FILED
December 20, 2017
INDIANA UTILITY
REGULATORY COMMISSION

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

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

PREFILED DIRECT TESTIMONY
OF
BONNIE J. MANN

ON BEHALF OF

SOUTH EASTERN INDIANA NATURAL GAS COMPANY, INC.

DIRECT TESTIMONY OF BONNIE J. MANN
ON BEHALF OF SOUTH EASTERN INDIANA NATURAL GAS COMPANY, INC.

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

A. My name is Bonnie J. Mann; my business address is 1776 N. Meridian, Suite 500, Indianapolis, Indiana 46202.

Q.2. MS. MANN, WHAT IS YOUR OCCUPATION?

A. I am a Certified Public Accountant with LWG CPAs and Advisors, an accounting firm which specializes in utility regulation before the Indiana Utility Regulatory Commission.

Q.3. WOULD YOU PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL QUALIFICATIONS, WHICH YOU BELIEVE MIGHT BE RELEVANT TO THE PRE-FILEDTESTIMONY AND ORAL OPINIONS YOU OFFER?

A. I am a 1987 graduate of Butler University where I earned a Bachelor of Science Degree in business, with a concentration in accounting. Following graduation, I was employed by the international accounting firm of Peat Marwick, where I performed financial and operational audits for a variety of clients. Since September 1988, I have been employed by the firm now known as LWG CPAs and Advisors ("LWG"), a firm specializing in various financial matters including utility regulation on behalf of not for profit utilities, municipalities, investor-owned utilities, and intervenors before the Indiana Utility Regulatory Commission. I am currently a Principal with LWG concentrating in the utilities area.

Q.4. WHAT ARE YOUR RELEVANT PROFESSIONAL AFFILIATIONS?

A. I am a member of the American Institute of Certified Public Accountants (AICPA), and the Indiana CPA Society (INCPAS), for which I have served as a chair of its Utilities

Committee.

Q.5. ON WHOSE BEHALF ARE YOU APPEARING IN THIS CAUSE?

A. I am appearing on behalf of the Petitioner, South Eastern Indiana Natural Gas, Inc.

Q.6. MS. MANN, HAVE YOU PREVIOUSLY TESTIFIED ON BEHALF OF THIS PETITIONER IN BASE RATE PROCEEDINGS?

A. Yes.

Q.7. PLEASE SUMMARIZE THE SCOPE OF YOUR WORK FOR THE PETITIONER IN THIS CASE.

A. Having worked with this Petitioner previously and for numerous other small gas utilities, I along with my colleagues at LWG were requested by the Petitioner to review its financial records in order to form an opinion as to the appropriate level of revenues required to recover the Company's current cost of service; to advise the management on various adjustments that should be made in this base rate case; and to prepare Testimony and Exhibits on the Petitioner's behalf for presentation before the IURC supporting Petitioner's request to increase its rates and charges.

Q.8. CAN YOU IDENTIFY YOUR PREFILED EXHIBITS?

A. Yes. I have attached as Exhibit BJM-1 accounting schedules which include the technical exhibits and schedules supporting an increase in Petitioner's current base rates.

Q.9. PLEASE EXPLAIN WHAT IS INCLUDED IN EXHIBITS A AND B OF EXHIBIT BJM-1.

A. Exhibits A and B show the Comparative Balance Sheets and Statements of Net Income, respectively, for the Petitioner. This historical information is presented as of March 31, 2017 and 2016. The twelve months ended March 31, 2017, is the test year proposed by the Petitioner initiating this Cause. The books and records of Petitioner are kept in

accordance with the uniform system of accounts for a gas utility. They are the representations of the management of the Petitioner, and are the starting point for our fixed, known and measurable accounting adjustments. Schedules A-1, B-1 and B-2 are the supporting details for the major Balance Sheet and Statement of Income elements, respectively. The historical accounting books and records have been adjusted for fixed, known and measurable changes that will occur by March 31, 2017. Additionally, Petitioner will use a cutoff of March 31, 2017 for rate base as described further below.

Q.10. PLEASE DESCRIBE THE ADJUSTMENTS CONTAINED IN SCHEDULE C-1 OF EXHIBIT BJM-1.

A. **Adjustment Nos. 1, through 6,** are comprised of several adjustments to Operating Revenues and Expenses.

Adjustment No. 1 which adjusts sales revenue is comprised of two (2) separate adjustments totaling ($516,897) as follows:

a) Elimination of ($505,763) in net Gas Cost Adjustment (GCA) revenues recorded during the test year ended March 31, 2017.

b) Decrease in sales revenues of ($11,134) due to use of the most recent NOAA 30-year averages in the calculation of the Normal Temperature Adjustment ("NTA").

Adjustment No. 2 which adjusts the natural gas purchased as follows:

Decrease of ($522,928) in Natural Gas Purchased.

Adjustment No. 3 adjusts "Operation and Maintenance" expense and consists of multiple adjustments totaling $68,034 as follows:

a) Increase in payroll expenses of $48,177 which reflects the cost of salaries and wages for Petitioner's employees that are included in operations and maintenance expenses. Payroll has been annualized for the test year and increased by the estimated increase in

wages for all employees, less the amount of salaries and wages that would be capitalized based on historical experience.

b) Increase in pension contribution made on behalf of employees of $4,818. This is based on the Pro Forma salaries calculated for the payroll adjustment, as described for adjustment due to Petitioner's continued funding of pensions at 10.00% of salaries and wages.

c) Increase in Employer's 401k contribution of $1,407. The company offers a match of 50% up to the first 6% of contributions made by each employee. The increase is calculated using the contribution percentages for each employee during the test year.

d) Increase in the amortization expense for the rate case of $ 9,292.

e) Decrease in IURC fee of ($406) to reflect the current IURC rate on the applicable Pro-Forma Present Rate Revenues.

f) Increase in insurance expenses to reflect the changes in the cost of property, worker's compensation, casualty and general liability insurance of $8,296.

g) Decrease in insurance expense of ($7,711) for health, life and dental insurance. This decrease is for the annualizing of expenses based on the most recent invoices received.

h) Increase in recurring annual accounting expenses of $7,150 to annualize accounting services for the test year.

i) Decrease in expenses for energy efficiency related to the NTA order of ($3,100).

j) Increase in postage expense of $283 to reflect increase of postage costs.

k) Decrease in expenses for charitable contributions and lobbying fees of ($2,510).

l) Increase in expenses of $1,411 for bad debts. The adjustment is based on the three-year average using the fiscal year end as of March 31. This reporting period and averaging provides a reasonable estimate of the Petitioner's bad debt expense going forward.

m) Increase in recurring annual legal expenses of $437 for GCAs and flex filings.

n) An increase to operating expense of $490 related to the Energy Efficiency Program created by Cause No. 43995 in which Petitioner participated and has been working with the OUCC to wind up.

Adjustment 4 reflects the increase in the Pro-Forma "Depreciation and Amortization Expense" for the Utility Plant-In-Service as of March 31, 2017. This adjustment uses 3% depreciation for distribution plant; 20% depreciation for transportation and computer equipment; and 10% depreciation for all other equipment. These are the same depreciation rates the Petitioner was approved to use during its last rate proceeding. Additionally the value of the utility plant in service has been reduced by fully depreciated assets as of March 31, 2017. This results in an increase in Depreciation of $11,631.

Adjustment 5 adjusts "Taxes Other Than Income Taxes" expense and consists of three (3) different adjustments totaling ($5,848) as follows:

a) Increase of $3,686 to for changes in payroll taxes due to the changes in the payroll tax adjustment.

b) Decrease of ($2,266) to annualize the property tax for utility plant as of March 31, 2017 based on the marginal property tax rate paid by Petitioner during the test year.

c) Decrease of ($7,268) to adjust utility receipts tax based on Pro-Forma present revenues.

Adjustment 6 adjusts income tax expense and consists of two (2) different adjustments totaling ($122,143) as follows:

a) Decrease in State Income Taxes of ($16,586) using the current State Income Tax rate of 6.00%. This tax rate went into effect as of July 31, 2017.

b) Decrease in Federal Income Taxes by ($105,557) including synchronized interest.

Q.11. PLEASE DESCRIBE THE ADJUSTMENTS PRESENTED IN SCHEUDLE C-2 AND SCHEDULE C-3 OF EXHIBIT BJM-1.

A. **Schedule C- 2** reflects adjustments for increase in revenue, and increases in expenses and taxes that are correlated with the increase in revenues.

Adjustment A of Schedule C-2, reflects the projected proposed increase in annual revenue of $329,542.

Adjustment B reflects the application of the current IURC fee to the increase in annual revenue resulting in an adjustment of $441.

Adjustment C applies the bad debt rate calculated used in Schedule C-1 to the increased annual revenue requirement reflecting an adjustment of $1,406.

Adjustment D reflects the application of Utility Receipts Taxes to the increase in annual revenue resulting in an adjustment of $4,594.

Adjustment E adjusts income taxes to the increase in annual revenue and consists of two (2) different adjustments totaling $122,831 as follows:

a) State Income Taxes of $19,662.

b) Federal Income Taxes of $103,169.

Schedule C-3 is the calculation of overall revenues on which the proposed rate increase is based. GCA revenue (adjusted for Utility Receipt Tax) has been added to present rate revenue to calculate the Pro-Forma rate increase on average.

Q.12. WHAT IS EXHIBIT D?

A. Exhibit D is the calculation of Original Cost Rate Base. It is comprised of several components.

Q.13. WHAT ARE THOSE COMPONENTS?

A. The major component is Utility Plant-in-Service as of March 31, 2017, of $4,278,553.

This Exhibit also references the subtraction of accumulated depreciation of $2,296,008 as of March 31, 2017. This results in the Net Utility Plant in Service of $1,982,545. To the Net Utility Plant-in-Service, we have added working capital in the amount of $117,697 using the FERC 45-day working capital formula, which has been accepted for gas utilities the size of Petitioner in lieu of performing a cash lead-lag study. Additionally, we have included the 13-month average of material and supplies in the amount of $18,352. The total original cost rate base included in these exhibits is $2,118,594.

Q.14. WHAT IS EXHIBIT E?

A. Exhibit E reflects the capital structure of the Petitioner. Petitioner's capital structure includes common equity, existing long-term debt, customer deposits, and deferred taxes.

Q.15. IN YOUR OPINION, WHAT INCREASE IN REVENUE SHOULD THE COMMISSION AUTHORIZE FOR THE PETITIONER?

A. Based upon Exhibit C, the increase in operating revenue should be $329,542 which is an overall increase of 20.00% of Pro-Forma present rate revenue as reflected on my Exhibit BJM-1 (Exhibit C-1).

Q.16. MS. MANN WOULD YOU GO BACK TO YOUR ACCOUNTING SCHEDULES ON EXHIBIT BJM-1 AND EXPLAIN THE ADJUSTMENT RELATED TO THE NTA?

A. Adjustment 1b (NTA) – Petitioner's current temperature normalization adjustment tariff is based upon heating degree day normals from 1971-2000. At the time of the Petitioner's last rate case in 2012, the National Oceanic and Atmospheric Administration (NOAA) had not issued the heating degree day normals for 1981-2010 (new normals) and therefore, this tariff was unable to be updated at that time. However, new heating degree normals have now been established by NOAA. I have used those new normals to

recalculate the test year revenue once the Normal Temperature Adjustment (NTA) used by this Petitioner is applied.

Because the NTA is applied to each heating customer on an individual basis, the time necessary to recalculate each customer's bill by hand using the new normals for the test year is prohibitive, and ultimately would not be a more accurate estimate in helping establish the revenue requirement. For this calculation total customer volumes by class were weather normalized using both the 1971-2000 NOAA averages and the 1981-2010 NOAA averages. The difference in volumes for each customer class was multiplied by the applicable block rate for each class and the resulting revenues totaled. This has resulted in an adjustment to test year operating revenues of ($11,134) due to the new normals which are overall warmer than the previous values.

Q.17. WHY DID YOU MAKE ADJUSTMENT 2 TO PETITIONER'S TEST YEAR?

A. Adjustment 2 (Natural Gas Purchased) – This is an adjustment of ($522,928) decreasing purchased gas to reflect only the cost of unaccounted for gas. During the test year the unaccounted for cost of gas percentage as calculated on the Petitioner's schedule 11 of its GCA filings was -2.07%. Because it was negative, Petitioner has set its unaccounted for gas in base rates at 0%. Thus, this adjustment appropriately removes all gas costs from base rates.

Q.18. WHAT ADJUSTMENT DID YOU MAKE FOR RATE CASE EXPENSE?

A. Adjustment 3d is the adjustment I've made for rate case expense. This is an increase in the amortization expense for the rate case expense of $6,532. The estimated rate case expense is $230,000, with an additional $2,500 for mailing notice to customers. This amount is slightly higher than the amount requested by Petitioner in its last base rate case, but that last case was filed five years ago. In this adjustment, Petitioner is proposing a

five year amortization period to recognize it has been five years since its last base rate case.

Q.19. WHAT IS ADJUSTMENT 3i?

A. Adjustment 3i is a decrease in operation and maintenance expense for the elimination of energy efficiency rebates to customers under the NTA agreement of ($3,100). This is the amount of rebates ordered by the IURC in Cause No. 43109. The approach I used in this adjustment is consistent with similar adjustments I proposed for other recent natural gas base rate cases.

Q.20. WHAT IS ADJUSTMENT 3n?

A. The adjustment rebate to existing rate revenue associated with the Energy Efficiency Program. This is a net increase in operating expenses of $490 created by two components. The first is a decrease of ($2,760) for the removal of amortization by certain costs flowing from Cause No. 43995. In Petitioner's last rate case, Cause No. 44218, Petitioner began to include recovery of costs incurred by Petitioner for its participation in Cause No. 43995. That recovery was granted through an amortization of those costs over 5 years. That amortization period has now ended. The second component is the recovery of additional costs incurred associated with the Energy Efficiency program of $3,250. This amount is the same as was approved in Petitioner's last rate case, Cause No. 44218. Since the last rate case the regulatory costs associated with the Energy Efficiency Program were higher than anticipated during Cause No. 44218 and Petitioner has not recovered all of those costs. Similar to the Commission's Order for Midwest Natural Gas Cause No. 44880, I am proposing that Petitioner continue to include recovery of these costs in its revenue requirement until such time as the program has been wrapped up and all costs have been recovered and reconciled.

Q.21. MS. MANN HAVING REVIEWED PETITIONER'S BOOKS AND RECORDS FOR THE TEST YEAR WHAT CONCLUSIONS DID YOU REACH?

A. South Eastern Indiana Natural Gas, Inc. is not earning its authorized return on rate base approved in its last rate case. Our last rate case was filed in 2012, based on a test year ending July 31, 2011. Since that time, its costs of operating this utility have increased. Increases in its rates will assist Petitioner to cover all of its current operation expenses in order to continue to provide reasonable service to its customers and provide Petitioner with the opportunity of earning a reasonable return on its investments.

Q.22 MS. MANN, ON THE BASIS OF YOUR ANALYSIS, WHAT NET OPERATING INCOME SHOULD THIS PETITIONER BE AUTHORIZED AN OPPORTUNITY TO EARN?

A. I believe this Petitioner should be authorized the opportunity to earn $152,326 annually in net operating income.

Q.23. IF THIS COMMISSION AUTHORIZED A NET OPERATING INCOME OF $152,326, WHAT IS THE OVERALL RATE OF RETURN ON PETITIONER'S USED AND USEFUL PLANT?

A. A Net Operating Income of $152,326 would result in a 7.19% overall return on Petitioner's original cost rate base as of March 31, 2017. The components comprising the overall return are detailed on Exhibit E.

Q.24. MS. MANN, HOW WILL THIS PROPOSED INCREASE BE ASSIGNED TO EACH CUSTOMER CLASS?

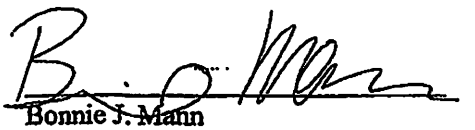
A. The overall increase will be allocated based on a cost of service study performed by Kerry Heid, who is also a witness in this proceeding.

Q.25. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes it does.

VERIFICATION

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



Bonnie J. Mann

CERTIFICATE OF SERVICE

The undersigned certifies that a copy of the foregoing has been served upon the following counsel of record by electronic mail this 20th day of December, 2017:

Indiana Office of Utility Consumer Counselor
115 West Washington Street, Suite 1500S
Indianapolis, IN 46204
infomgt@oucc.in.gov

L. Parvin Price

EXHIBIT BJM-1

EXHIBIT A

SOUTH EASTERN INDIANA NATURAL GAS CO., INC.
MILAN, IN

BALANCE SHEETS
March 31, 2017 and 2016

	2017	2016
ASSETS		
UTILITY PLANT IN SERVICE		
Gas plant in service	$ 3,838,571	$ 3,734,085
General plant	439,982	434,879
Accumulated depreciation	(2,296,008)	(2,187,542)
Net utility plant in service	1,982,545	1,981,422
CURRENT ASSETS		
Cash	615,606	729,213
Accounts receivable	139,577	185,874
Recoverable gas costs	31,915	(30,242)
Materials & supplies	19,336	19,221
Prepaid expenses and other current assets	39,140	99,236
Total current assets	845,574	1,003,302
Total assets	$ 2,828,119	$ 2,984,724
LIABILITIES AND SHAREHOLDERS' EQUITY		
SHAREHOLDERS' EQUITY		
Common stock	$ 162,400	$ 162,400
Retained earnings	1,146,853	1,364,627
Total shareholders' equity	1,309,253	1,527,027
CURRENT LIABILITIES		
Accounts payable	446,595	354,429
Customer deposits	129,725	140,300
Accrued expenses	154,109	158,524
Current portion of note payable	27,078	59,622
Total current liabilities	757,507	712,875
NOTE PAYABLE - LESS CURRENT PORTION	250,000	250,000
DEFERRED INCOME TAXES	511,359	494,822
Total liabilities and shareholders' equity	$ 2,828,119	$ 2,984,724

SCHEDULE A-1

SOUTH EASTERN INDIANA NATURAL GAS CO., INC.
MILAN, IN

DETAIL OF UTILITY PLANT-IN-SERVICE
March 31, 2017 and 2016

	2017	2016
Utility Plant in Service		
Distribution Plant		
Mains	$ 1,985,571	$ 1,946,661
Reg. stations equipment	35,888	35,697
Services	1,261,915	1,212,967
Meters	381,854	365,417
New meter installations	116,657	116,657
House reg/install	47,327	47,327
Land	9,359	9,359
Total distribution plant	3,838,571	3,734,085
General Plant		
Land	50,000	50,000
Structures and improvements	178,843	174,122
Office furniture and equipment	10,194	10,194
Transportation equipment	87,320	87,320
Tools & shop equipment	19,062	19,062
Power operated equipment	58,119	58,119
Communication equipment	15,815	15,815
Miscellaneous equipment	3,433	3,433
Computer equipment	17,196	16,814
Total general plant	439,982	434,879
Total utility plant in service	$ 4,278,553	$ 4,168,964

EXHIBIT B

SOUTH EASTERN INDIANA NATURAL GAS CO., INC.
MILAN, IN

COMPARATIVE STATEMENTS OF NET INCOME
For the Twelve Months Ended March 31, 2017 and 2016

	2017	2016
Operating Revenues		
Gas sales	$ 1,532,540	$ 1,645,668
Other gas revenues	41,816	44,065
Total operating revenues	1,574,356	1,689,733
Operating Expenses		
Natural gas purchased	522,928	617,078
Distribution expense	193,435	168,191
Customer accounts expense	120,889	119,752
Administrative and general expense	559,216	507,052
Depreciation	108,466	108,928
Taxes other than income taxes	91,199	79,136
Income taxes	80,524	(30,826)
Total operating expenses	1,676,657	1,569,311
Net operating income	(102,301)	120,422
Other Income and Expense - Net		
Interest income	1,278	1,129
Interest expense	(19,167)	(25,272)
All other income, net	13,356	8,728
Total other income and expense - net	(4,533)	(15,415)
Net income	$ (106,834)	$ 105,007

SCHEDULE B-1

SOUTH EASTERN INDIANA NATURAL GAS CO., INC.
MILAN, IN

COMPARATIVE DETAIL OF OPERATING REVENUES
For the Twelve Months Ended March 31, 2017 and 2016

	2017	2016
Operating Revenues		
Gas sales		
Residential	$ 964,392	$ 1,023,765
Commercial	568,148	621,903
Total gas sales	1,532,540	1,645,668
Other gas revenues		
Other utility revenue	41,816	44,065
Total operating revenues	$ 1,574,356	$ 1,689,733

SOUTH EASTERN INDIANA NATURAL GAS CO., INC.
MILAN, IN

COMPARATIVE DETAIL OF OPERATING EXPENSES
For the Twelve Months Ended March 31, 2017 and 2016

	2017	2016
Operating Expenses		
Natural gas purchased		
Natural gas purchases	$ 585,085	$ 598,076
Purchased gas adjustments	(62,157)	19,002
Total natural gas purchased	522,928	617,078
Distribution expense		
Supervision	105,390	75,819
Mains & service expense	31,727	26,134
Meter & regulator expense	25,796	20,803
Customer installation expense	1,782	2,903
Miscellaneous expense	1,351	4,225
Maintenance of mains	16,908	27,033
Maintenance of reg. station equip.	1,366	836
Maintenance of services	2,903	3,079
Maintenance - other plant	6,212	7,359
Total distribution expense	193,435	168,191
Customer accounts expenses		
Meter reading labor	11,050	12,106
Accounting/collection labor	95,065	94,874
Uncollectible accounts	5,126	6,068
Bad debt recovery	(6,336)	(6,131)
Vacation/holiday	15,984	12,835
Total customer accounts expenses	120,889	119,752

SOUTH EASTERN INDIANA NATURAL GAS CO., INC.
MILAN, IN

COMPARATIVE DETAIL OF OPERATING EXPENSES
For the Twelve Months Ended March 31, 2017 and 2016

	2017	2016
Administrative & general expenses		
Administrative & general salaries	249,417	225,400
Office supplies & expense	782	1,656
Telephone	3,419	3,042
Utilities	1,696	1,650
Membership/dues	3,200	1,868
Publications	240	120
Uniforms	2,344	1,884
Customer energy rebates	4,525	2,797
Court costs	-	-
Postage, printing, & stationary	17,225	11,851
Contributions	625	1,103
Payroll transferred	(57,016)	(32,858)
Outside services	81,524	88,464
Property insurance	26,864	14,355
Employee benefits/pension	135,456	102,890
Regulatory commission expense	2,668	2,177
Rate case amortization	39,968	39,968
Directors expense	24,000	24,000
Miscellaneous expense	10,676	5,345
Miscellaneous expense - scholarship	1,000	-
Rent expense	-	325
Transportation expense	10,603	11,015
Total administrative & general expenses	559,216	507,052

SOUTH EASTERN INDIANA NATURAL GAS CO., INC.
MILAN, IN

COMPARATIVE DETAIL OF OPERATING EXPENSES
For the Twelve Months Ended March 31, 2017 and 2016

	2017	2016
Depreciation expense		
Depreciation - plant	95,991	94,570
Depreciation - general	12,475	14,358
Total depreciation expense	108,466	108,928
Taxes other than income taxes		
Property taxes	25,150	14,886
Utility receipts tax	21,967	23,481
FICA tax-company share	43,194	40,273
Federal unemployment	412	112
State unemployment	476	384
Total taxes other than income taxes	91,199	79,136
Income Taxes		
Federal income taxes	53,189	37,065
Deferred income taxes	16,537	(64,033)
Indiana supplemental tax	10,798	(3,858)
Total income taxes	80,524	(30,826)
Total operating expenses	$ 1,676,657	$ 1,569,311

EXHIBIT C

SOUTH EASTERN INDIANA NATURAL GAS CO., INC.
MILAN, IN

Pro-Forma Operating Income Statement
At Pro-Forma Present and Proposed Rates
For the Twelve Months Ended March 31, 2017

Increase Required: 20.00%

	March 2017	Adjustments	Ref	Pro-Forma Present Rates	Adjustments	Ref	Pro-Forma Proposed Rates
Operating Revenues							
Gas sales	$ 1,532,540	$ (516,897)	(1)	$ 1,015,643	$329,542	(A)	$ 1,345,185
Other gas revenues	41,816			41,816			41,816
Total operating revenues	1,574,356	(516,897)		1,057,459	329,542		1,387,001
Operating Expenses							
Natural gas purchased	522,928	(522,928)	(2)	-			-
Other operation & maintenance	873,540	68,034	(3)	941,574	1,847	(B & C)	943,421
Depreciation	108,466	11,631	(4)	120,097			120,097
Taxes other than income taxes	91,199	(5,848)	(5)	85,351	4,594	(D)	89,945
Income taxes	80,524	(122,143)	(6)	(41,619)	122,831	(E)	81,212
Total operating expenses	1,676,657	(571,254)		1,105,403	129,272		1,234,675
Net operating income	$ (102,301)	$ 54,357		$ (47,944)	$ 200,271		$ 152,326

SOUTH EASTERN INDIANA NATURAL GAS CO., INC.
MILAN, IN

DETAIL OF PRO-FORMA PRESENT RATE ADJUSTMENTS

(1) REVENUE ADJUSTMENTS

	(a)	
To adjust operating revenues to eliminate GCA revenue included in the test year.		$ (505,763)
	(b)	
To adjust operating revenues to move to new NOAA averages for NTA.		$ (11,134)
Total adjustment to operating revenues - increase / (decrease)		$ (516,897)

SOUTH EASTERN INDIANA NATURAL GAS CO., INC.
MILAN, IN

DETAIL OF PRO-FORMA PRESENT RATE ADJUSTMENTS

(2) NATURAL GAS PURCHASED ADJUSTMENT

To adjust natural gas purchased to eliminate the cost of natural gas purchased from base rates.

Sales - Dth	167,463	
Unaccounted for gas percentage	0.00%	
Pro-Forma purchased gas	-	
Estimated cost of purchased gas (Schedule C-3)	$ 3.78	
Pro-Forma cost of gas		-
Less: test year purchased gas		522,928
Increase / (decrease) in natural gas purchased		$ (522,928)

SOUTH EASTERN INDIANA NATURAL GAS CO., INC.
MILAN, IN

DETAIL OF PRO-FORMA PRESENT RATE ADJUSTMENTS

(3) OPERATION AND MAINTENANCE EXPENSE ADJUSTMENTS

(a)

To adjust other operation and maintenance expense for the annualization of payroll and wage increases, net of amount capitalized.

Pro-Forma payroll	$ 646,862	
Less: Capitalized payroll	(35,438)	
Pro-Forma payroll expense	611,424	
Test year payroll expense	563,247	
Payroll adjustment - increase / (decrease)		$ 48,177

(b)

To adjust other operations and maintenance expense for pension contribution made on behalf of employees.

Payroll adjustment from 3(a)	$ 48,177	
Test year pension contribution rate	10.00%	
Pension expense adjustment - increase / (decrease)		$ 4,818

(c)

To adjust other operations and maintenance expense for employer's 401(k) contribution.

Pro-Forma employer 401(k) contribution	$ 17,350	
Test year 401(k) contribution	15,943	
Employer 401(k) expense adjustment - increase / (decrease)		$ 1,407

(d)

To adjust other operation and maintenance expense for the amortization of rate case expense.

Estimated cost of rate case filing	$ 230,000	
Estimated cost of mailing notice to customers	2,500	
Total estimated cost	232,500	
Amortization period - years	5	
Annual amortization	46,500	
Test year amortization	37,208	
Adjustment - increase / (decrease)		$ 9,292

SOUTH EASTERN INDIANA NATURAL GAS CO., INC.
MILAN, IN

DETAIL OF PRO-FORMA PRESENT RATE ADJUSTMENTS

(3) OPERATION AND MAINTENANCE EXPENSE ADJUSTMENTS (continued)

(e)

To adjust other operation and maintenance expense to reflect current IURC fee.

Applicable revenues at present rates including GCA revenue	$ 1,689,900	
Current IURC rate	0.001338381	
Pro-Forma IURC fee at present rates	2,262	
Less: Test year IURC fee	2,668	
Adjustment - increase		$ (406)

(f)

To adjust other operations and maintenance expense for property, worker's compensation, casualty and general liability insurance.

Pro-Forma insurance expense	$ 35,160	
Less: Test year insurance expense	26,864	
Adjustment - increase / (decrease)		$ 8,296

(g)

To adjust other operations and maintenance expense for the increase of health, life and dental insurance.

Pro-Forma insurance expense	$ 61,022	
Less: Test year insurance expense	68,733	
Adjustment - increase / (decrease)		$ (7,711)

(h)

To adjust other operations and maintenance expense to increase recurring accounting expenses.

Pro-Forma recurring accounting expense	$ 30,000	
Less: Test year accounting expense	22,850	
Adjustment - increase / (decrease)		$ 7,150

(i)

To adjust other operations and maintenance expense for energy efficiency from NTA order. $ (3,100)

(j)

To adjust other operations and maintenance expense to increase in postage expense. $ 283

SOUTH EASTERN INDIANA NATURAL GAS CO., INC.
MILAN, IN

DETAIL OF PRO-FORMA PRESENT RATE ADJUSTMENTS

(3) OPERATION AND MAINTENANCE EXPENSE ADJUSTMENTS (continued)

(k)

To adjust other operations and maintenance expense for charitable contributions.

Charitable contributions	$ 625	
Ripley County Community Foundation	1,000	
Indiana Energy Association	885	
Adjustment - increase / (decrease)		$ (2,510)

(l)

To adjust other operations and maintenance expense for bad debts.

Actual bad debt write-offs as of March 31			
2017	$ 5,126		
2016	6,068		
2015	8,418		
3 year average		$ 6,537	
Test year		5,126	
Adjustment - increase / (decrease)			$ 1,411

(m)

To adjust other operations and maintenance expense for increase in recurring legal fees.

Pro-Forma recurring legal expense	$ 14,400	
Test year	13,964	
Adjustment - increase / (decrease)		$ 437

(n)

To adjust other operations and maintenance expense for costs related to the Energy Efficiency Program

Removal of amortization for costs associated with Cause No. 43995 ARP proceeding	$ (2,760)	
Recovery of past and on-going regulatory cost of the energy efficiency program as approved in Cause 44218	3,250	
Adjustment - increase / (decrease)		$ 490
Total adjustment to other operations and maintenance expense - increase / (decrease)		$ 68,034

SOUTH EASTERN INDIANA NATURAL GAS CO., INC.
MILAN, IN

DETAIL OF PRO-FORMA PRESENT RATE ADJUSTMENTS

(4) DEPRECIATION EXPENSE ADJUSTMENT

To adjust depreciation expense to reflect current plant in service.

Total Utility Plant in Service @ 3/31/17		$ 4,278,553		
Less:				
Land	59,359			
Transportation equipment	87,320			
Office furniture & fixtures	10,194			
Tools & shop equipment	19,062			
Power operated equipment	58,119			
Communication equipment	15,815			
Miscellaneous equipment	3,433			
Structures equipment	178,843			
Computer equipment	17,196			
Less: Non-Distribution rate plant		(449,341)		
Less: Fully depreciated		(644,167)		
Distribution rate plant		3,185,045		
Depreciation rate		3%		
Pro-Forma depreciation expense @ 3%			$	95,551
Transportation equipment	87,320			
Computer equipment	17,196			
Total 20% equipment		104,516		
Less: Fully depreciated		(104,070)		
Depreciable transportation and computer equipment		446		
Depreciation rate		20%		
Pro-Forma depreciation expense @ 20%				89
Office furniture & fixtures	10,194			
Tools & shop equipment	19,062			
Power operated equipment	58,119			
Communication equipment	15,815			
Miscellaneous equipment	3,433			
Structures equipment	178,843			
Total 10% equipment		285,466		
Less: Fully depreciated		(40,900)		
Depreciable 10% equipment		244,566		
Depreciation rate		10%		
Pro-Forma depreciation expense @ 10%				24,457
Total pro-forma depreciation expense				120,097
Less: Test year depreciation expense				108,466
Adjustment - increase / (decrease) in depreciation expense				$ 11,631

SOUTH EASTERN INDIANA NATURAL GAS CO., INC.
MILAN, IN

DETAIL OF PRO-FORMA PRESENT RATE ADJUSTMENTS

(5) TAXES OTHER THAN INCOME TAX ADJUSTMENTS

(a)

To adjust taxes other than income taxes for increase in FICA and SUTA taxes due to payroll increase

Payroll wage increase subject to FICA limits	$ 48,177	
FICA tax rate	7.65%	
Adjustment - increase / (decrease) in FICA taxes		$ 3,686

(b)

To adjust taxes other than income taxes for increased cost of property taxes based on current utility plant in service

Total taxes paid 2017 - 2016	$ 22,982	
Utility plant in service for property taxes (December 31, 2016)	1,990,970	
Effective property tax rate	1.15%	
Current utility plant in service	1,982,545	
Pro Forma property tax payment	22,885	
Test year property tax expense	25,150	
Adjustment - increase / (decrease) in property tax expense		$ (2,266)

(c)

To adjust taxes other than income taxes to reflect changes in applicable revenues for utility receipts tax

Utility Receipts	$ 1,057,459		
Less: Exemptions	1,000		
Bad Debts	6,537		
Utility receipts subject to utility receipts tax	1,049,922		
Applicable utility receipts tax rate	1.40%		
Pro-Forma at present rates		14,699	
Less: test year expense		21,967	
Adjustment - increase / (decrease) in state utility receipt tax expense			$ (7,268)

Adjustment - increase / (decrease) in taxes other than income taxes	$ (5,848)

SOUTH EASTERN INDIANA NATURAL GAS CO., INC.
MILAN, IN

DETAIL OF PRO-FORMA PRESENT RATE ADJUSTMENTS

(6) INCOME TAX ADJUSTMENTS

To adjust income taxes to reflect changes in revenues and expenses

(a)

State Income Tax:

Net operating income and state tax	$ (89,563)		
Plus: utility receipts tax	14,699		
Less: synchronized interest	(21,610)		
	(96,474)		
Applicable state income tax rate	6.00%		
Pro-Forma at present rates		(5,788)	
Less: test year expense		(10,798)	
Adjustment - increase / (decrease) in state income tax expense			$ (16,586)

(b)

Federal Income Tax:

Net operating income before federal and state income tax		$ (89,563)	
Less:			
Synchronized interest		21,610	
Adjusted state income tax		(5,788)	
Federal taxable income		(105,385)	
Federal taxable rate		34%	
Adjusted federal income tax expense			(35,831)
Less: test year federal income tax			(69,726)
Adjustment - increase / (decrease) in federal income tax expense			$ (105,557)
Adjustment - increase / (decrease) income taxes			$ (122,143)

SOUTH EASTERN INDIANA NATURAL GAS CO., INC.
MILAN, IN

DETAIL OF PRO-FORMA PROPOSED RATE ADJUSTMENTS

(A)
To adjust operating revenues to reflect proposed revenue increase.

Proforma sales of gas at present rates - schedule C-3	$ 1,648,084	
Requested rate increase	20.000%	
Adjustment - increase / (decrease)		$ 329,542

(B)
To adjust other operation and maintenance expense to reflect increase in IURC fee.

Proposed revenue increase	$ 329,542	
Current effective IURC fee rate	0.13383810%	
Adjustment - increase / (decrease)		441

(C)
To adjust other operations and maintenance expense to reflect the increase in bad debts.

Proposed revenue increase	$ 329,542	
Current effective rate	0.004265	
Adjustment - increase / (decrease)		1,406
Total adjustment - increase / (decrease)		$ 1,847

SOUTH EASTERN INDIANA NATURAL GAS CO., INC.
MILAN, IN

DETAIL OF PRO-FORMA PROPOSED RATE ADJUSTMENTS

(D)

To adjust taxes other than income taxes to reflect pro-forma changes in revenues and expenses.

Utility Receipts Tax

Proposed revenue increase	$ 329,542	
Less: Increase in bad debts	1,406	
	328,136	
Applicable utility receipts tax rate	1.40%	
Adjustment - increase / (decrease)		$ 4,594

(E)

To adjust income taxes to reflect pro-forma changes in revenue and expenses.

State Income Tax:

Proposed revenue increase	$ 329,542	
Less: Increase in IURC fee	(441)	
Increase in bad debts	(1,406)	
Taxable increase	327,695	
Applicable income tax rate	6.00%	
Adjustment - increase		$ 19,662

Federal Income Tax:

Proposed revenue increase	$ 329,542	
Less: Increase in IURC fee	(441)	
Increase in utility receipts tax	(4,594)	
Increase in bad debts	(1,406)	
Increase in state income tax	(19,662)	
Federal taxable income increase	303,439	
Applicable tax rate	34%	
Adjustment - increase		$ 103,169
Total increase / (decrease) to income taxes		$ 122,831

SCHEDULE C-3

SOUTH EASTERN INDIANA NATURAL GAS CO., INC.
MILAN, IN

TOTAL BILLED REVENUE CALCULATION

Estimated volume of gas purchased - DTH		167,463
Estimated base cost of gas for GCA	$	3.7766
Estimated cost of gas to be included in revenues	$	632,441
Pro-Forma present rate gas sales revenue		1,015,643
Total revenue including gas costs		1,648,084
Requested percentage increase		20.00%
Revenue adjustment requested		$329,542

EXHIBIT D

SOUTH EASTERN INDIANA NATURAL GAS CO., INC.
MILAN, IN

ORIGINAL COST RATE BASE

Utility plant in service as of March 31, 2017			$ 4,278,553
Less: Accumulated depreciation			(2,296,008)
Net utility plant in service			1,982,545
Plus:			
Working capital	$ 941,574 /8		117,697
Materials and supplies			18,352
Total original cost rate base			$ 2,118,594
Net operating income authorized		$ 152,327	

EXHIBIT E

SOUTH EASTERN INDIANA NATURAL GAS CO., INC.
MILAN, IN

CAPITAL STRUCTURE
As of March 31, 2017

Description	Amount	Percent of Total	Cost	Weighted Cost
Common equity	$1,309,253	59.50%	10.25%	6.10%
Long-term debt	250,000	11.36%	6.50%	0.74%
Customer deposits	129,725	5.90%	6.00%	0.35%
Deferred tax	511,359	23.24%	0.00%	0.00%
Total	$2,200,337	100.00%		7.19%