORITY TO DEFER 20% OF THE)
APPROVED EXPENDITURES FOR RECOVERY IN)
PETITIONER'S NEXT GENERAL RATE CASE AND (3))
APPROVAL OF PETITIONER'S UPDATED 7-YEAR)
PLAN, INCLUDING ACTUAL AND PROPOSED)
ESTIMATED CAPITAL EXPENDITURES AND CSIA)
COSTS, ALL PURSUANT TO IND. CODE CHPT. 8-1-8.4)
AND 8-1-39 AND THE COMMISSION'S ORDER IN)
CAUSE NO. 44429)

CAUSE NO. 44429
TDSIC-06

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

PUBLIC'S EXHIBIT NO. 1

TESTIMONY OF HEATHER R. POOLE

June 6, 2017

Respectfully submitted,



Jeffrey M. Reed
Attorney No. 11651-49
Deputy Consumer Counselor

TESTIMONY OF OUCC WITNESS HEATHER R. POOLE
CAUSE NO. 44429 TDSIC-6
SOUTHERN INDIANA GAS AND ELECTRIC COMPANY d/b/a VECTREN
ENERGY DELIVERY OF INDIANA, INC.

I. INTRODUCTION

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

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

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

5 A: I am employed by the Indiana Office of Utility Consumer Counselor ("OUCC")
6 as the Assistant Director of the Natural Gas Division. I have worked as a member
7 of the OUCC's Natural Gas Division since December of 2010. For a summary of
8 my educational and professional experience, as well as my preparation for this
9 case, please see the Appendix attached to my testimony.

10 **Q: What are your recommendations?**

11 A: I recommend approval of Southern Indiana Gas and Electric Company d/b/a
12 Vectren Energy Delivery of Indiana, Inc.'s ("Vectren South" or "Petitioner")
13 request to recover 80% of its Compliance and System Improvement Adjustment
14 ("CSIA") charges being requested in this tracker proceeding. As previously
15 approved by prior order in Cause No. 44429, Petitioner's CSIA charges have both
16 a Compliance Component and a Transmission, Distribution, and Storage System
17 Improvement Charge ("TDSIC") Component. I also recommend approval of
18 Vectren South's request to defer 20% of the calculated revenue requirement on
19 recoverable Compliance Project and TDSIC Project investments; and approval of

1 an adjustment to Vectren South's authorized net operating income to reflect any
2 approved earnings for purposes of Ind. Code § 8-1-2-42(g)(3).

3 In addition to my testimony, OUCC witness Leon A. Golden discusses
4 Vectren South's request for approval of its updated 7-year plan, including actual
5 and proposed estimated capital expenditures. If the Commission accepts Mr.
6 Golden's recommendation of a cap on certain Compliance Projects, Petitioner's
7 Compliance Component schedules should be revised, and a copy of the revised
8 schedules should be submitted with Petitioner's tariff placing new TDSIC rates
9 into effect.

II. COMPLIANCE AND SYSTEM IMPROVEMENT ADJUSTMENT CHARGES

10 **Q: Describe your review regarding Petitioner's specific request to recover CSIA**
11 **charges.**

12 A: I analyzed Petitioner's CSIA cost recovery and revenue calculations set forth in
13 Petitioner's Exhibits attached to the testimony of Petitioner's witness J. Cas Swiz.
14 I will address my review of these Exhibits and Schedules in my testimony below.

A. Compliance Component

15 **Q: Describe your analysis of Petitioner's Compliance Component.**

16 A: I performed a comprehensive analysis of the calculations and data flow contained
17 in Petitioner's Compliance Component schedules, which are contained in
18 Petitioner's Exhibit No. 3, Attachment JCS-2, Schedules 1 through 9. I traced
19 specific data to source documentation provided by Petitioner; recalculated
20 Petitioner's property tax expense, annualized depreciation expense, deferred

1 depreciation expense and deferred Post In-Service Carrying Costs ("PISCC"); and
2 verified the pre-tax rate of return.

3 **Q: Do the recommendations of OUCC witness Golden affect the Compliance**
4 **Component rate factor calculations in Petitioner's attachments and**
5 **schedules?**

6 A: Yes. Mr. Golden recommends a cap on Projects #2857 and #S-2037 within the
7 Compliance Component. These Compliance Projects incurred actual costs during
8 this TDSIC filing that are included for recovery in Petitioner's Compliance
9 Component schedules.

10 **Q: Have you determined a need for any adjustments to Petitioner's Compliance**
11 **Component schedules?**

12 A: No. My review did not find any errors or discrepancies in Petitioner's
13 Compliance Component schedules. However, if the Commission accepts Mr.
14 Golden's recommendation of a cap on Compliance Projects #2857 and #S-2037,
15 Petitioner's Compliance Component schedules should be revised, and a copy of
16 the revised schedules should be submitted with Petitioner's tariff placing new
17 TDSIC rates into effect.

18 **Q: Has Petitioner included Pipeline Safety Operation and Maintenance**
19 **("O&M") expenses within the Compliance Component?**

20 A: Yes. By prior order in Cause No. 44429, Vectren South was authorized to merge
21 its existing Pipeline Safety Adjustment ("PSA") with the Compliance Component
22 of the CSIA and eventually discontinue the PSA filings. All mandated O&M
23 expenses incurred on and after January 1, 2014 are to be deferred and included in
24 the CSIA. (*Vectren South, Cause No. 44429*, Order of November 25, 2013, pages
25 25-26.) As part of the Compliance Component, Petitioner included a total of
26 \$3,090,113 in O&M expenses, which consists of the following: \$1,836,296 for

1 transmission integrity management; \$578,420 for distribution integrity
2 management; \$288,049 for facility damage reduction; \$101,989 for operator
3 qualification; \$30,615 for safety systems management; and \$254,744 of costs
4 from the Vectren South PSA filing in Cause No. 44673. As approved in Cause
5 No. 44429, any remaining over or under recovery variance from the PSA, once
6 discontinued, would be recovered in the Compliance Component of the CSIA.
7 The PSA was discontinued effective December 19, 2016, with an under recovery
8 variance of \$254,744 remaining. As requested by the OUCC in Cause No. 44429,
9 Petitioner submitted supporting documentation for the transmission and
10 distribution integrity management pipeline safety expenses to the OUCC. I
11 reviewed this supporting documentation, and found no errors.

12 **Q: As part of Petitioner's prior PSA filings, were there any compliance filings**
13 **related to pipeline safety and/or infrastructure replacement required?**

14 **A:** Yes. Prior to TDSIC-1, Petitioner was required to file quarterly replacement
15 program filings under Cause No. 44231. In TDSIC-1, Petitioner requested
16 authorization to file the same replacement program compliance filings under the
17 TDSIC tracker case (Cause No. 44429 TDSIC-X), instead of under Cause No.
18 44231, with each April TDSIC filing in order to allow Petitioner to include a full
19 calendar year of information. The OUCC recommended approval of this request,
20 and the Indiana Utility Regulatory Commission ("Commission") granted approval
21 in its final order in Cause No. 44429 TDSIC-1.

1 **Q: Did Petitioner comply with the Commission's order in Cause No. 44429**
2 **TDSIC-1?**

3 A: Yes. As part of this TDSIC-6 filing, Petitioner included the required replacement
4 program filing as Petitioner's Exhibit No. 1, Attachment SAH-7.

B. TDSIC Component

5 **Q: Describe your analysis of Petitioner's TDSIC Component.**

6 A: I performed a comprehensive analysis of the calculations and data flow contained
7 in Petitioner's TDSIC Component schedules, which are contained in Petitioner's
8 Exhibit No. 3, Attachment JCS-3, Schedules 1 through 9. I traced specific data to
9 source documentation provided by Petitioner; recalculated Petitioner's property
10 tax expense, annualized depreciation expense, deferred depreciation expense and
11 PISCC; and verified the pre-tax rate of return.

12 **Q: Is Petitioner proposing any recovery of rural extension costs within this**
13 **TDSIC filing?**

14 A: Yes. Petitioner's workpapers provided to the OUCC show rural extension costs
15 being included for recovery in this filing.

16 **Q: Does the OUCC have any concern with rural extensions being included in**
17 **TDSIC filings for recovery?**

18 A: Yes. Historically, utilities have invested in plant to serve new customers between
19 rate cases. The utility then receives a revenue margin from each new customer
20 through existing rates. These existing rates, and the margin per customer, are set
21 in the utility's last base rate case. When those rates are set in the rate case, they
22 include a return on utility plant investment (rate base), depreciation, O&M
23 expenses, and taxes. When a utility adds a new customer it receives a revenue
24 margin from that customer, which includes a return on investment, depreciation,

1 O&M expenses, and taxes. Essentially, customer growth pays for itself. The
2 utility receives an embedded return on investment, and embedded recovery of
3 depreciation as well as other expenses from each new customer.

4 When a utility receives a revenue margin from new rural extension
5 customers – and *also* receives, through TDSIC rates, a return on the new plant
6 investment, depreciation, O&M expenses, and taxes – then the utility is receiving
7 a double recovery. New customers are paying the revenue margin for new gas
8 service, and all customers are paying the TDSIC rates for the same investment.
9 Therefore, ratepayers are paying two returns on the same investment, double the
10 depreciation expense, and at least incrementally, excess O&M expenses, and
11 taxes.

12 **Q: Is the OUCC recommending a margin credit for rural extension cost**
13 **recovery, as has been recommended in other natural gas TDSIC cases?**

14 **A:** No. The OUCC advocated for a margin credit in the Northern Indiana Public
15 Service Company (“NIPSCO”) TDSIC-1 filing in Cause No. 44403. However,
16 there are differences between Vectren South and NIPSCO’s investments included
17 for cost recovery within the TDSIC mechanism.

18 In Cause No. 44403 TDSIC-1 and TDSIC-3, NIPSCO included one
19 hundred percent (100%) of costs relating to rural extensions in the TDSIC filing
20 for recovery. In this Cause, Vectren South has only included the cost of main
21 extensions in the TDSIC filing for recovery. Vectren South has not included the
22 total investment for services and meters for recovery in the TDSIC filing.
23 Vectren South will retain the incremental non-gas cost revenue from new
24 customers to offset the investments and costs not included in the TDSIC filing.

1 Therefore, no margin credit is needed at this time. The OUCC will continue to
2 review this item with each CSIA filing made by Vectren South. If Vectren South
3 changes its methodology in the future regarding which rural extension costs are
4 included in the CSIA for recovery, the OUCC may suggest a margin credit at that
5 time.

6 **Q: Do the recommendations of OUCC witness Golden affect the TDSIC**
7 **Component rate factor calculations in Petitioner's attachments and**
8 **schedules?**

9 A: No. Mr. Golden's recommendation for a cap on certain TDSIC Component
10 project costs does not affect Petitioner's calculations, schedules, or cost recovery
11 in this TDSIC. The TDSIC projects Mr. Golden addresses have not yet been
12 started, and therefore the proposed caps are not a consideration in the cost
13 recovery for this TDSIC.

14 **Q: Have you determined a need for any adjustments to Petitioner's TDSIC**
15 **Component schedules?**

16 A: No. My review did not find any errors or discrepancies in Petitioner's TDSIC
17 Component schedules.

C. Total Annual Revenue Requirement and Allocation to Customers

18 **Q: Describe your analysis of Petitioner's total revenue requirement and**
19 **allocation to customers.**

20 A: I performed a comprehensive analysis of the total revenue requirement
21 calculation, as shown on Petitioner's Exhibit No. 3, Attachment JCS-1, Schedules
22 1 - 3. I also performed an analysis of Petitioner's revenue requirement allocation
23 and rate derivation, as shown on Petitioner's Exhibit No. 3, Attachment JCS-4,
24 Schedules 1 - 3.

1 **Q: Did Petitioner include any variances in this TDSIC-6 filing?**

2 A: Yes. The TDSIC-6 filing includes actual Compliance and TDSIC costs from July
3 1, 2016 to December 31, 2016. Petitioner's CSIA rates, approved in TDSIC-4,
4 were in effect from July 1, 2016 through December 31, 2016. Therefore, CSIA
5 rates were in place during the reconciliation period of this filing. Petitioner's
6 Exhibit No. 3, Attachment JCS-1, Schedule 2 shows the total variance between
7 actual recoveries during July through December 2016 and approved recoveries
8 from TDSIC-4.

9 **Q: Do you agree with Petitioner's methodology and calculation of the variance**
10 **included for recovery in this Cause?**

11 A: Yes. As shown on Petitioner's Exhibit No. 3, Attachment JCS-1, Schedule 2, a
12 total under-recovery variance of \$395,478 is included in this Cause. I have
13 reviewed Petitioner's calculation, and found no errors.

14 **Q: What are your recommended CSIA factors?**

15 A: I recommend approval of the CSIA factors as shown in Petitioner's Exhibit No. 3,
16 Attachment JCS-4, Schedule 1, as shown below. However, if the Commission
17 accepts Mr. Golden's recommendation of a cap on certain Compliance Projects,
18 these CSIA factors should be revised, and a copy of the revised schedules should
19 be submitted with Petitioner's tariff placing new TDSIC rates into effect.

- 20 • Rate 110: \$7.31 per month;
- 21 • Rate 120/125/129/145: \$0.0599 per therm;
- 22 • Rate 160: \$0.0180 per therm; and
- 23 • Rate 170: \$0.0009 per therm.

III. 20% DEFERRAL OF CALCULATED REVENUE REQUIREMENT

1 **Q: Have you reviewed Petitioner's 20% deferral of calculated revenue**
2 **requirement?**

3 A: Yes. I have reviewed Petitioner's calculation, as found on Petitioner's Exhibit
4 No. 3, Attachment JCS-2, Schedule 1 and Attachment JCS-3, Schedule 1.
5 Petitioner's Exhibit No. 3, Attachment JCS-4, Schedule 3 allocates the 20%
6 deferral to each month of the annual period.

7 **Q: Do you agree with Petitioner's 20% deferral of calculated revenue**
8 **requirement?**

9 A: Yes. I recalculated the 20% deferral and allocation to each month of the annual
10 period, and found no errors.

11 **Q: What is your recommended deferral amount?**

12 A: I recommend deferral of \$2,895,738 in the Compliance Component and \$318,014
13 in the TDSIC Component, as shown on Petitioner's Exhibit No. 3, Attachment
14 JCS-1, Schedule 1. However, if the Commission accepts Mr. Golden's
15 recommendation of a cap on certain Compliance Projects, the 20% deferral
16 amount for the Compliance Component should be revised, and a copy of the
17 revised schedules should be submitted with Petitioner's tariff placing new TDSIC
18 rates into effect.

IV. ADJUSTMENT TO AUTHORIZED NET OPERATING INCOME

19 **Q: Did Petitioner request an adjustment to authorized net operating income for**
20 **the Gas Cost Adjustment ("GCA")?**

21 A: Yes. Petitioner's witness Swiz states on page 18, lines 15-20 of his testimony:

1 In accordance with the Order, Vectren South will adjust its
2 statutory NOI earnings test by increasing its authorized NOI by
3 incremental earnings from approved CSIA filings. This calculates
4 the after-tax return on investment that will be added to the
5 authorized NOI by multiplying the net new capital investment
6 from line 6 of Attachments JCS-2 and JCS-3 Schedule 1 by the
7 after-tax WACC on line 5 of Schedule 4, Page 1.

8 **Q: Do you agree with Petitioner's calculation of the adjustment to authorized**
9 **net operating income for the GCA?**

10 A: Yes. I found no errors in Petitioner's calculation of the adjustment to authorized
11 net operating income for the GCA.

12 **Q: What are your recommended adjustments to authorized net operating**
13 **income for the GCA?**

14 A: I recommend an adjustment to authorized net operating income of \$4,906,782 for
15 the Compliance Component and \$829,384 for the TDSIC Component, as shown
16 on Petitioner's Exhibit No. 3, Attachment JCS-2, Schedule 9 and Attachment
17 JCS-3, Schedule 9. However, if the Commission accepts Mr. Golden's
18 recommendation of a cap on certain Compliance Projects, the adjustment to
19 authorized net operating income for the Compliance Component should be
20 revised, and a copy of the revised schedules should be submitted with Petitioner's
21 tariff placing new TDSIC rates into effect.

V. CONCLUSION

22 **Q: What are your recommendations regarding Vectren South's requested CSIA**
23 **Factors in the current TDSIC-6 filing?**

24 A: I agree with Petitioner's Compliance and TDSIC Component calculations. I
25 recommend approval of Petitioner's proposed CSIA factors as follows:

- 1 • Rate 110: \$7.31 per month;
- 2 • Rate 120/125/129/145: \$0.0599 per therm;
- 3 • Rate 160: \$0.0180 per therm; and
- 4 • Rate 170: \$0.0009 per therm.

5 I recommend deferral of \$2,895,738 in the Compliance Component and
6 \$318,014 in the TDSIC Component. I also recommend an adjustment to
7 authorized net operating income for the GCA of \$4,906,782 for the Compliance
8 Component and \$829,384 for the TDSIC Component.

9 However, if the Commission accepts Mr. Golden's recommendation of a cap
10 on certain Compliance Projects, Petitioner's Compliance Component schedules
11 should be revised, and a copy of the revised schedules should be submitted with
12 Petitioner's tariff placing new TDSIC rates into effect.

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

14 A: Yes.

AFFIRMATION

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

Heather R. Poole

Heather R. Poole
Assistant Director of the
Natural Gas Division
Indiana Office of Utility Consumer Counselor
Cause No. 44429 TDSIC-06
Vectren South

June 5, 2017

Date

APPENDIX TO TESTIMONY OF
OUCC WITNESS HEATHER R. POOLE

1 **Q: Describe your educational background and experience.**

2 A: I graduated from the School of Business at Ball State University in Muncie,
3 Indiana with a Bachelor of Science Degree in Accounting in May 2001 and a
4 Master of Science Degree in Accounting in May 2002. From September 2002
5 through September 2010, I worked for London Witte Group, LLC, a CPA firm in
6 Indianapolis, Indiana, as a Senior Staff Accountant. I prepared and reviewed
7 individual, corporate, not-for-profit, property and payroll tax returns; prepared
8 compilations, reviews and audit reports in compliance with GAAP for a variety of
9 utility companies and not-for-profit organizations; prepared depreciation
10 schedules; and guided clients through year-end accounting processes, including
11 preparation and review of adjusting entries. I prepared and reviewed Gas Cost
12 Adjustment (“GCA”) petitions, as well as annual reports filed with the Indiana
13 Utility Regulatory Commission (“Commission”) for natural gas companies within
14 the State of Indiana. I also prepared rate case exhibits and schedules filed with
15 the Commission on behalf of various gas utility clients.

16 In December 2010, I began my employment with the OUCC as a Utility
17 Analyst II. In October 2012, I was promoted to Senior Utility Analyst. In
18 February 2017, I was promoted to Assistant Director of the Natural Gas Division.
19 My current responsibilities include reviewing and analyzing rate cases filed by
20 Indiana natural gas, electric and water utilities with the Commission. I also
21 review GCAs, special contracts, tariff, financing, certificate of public necessity,

1 pipeline safety adjustment, gas demand side management, alternative regulatory
2 plan, 7-Year Plan, and TDSIC Tracker cases for natural gas utilities.

3 In May 2016, I passed the Certified Public Accountant (“CPA”) Exam,
4 and obtained my CPA license in June 2016. While employed at the OUCC, I
5 completed NARUC’s Utility Rate School hosted by the Institute of Public
6 Utilities at Michigan State University and the Institute of Public Utilities
7 Advanced Regulatory Studies Program at Michigan State University. I am also a
8 member of the Indiana CPA Society.

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

10 A: Yes. I have testified in GCAs, rate cases, TDSIC tracker cases, 7-Year Plan
11 cases, tariff, gas demand side management, and special contract cases involving
12 gas and water utilities. I also provided extensive testimony in the Commission’s
13 investigation into the existing GCA procedures and schedules.

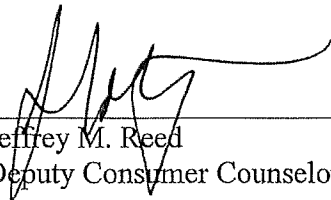
14 **Q: What review and analysis have you conducted to prepare your testimony?**

15 A: I reviewed the petition, testimony, exhibits, and supporting documentation
16 submitted in this Cause. I reviewed the following Commission Orders: Cause No.
17 44429, dated August 27, 2014; Cause No. 44429 TDSIC-1, dated January 14,
18 2015; Cause No. 44429 TDSIC-2, dated September 9, 2015; Cause No. 44429
19 TDSIC-3, dated March 30, 2016; Cause No. 44429 TDSIC-4, dated June 29,
20 2016; and Cause No. 44429 TDSIC-5, dated January 25, 2017.

CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing *Indiana Office of Utility Consumer Counselor's Public's Exhibit No. 1 Testimony of Heather R. Poole* has been served upon the following counsel of record in the captioned proceeding by electronic service on June 6, 2017.

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