

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

**IN THE MATTER OF THE INDIANA UTILITY)
REGULATORY COMMISSION'S INVESTIGATION)
INTO THE IMPACTS OF THE TAX CUTS AND JOBS) CAUSE NO. 45032 S13
ACT OF 2017 AND POSSIBLE RATE IMPLICATIONS)**

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

PUBLIC'S EXHIBIT NO. 1

TESTIMONY OF OUCC WITNESS

AMY E. LARSEN

AUGUST 21, 2018

Respectfully submitted,



Scott Franson
Attorney No. 27839-49
Deputy Consumer Counselor

TESTIMONY OF OUCC WITNESS AMY E. LARSEN
CAUSE NO. 45032 S-13
SOUTH EASTERN INDIANA NATURAL GAS COMPANY, INC.

I. INTRODUCTION

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

2 A: My name is Amy E. Larsen, and my business address is 115 W. Washington
3 Street, Suite 1500 South, Indianapolis, Indiana 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 a Utility Analyst II. For a summary of my educational and professional
7 experience and my preparation for this case, please see Appendix AEL-1 attached
8 to my testimony.

9 **Q: What is the purpose of your testimony?**

10 A: I discuss and provide background on the Indiana Utility Regulatory Commission’s
11 (“Commission”) Investigation in Cause No. 45032 into the impacts of the Tax
12 Cuts and Jobs Act of 2017 (“TCJA”) on regulated utilities (the “Commission
13 Investigation”). I respond to South Eastern Indiana Natural Gas Company, Inc’s
14 (“Respondent” or “South Eastern”) proposed amortization and calculation of its
15 excess accumulated deferred income taxes (“EDIT”)¹ and address the refund of
16 excess federal income tax expense collected by South Eastern from January 1,
17 2018 through April 30, 2018, the date on which Respondent’s base rates and
18 charges were reduced to reflect the current federal income tax rate of 21%.

¹ Hereafter, ADIT refers to accumulated deferred income tax before the excess (EDIT) is calculated.

II. TCJA BACKGROUND

1 **Q: What are the main effects of the TCJA on regulated utilities?**

2 A: The main effects of the TCJA on regulated utilities are the reduction of the federal
3 income tax rate to 21% and the elimination of bonus depreciation. Regulated
4 utilities are still allowed to deduct all interest expense without limitation.

5 **Q: What adjustments are necessary to reflect these effects in a regulated utility's**
6 **rates and charges?**

7 A: There are three major adjustments necessary to reflect the impact of the TCJA on
8 a regulated utility's rates and charges: (1) reduction of federal income tax
9 expense embedded in utility rates to reflect the new 21% corporate tax rate on a
10 going-forward basis; (2) refund of the federal income tax expense over-collected
11 by the utility from January 1, 2018 until the federal income tax rate embedded in
12 rates and charges is reduced to 21%;² and (3) reduction of federal income tax
13 expense to reflect the return of excess ADIT created when ADIT is revalued at the
14 21% rate. Item (1) is a Phase 1 issue in the Commission Investigation, and items
15 (2) and (3) are Phase 2 issues in the Commission Investigation.

16 **Q: How are the impacts of the TCJA on South Eastern's rates being addressed?**

17 A: On March 26, 2018, South Eastern made a 30-Day filing in compliance with the
18 Commission's Order in Cause No. 45032 dated February 16, 2018, and
19 implemented revised rates based on the new 21% income tax rate effective on
20 May 1, 2018, resolving Phase 1 of the Commission Investigation. Phase 2 tax
21 issues are being addressed in this subdocket, Cause No. 45032 S-13.

² Per the Commission's order dated January 3, 2018 in Cause No. 45032, all Indiana investor-owned utilities are required to begin using regulatory accounting, such as the use of regulatory assets and liabilities, for all calculated differences resulting from the TCJA and what would have been recorded if the TCJA did not go into effect.

1 **Q: How are deferred income taxes generated?**

2 A: Deferred income taxes are the result of temporary timing differences created by
3 how revenues or expenses are recognized on a company's financial statements or
4 its "books" and how those same revenues or expenses are recognized for tax
5 purposes. For regulated utilities, the primary source of deferred income taxes is
6 due to accelerated tax depreciation. Deferred taxes can also be generated by other
7 items, such as unbilled revenue, accrued wages, capitalized payroll taxes,
8 unamortized rate case expense, pension expenses, bad debts, and capital loss carry
9 forwards. Deferred income taxes can be either a deferred liability (taxes paid are
10 less than book taxes) or a deferred asset (taxes paid are more than book taxes).

11 **Q: What is the difference between book depreciation and tax depreciation?**

12 A: Accelerated tax depreciation uses a higher depreciation rate than the depreciation
13 rate used for book purposes. This higher rate of depreciation results in more
14 expense being recognized earlier in an asset's life for tax purposes than is
15 recognized for book purposes.

16 **Q: How does the difference between book depreciation and accelerated tax**
17 **depreciation affect Respondent's payment of income taxes?**

18 A: A lower depreciation expense rate for book purposes results in a higher net
19 income on a company's financial statements. A higher accelerated depreciation
20 expense for tax purposes lowers the net income on which the company is taxed,
21 thereby lowering the income tax payment. But a utility's income tax revenue
22 requirement is not adjusted when it takes accelerated depreciation; therefore, the
23 amount of income tax expense recovered from customers is higher than the actual
24 income tax paid by the utility to the government. With accelerated tax

1 depreciation, the company avoids taxes in the early years, and the temporary
2 timing difference is recognized as deferred income tax. The value recorded for
3 ADIT is based on the utility's current income tax rate and is calculated by taking
4 the difference between book and tax expense and multiplying by the tax rate.
5 ADIT reverses when accelerated tax depreciation is exhausted and the temporary
6 timing difference is eliminated.

7 **Q: What is the effect of the TCJA on Respondent's ADIT?**

8 A: When tax rates change, ADIT balances must be revalued at the new tax rates.
9 The difference between the ADIT balance valued at the old income tax rate (34%)
10 and the new income tax rate (21%) is known as excess deferred tax liability, or
11 excess deferred income tax ("EDIT"). Respondent also has other book to tax
12 differences, not generated from accelerated depreciation, which resulted in either
13 excess deferred tax liabilities or deferred tax assets. As reflected in this filing,
14 Respondent revalued its accumulated deferred taxes using the new 21% income
15 tax rate, which resulted in the EDIT to be returned to customers. As I discuss in
16 more detail below, the amortization period over which the EDIT balance is to be
17 refunded to customers depends on whether the EDIT is deemed protected or
18 unprotected, pursuant to Internal Revenue Service ("IRS") normalization
19 guidelines.

III. SOUTH EASTERN'S PHASE 2 SUBDOCKET

1 EDIT

2 **Q: Please describe Respondent's calculation of EDIT as shown on Exhibit 1 and**
3 **the proposed refund amortization period shown on Exhibit 2.**

4 A: Respondent's Exhibit 1, page 1 determines the amount of ADIT at the prior 34%
5 income tax rate and the amount of ADIT at the new 21% income tax rate; the
6 difference being EDIT, which is to be refunded to ratepayers. Respondent's
7 EDIT is mostly derived from book-to-tax depreciation differences, but it is also
8 derived from accrued wages, unamortized rate case expense and unbilled revenue.
9 The book-to-tax depreciation portion is considered protected.³ To the extent the
10 utility has the detailed information for each of its assets individually, the utility
11 should use the Average Rate Assumption Method ("ARAM") to calculate the
12 remaining lives over which to refund protected EDIT. Respondent is not using
13 ARAM for this calculation. The TCJA allows utilities with less sophisticated
14 accounting records to use a weighted average life or composite rate used to
15 compute depreciation for regulatory purposes. Respondent uses the weighted
16 average life method as summarized on its Exhibit 2, page 1.⁴ The accrued wages,
17 unamortized rate case expense and unbilled revenue are considered unprotected
18 and can be returned over a period subject to the Commission's discretion.

19 Exhibit 1, page 1, lines 1-7 calculates the book-to-tax difference in

³ EDIT can be protected and unprotected. For protected EDIT, utilities are required to use normalized accounting under which depreciation for ratemaking purposes does not reflect accelerated depreciation for tax purposes. Unprotected EDIT is not subject to such normalization requirements, and the amortization of any refund is subject only to Commission discretion.

⁴ Respondent's Exhibit 2 is titled Average Rate Assumption Method ("ARAM"), but ARAM is not used. Respondent indicated in response to discovery Q1.4 "Petitioner does not believe that Exhibit 2 shows an ARAM method." Respondent further indicates that "the calculation on Exhibit 2 is a calculation of the average remaining lives of [the] Petitioner's utility plant in service." (See Attachment AEL-2, pages 2-3.)

1 depreciation, and subtracts accrued wages as a short term liability and
2 unamortized rate case expense and unbilled revenue as regulatory assets. The
3 result is multiplied by the old 34% tax rate and the new 21% tax rate to get the
4 difference, which is a regulatory liability shown on line 14. Respondent's Exhibit
5 1, page 1 calculates unprotected EDIT on lines 15-23. Also, since state income
6 tax is a deduction for federal income tax purposes, the ADIT related to state
7 deferred taxes is deducted from total ADIT to arrive at the federal ADIT balance
8 used to derive the excess deferred taxes that should be refunded to customers.

9 **Q: Do you agree with Respondent's EDIT, as calculated on its Exhibit 1, page 1?**

10 A: Yes. The necessary components to calculate EDIT are included in Respondent's
11 Exhibit 1, page 1, with supporting documentation on additional pages of Exhibit
12 1. Using Respondent's book and tax values for protected ADIT, and other
13 deferred income tax balances of unprotected ADIT, I calculated a deferred tax
14 liability shown on Attachment AEL-1. I took the difference between
15 Respondent's net book value and net tax value of its assets, less state deferred
16 taxes, and calculated the difference in deferred balances using the 34% and 21%
17 tax rates, which yields the total protected EDIT to be returned to the ratepayers.
18 (Attachment AEL-1, lines 1-10.) A similar calculation is shown on lines 11-26
19 for unprotected EDIT, where net deferred tax assets (accrued wages, unamortized
20 rate case expense and unbilled revenue) were added, less applicable state deferred
21 taxes, and the difference in deferred balances using the 34% and 21% tax rates,
22 yielded the total unprotected EDIT.

23 My calculation differs from Respondent's Exhibit 1, page 1 by deducting

1 the state deferred income tax applicable to the protected and unprotected EDIT
2 separately based on the deferred state income tax calculation shown on
3 Respondent's Exhibit 1, page 6, giving a more accurate protected and unprotected
4 EDIT balance. The total protected EDIT and unprotected EDIT is added together
5 on lines 27-29 for a total net regulatory liability to be returned to customers. This
6 total net EDIT of \$176,222 is the same net total EDIT amount reflected on line 14
7 of Respondent's Exhibit 1, page 1.

8 **Q: Is Respondent proposing to refund its EDIT as calculated on Exhibit 1, page**
9 **1?**

10 A: No. Respondent proposes to use an alternative calculation shown on its Exhibit 3.
11 As described on page 8 of Ms. Mann's testimony, Respondent recalculated
12 deferred income taxes from the utility's last rate case assuming a 21% federal tax
13 rate. Respondent proposes to refund the difference between this amount and the
14 ADIT at 34% from its last rate case.

15 **Q: Do you agree with using Respondent's Exhibit 3 as the basis for the EDIT**
16 **refund?**

17 A: No, for several reasons. First, this calculation represents deferred taxes from a
18 point in time years ago. Ratepayers have been paying income taxes embedded in
19 rates each year since the last rate case, and each year deferred income taxes are
20 calculated and reflected on the balance sheet. The December 31, 2017 deferred
21 income tax balance is the most up to date balance before the new 21% income tax
22 rate went into effect on January 1, 2018. For purposes of the calculation on
23 Exhibit 3, Respondent did not update any deferred tax calculations since the last
24 rate case. (Attachment AEL-2, page 3, Q1.9.) Not updating deferred tax

1 calculations since the last rate case ignores ratepayer contributions to income
2 taxes or contributions to depreciation expense for the years between the last rate
3 case and the date of the most current deferred income tax balance before the
4 TCJA went into effect.

5 Second, Exhibit 3 is not supported by any other schedules. Ms. Mann
6 states on page 9, lines 8-11 of her testimony, “[t]he accumulated deferred federal
7 income tax calculation referenced in [e]xhibit 3 was included in each utilities [sic]
8 last rate case and has therefore been previously vetted by both the OUCC and the
9 IURC.” None of the workpapers from the last rate case were presented to support
10 these figures. In contrast, Respondent’s Exhibit 1, page 1 is supported by
11 sufficient detail in subsequent pages 2 through 6, and with Exhibit 2, pages 1
12 through 4. Supporting detail is necessary to verify the calculation of EDIT and
13 would come directly from Respondent’s books and records. The supporting detail
14 should show how each pertinent figure in Respondent’s EDIT calculation is
15 derived.

16 Third, in its calculation on Exhibit 3, Respondent subtracted the short term
17 liabilities, accrued wages and unbilled revenue, from the calculation because,
18 according to Ms. Mann’s testimony on page 8, lines 17-20, “[s]hort term items are
19 items that are deferred for only one year. As a result those taxes have been
20 incurred and paid at the utility’s prior tax rate and therefore do not need to be
21 refunded.” I do not agree with this statement. The items generating the deferred
22 tax created a liability, or asset, at a higher tax rate. When the liability or asset
23 reverses the following year, it will be at a lower tax rate, being insufficient to

1 offset the full amount, consequently, leaving excess deferred tax. Therefore, I
2 included these items in the calculation of EDIT in Attachment AEL-1.

3 Lastly, the method summarized on Respondent's Exhibit 1, and on my
4 Attachment AEL-1, is the same or similar to methods I have seen with other
5 utilities responsive to Phase 2 of the Commission Investigation, such as
6 NIPSCO's rate case in Cause No. 44988, and Sycamore Gas Company's rate case
7 in Cause No. 45072. In my experience, all utilities recognize December 31, 2017
8 as the ADIT balance from which to derive the EDIT amount for purposes of a
9 ratepayer refund.

10 **Q: What is the EDIT balance you recommend be returned to ratepayers?**

11 A: As I described earlier and as shown on Attachment AEL-1, I recommend a total
12 EDIT balance of \$176,222 be returned to Respondent's customers.

13 **Amortization Period**

14 **Q: What method has Respondent proposed for calculating the amortization**
15 **period for its protected EDIT balance?**

16 A: Respondent uses the alternative weighted average life method, based on the level
17 of property record detail available. Respondent calculated the estimated average
18 useful life of its utility plant in service on Exhibit 2, page 1, and calculated the
19 weighted average to determine the final amortization period by asset class
20 summarized on Exhibit 2, page 1. As I mentioned earlier, although this exhibit is
21 labeled ARAM, the ARAM method is not used. Given the level of property detail
22 available to South Eastern, the OUCC does not object to using the weighted
23 average life method. Respondent's weighted average remaining life calculation
24 for each of its asset classes results in a 19.65 year amortization period, over which

1 protected EDIT is to be amortized back to ratepayers.

2 **Q: Does Respondent propose an amortization period over which unprotected**
3 **EDIT will be returned to ratepayers?**

4 A: Yes. Even though Respondent recommends using Exhibit 3 for purposes of
5 calculating its proposed ratepayer refund for deferred taxes, which does not show
6 any unprotected EDIT, in an apparent reference to Exhibit 1, it states that due to
7 the relatively small amount, unprotected EDIT should be amortized over the same
8 amortization period as calculated for protected EDIT. Respondent also argues
9 that using the same amortization period for the entire EDIT will make tracking of
10 the amortization easier for both the utility and the regulator. (Testimony of Mann,
11 page 10, lines 16-23.)

12 **Q: Do you agree with Respondent's proposed unprotected EDIT amortization**
13 **period?**

14 A: For the reasons described below, yes. While the TCJA governs the appropriate
15 normalization method to amortize protected EDIT back to ratepayers, the
16 Commission has discretion over the amortization period for unprotected EDIT. In
17 most instances, it would be appropriate to require a utility to return unprotected
18 EDIT over a shorter timeframe than for protected EDIT. Should the Commission
19 determine that to be the appropriate outcome in this instance, the OUCC would
20 not object; however, I note below the reasons why Respondent's unique
21 characteristics create challenges that make following this general principle
22 difficult.

23 First, as shown in Attachment AEL-1, which makes use of Respondent's
24 Exhibit 1, I calculate an unprotected EDIT *asset* for Respondent of \$12,210. An

1 EDIT asset results in an increase in rates. If Respondent is ordered to amortize
2 this unprotected EDIT asset over a timeframe shorter than its protected EDIT
3 liability, Respondent will have to make separate ratemaking adjustments that both
4 increase and decrease its deferred tax balances and amortization expense until the
5 unprotected EDIT asset is fully amortized. Then Respondent will need an
6 additional tariff filing to remove the ratemaking adjustment for unprotected EDIT,
7 leaving the adjustment for protected EDIT in place. Given South Eastern's
8 relative size and limited resources, it seems unnecessarily burdensome to require
9 that level of complexity and additional tariff submissions.

10 Second, Respondent's weighted average calculation results in a 19.65 year
11 amortization period for protected EDIT. Relatively speaking, this amortization
12 period will return protected EDIT back to ratepayers more quickly than the time
13 periods that were calculated by NIPSCO and Vectren's gas utilities in the
14 Commission Investigation. Likewise, using the same amortization period for
15 Respondent's unprotected EDIT asset will spread out the rate increase, as a result
16 of this asset, over a reasonable time period so as to mitigate any customer burden.
17 Therefore, I recommend Respondent's protected and unprotected EDIT balances
18 be amortized over 19.65 years.

19 **Q: Can this amortization period be adjusted for rounding?**

20 A: No. Respondent replied in discovery that it "expects that it will likely be required
21 to round that amount to 20 years." (Attachment AEL-2, page 2, Q1.4(b).)
22 Protected EDIT is governed by the TCJA and the weighted average life method
23 resulted in a specific amount. The 19.65 year weighted average remaining life is

1 the proper amortization period used in my calculation on line 31 of Attachment
2 AEL-1 for both protected and unprotected EDIT, converted to 235.8 months on
3 line 34.

4 **Q: By what mechanism do you propose to return EDIT?**

5 A: Amortizing EDIT of \$176,222 over 19.65 years or 235.80 months yields an
6 annual amortization of \$8,968. Respondent's base rates should be reduced by this
7 annual amount using the same revenue requirement schedules applicable to the
8 approved rates in Respondent's last rate case, reflecting the revised 21% income
9 tax rate effective on May 1, 2018 in Cause No. 45032. This method is commonly
10 used to remove rate case expense amortization from base rates and will account
11 for any flow-through tax effects of the adjusted rates. New rates should also be
12 based on customer allocation and rate design as approved in Respondent's last
13 rate case. I suggest this be accomplished using a 30-Day filing process to allow
14 sufficient time for review by the OUCC and IURC.

15 **Refund of Over-Collection**

16 **Q: Did Respondent provide a calculation and propose a method for returning**
17 **over-collected taxes beginning January 1, 2018?**

18 A: Yes. Respondent provided a calculation of its tax over-collection in Exhibit 4,
19 pages 1 and 3-6, and a proposed refund credit tracker on page 2. The over-
20 collection represents Respondent's tracking of the difference in revenue collected
21 at the 34% tax rate and what would have been collected at the 21% tax rate during
22 the period January 1, 2018 through April 30, 2018. Respondent's calculations of
23 the over-collection are by customer class, and the proposed refund mechanism is
24 also by customer class at the same volumes as collected. Respondent is proposing

1 to refund the over-collection over the same four months it was collected, January
2 through April starting January 1, 2019. Respondent recommends the refund be
3 administered through a temporary tracker mechanism with variances recovered
4 through Respondent's next GCA that includes a reconciliation of April 2019.

5 **Q: Is there any element in Respondent's over-collection refund proposal with**
6 **which you disagree?**

7 A: Yes. I agree with Respondent's calculation of the over-collection and with
8 making the refund over the proposed four month period in 2019. I agree with the
9 temporary tracker mechanism proposal. However, the GCA is an inappropriate
10 mechanism for tax refunds. Not all customer classes receiving refunds are
11 included in the GCA mechanism. Additionally, all seven small utilities
12 represented by Ms. Mann's testimony have one GCA rate for all customer classes,
13 so the allocation of variances would deviate from the customer class allocation
14 approved in the last rate case. I recommend any variances in the temporary
15 tracker mechanism be reconciled and refunded in the same temporary tracker
16 mechanism.

17 **Other Concerns**

18 **Q: Does Respondent address other concerns it believes are relevant to this**
19 **Cause?**

20 A: Yes. First, Respondent seeks approval to defer the cost of its participation in this
21 proceeding as a regulatory asset that can be reviewed and eventually recovered in
22 the next full base rate case. I do not recommend approval for this unknown
23 amount. Given that Respondent's income tax rate has been changed, it would
24 have had to calculate its EDIT in order to adhere to the IRS's normalization
25 requirements; therefore, it is not entirely accurate to suggest that Respondent's

1 costs to participate in the Commission Investigation would not have been required
2 anyway. However, even so, in a regulatory environment, unexpected, one-time
3 legal and accounting bills occur occasionally. Respondent has legal and
4 accounting fees embedded into its current rates and no additional compensation
5 should be necessary.

6 Also, since this is a single issue case and Respondent's testimony is
7 considerably similar for each of seven utilities, and litigation should be minimal, I
8 would hope the costs for each utility are a reasonable amount as the actual costs
9 incurred have not been presented in this subdocket. Further, Respondent has an
10 interest in arguing for an outcome in this case that minimizes any refunds it owes
11 to its customers. Those same customers should not be required to pay for the
12 regulatory expense Respondent incurs in making such arguments.

13 Second, Respondent argues that a lower ADIT with a 0% cost of capital
14 could have the effect of increasing the overall cost of capital, so authorized
15 earnings should increase. I do not disagree that overall cost of capital could
16 increase, but this issue is outside the scope of this proceeding.

17 Last, Respondent believes the fact the Commission initiated the tax
18 investigation has created uncertainty for the utility, increasing the risk for its
19 shareholders. A regulated utility facing regulatory action is inherent to its
20 business model.

IV. OUCCE RECOMMENDATIONS

1 **Q: What are your recommendations in this Cause?**

2 A: I recommend amortizing EDIT of \$176,222 over 19.65 years, resulting in a return
3 of EDIT to the ratepayers at an annual amortization of \$8,968. This amortization
4 should be reflected as a reduction to existing rates using revenue requirement
5 schedules from Respondent's last rate case, updated to the new tax rate as of May
6 1, 2018, using the same customer allocation and rate design as approved in
7 Respondent's last rate case, to be submitted for review through a 30-Day filing
8 process. I also recommend Respondent be required to file a compliance filing
9 initiating a temporary tracker to return the excess federal tax collected from
10 January 1, 2018 through April 30, 2018, allocated to each rate class based on
11 actual revenues received during the period collected. This temporary tracker
12 should also be used to reconcile and return or collect any variances. I do not
13 recommend approval to defer the cost of this proceeding as a regulatory asset.

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

15 A: Yes.

AFFIRMATION

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

Amy E. Larsen

Amy E. Larsen
Utility Analyst II
Indiana Office of Utility Consumer Counselor
Cause No. 45032 S13
Commission Investigation/South Eastern
Indiana Natural Gas Co., Inc.

August 21, 2018

Date

APPENDIX AEL-1 TO TESTIMONY OF
OUCW WITNESS AMY E. LARSEN

1 **Q: Please describe your educational background and experience.**

2 A: I graduated from the School of Public and Environmental Affairs at Indiana
3 University in Bloomington, Indiana with a Bachelor of Science Degree in Public
4 Financial Management in May 2011. In December 2017, I graduated from the
5 Kelley School of Business at Indiana University in Indianapolis, Indiana with a
6 Master's of Science Degree in Accounting. From May 2011 through December
7 2012, I worked for the Indiana State Personnel Department in Indianapolis,
8 Indiana, as a Benefits Specialist. I resolved benefit administration questions and
9 issues raised by state agencies and employees. I also investigated claims,
10 disputes, and eligibility by working with the insurance carriers to ensure claims
11 were properly adjusted. From December 2012 through January 2015, I worked
12 for the Indiana Family and Social Services Administration as an Accountant. I
13 worked in accounts receivable to collect, deposit, and record any funds received.
14 I was also responsible for any refunds due to customers. From January 2015
15 through October 2017, I worked for the Indiana Department of Workforce
16 Development as a Budget Analyst. I set up and monitored projects for grants
17 received from the federal government. I also worked with department managers
18 to create and adhere to their yearly budget.

19 In October 2017, I began my employment with the OUCC as a Utility
20 Analyst II. My current responsibilities include reviewing and analyzing Gas Cost
21 Adjustment ("GCA") petitions and flex filings. I also review and analyze rate
22 cases, special contracts, financing, certificate of public convenience and necessity,

1 pipeline safety adjustment, 7-Year Plan and TDSIC Tracker cases filed by Indiana
2 natural gas utilities with the Commission.

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

4 A: Yes, I have testified in GCA, rate cases, special contract and pipeline safety
5 adjustment cases.

6 **Q: Please describe the review and analysis you conducted to prepare your**
7 **testimony.**

8 A: I reviewed Respondent's direct testimony, exhibits, workpapers and other
9 supporting documentation provided in this Cause. I analyzed Respondent's
10 responses to the OUCC's discovery requests. I reviewed Respondent's 30-Day
11 Filing submitted for Phase 1 of Cause No. 45032.

South Eastern Indiana Natural Gas
Deferred Tax Asset/Liability

<u>Line</u>		After Tax Act	Prior to Tax Act
Protected EDIT:			
1	Net Book Value, Petitioner's Exhibit 1 Page 2	2,018,586	2,018,586
2	Net Tax Value, Petitioner's Exhibit 1 Page 3	497,579	497,579
3	Difference in Net Book Value	1,521,007	1,521,007
4	State Deferred Tax Asset/(Liability), Pet.'s Exhibit 1 Page 6	(71,534)	(71,534)
5	NBV less State Deferred Tax Estimate	1,449,473	1,449,473
6	Tax Rate	21.0%	34.0%
7	Current Period Deferred	304,389	492,821
8	Deferred Tax under old rate	492,821	
9	Deferred Tax under new rate	304,389	
10	Protected EDIT - Regulatory Liability	188,431	
Un-Protected EDIT:			
11	Other Deferred Taxes, Petitioner's Exhibit 1 Page 6:		
12	Accrued Wages (Short Term Deferred Liability)	10,406	10,406
13	Unamortized Rate Case (Short Term Deferred Asset)	(68,269)	(68,269)
14	Unbilled Revenue (Short Term Deferred Asset)	(42,055)	(42,055)
15	Total Other Deferred Taxes	(99,918)	(99,918)
16	State Deferred Tax Asset/(Liability), Pet.'s Exhibit 1 Page 6	(624)	(624)
17	State Deferred Tax Asset/(Liability), Pet.'s Exhibit 1 Page 6	4096	4096
18	State Deferred Tax Asset/(Liability), Pet.'s Exhibit 1 Page 6	2,523	2,523
19	Less Deferred Tax not applicable to utility rates:		
20	N/A	-	-
21	Total Applicable Other Deferred Taxes	(93,923)	(93,923)
22	Tax Rate	21.0%	34.0%
23	Current Period Deferred (Line 8 * Line 9)	(19,724)	(31,934)
24	Deferred Tax under old rate	(31,934)	
25	Deferred Tax under new rate	(19,724)	
26	Un-Protected EDIT - Net Regulatory Asset	(12,210)	
Total EDIT:			
27	Protected EDIT - Regulatory Liability	188,431	
28	Un-Protected EDIT - Net Regulatory Liability	(12,210)	
29	Total Net EDIT	176,222	
EDIT Amortization:			
30	Total Net EDIT	176,222	
31	Amortization Period (years), Petitioner's Exhibit 2 page 1	19.65	
32	Annual Amortization	8,968	
33	Total Net EDIT	176,222	
34	Amortization Period (months)	235.80	
35	Monthly Amortization	747	

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)**

**SOUTH EASTERN INDIANA NATURAL GAS CO., INC. RESPONSES TO
THE INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR'S
FIRST SET OF DATA REQUESTS**

Comes now South Eastern Indiana Natural Gas Co., Inc., by counsel, and submits to the Indiana Office of the Utility Consumer Counselor ("OUCC") its responses to the OUCC's First Set of Data Requests dated July 3, 2018, as follows:

II. Data Request.

Q 1.1: What is Respondent's balance of deferred taxes on the balance sheet as of December 31, 2017?

A. Petitioner's balance of deferred taxes on the balance sheet as of December 31, 2017 was \$283,805 and \$65,539 for federal and state deferred taxes, respectively.

Q 1.2: Regarding Respondent's Exhibit 1:

- a. Please provide a list of the types of accounts, assets, expenses, or other items that produced the balance of Deferred Tax on line 11, as of December 31, 2017, including the amount of each item.
- b. On the list from a. above, identify the items as protected or unprotected balances.
- c. On the list from a. above, identify the items as property or non-property.
- d. On the list from a. above, identify short term items.
- e. On the list from a. above, identify non-income statement items.
- f. On the list from a. above, identify regulatory liabilities and regulatory assets.

- A.
- a. Each item and the amount are listed in lines 1-6 of Exhibit 1, all numbers on Exhibit 1 are for December 31, 2017.
 - b. Items which are protected are listed including the amounts on lines 1– 2 of Exhibit 1 and the remaining items are unprotected as shown in the unprotected calculation section of Exhibit 1 starting on line 15.
 - c. Petitioner is assuming that by property the request is asking which lines include utility plant information, that information is included on lines 1 and 2 of Exhibit

- 1.
- d. Short term items are items shown on lines 4 - 6 of Exhibit 1.
- e. Petitioner is unsure of what is meant by "non-income statement items". Utility plant included on lines 1 and 2 of Exhibit 1 are not reflected on the income statement, but the annual depreciation associated with those items is reflected. However the amount of depreciation differs between the financial statements and the tax return. Items on lines 4 – 6 of Exhibit 1 appear on the income statement but appear differently on the tax return.
- f. The item on line 5 of the Exhibit 1 is a regulatory asset approved by the IURC in the Petitioner's last general rate proceeding.

Q 1.3: Regarding Respondent's Exhibit 1, line 12, Deferred Tax under old rate:

- a. Is any of Respondent's deferred income tax balance derived from expense deductions available for tax purposes for costs that were capitalized for book purposes?
 - b. If yes, are these deferred tax amounts considered as associated with property or non-property?
 - c. Please provide the balance for the property or non-property for (a.) and (b.) above.
- A.
- a. The item on line 5 of Exhibit 1 was expensed for tax purposes when incurred but was capitalized and amortized based on the Order in Petitioner's last base rate proceeding.
 - b. Petitioner is assuming that "property" or "non-property" refers to utility plant in service. The item listed in a. above is not utility plant in service.
 - c. See line 5 of Exhibit 1 for the amount.

Q 1.4: Page 9, lines 19-20 of Ms. Mann's testimony mentions using the alternative weighted average life method, but Exhibit 2 shows an ARAM calculation.

- a. Is ARAM or the alternative weighted average life method used? Please explain.
 - b. Is Respondent proposing an amortization period of 19.65 years?
 - c. Please show the calculation of the 19.65 years (i.e. what numbers were used?)
 - d. Please provide the IRS publication and any other authoritative source Ms. Mann relied upon to support the calculation method on Exhibit 2.
- A.
- a. Petitioner does not believe that Exhibit 2 shows an ARAM method. It is Petitioner's understanding that ARAM requires the calculation and amortization of the excess deferred federal income tax amount for each underlying item separately. Petitioner is not proposing to calculate the excess deferred federal income tax amount to that level of detail, but instead calculate the average remaining of life of its assets at the greatest level of detail available to it.
 - b. Petitioner expects that it will likely be required to round that amount to 20 years.
 - c. Please review the formula in cell k27 of the tab labeled (Ex 2 Pg 1) NAV in the excel file filed as workpapers in this cause and sent to the OUCC as part of the workpaper package.
 - d. Ms. Mann believes that the calculation on Exhibit 2 is a calculation of the average remaining lives of the Petitioner's utility plant in service. She relied on her

training as an accountant and her 30 years of consulting in the utility industry to make the calculation.

Q 1.5: Referring to Exhibit 3, please provide the separate amounts to be refunded for protected and unprotected excess deferred federal income tax.

A. The protected amount of Exhibit 3 is calculated by taking the amount of total federal deferred tax net of state taxes on Exhibit 3 page 2 less the amount of total federal deferred tax net of state taxes on Exhibit 3 page 3 to determine the total protected excess deferred federal income tax which nets to \$(171,516).

The unprotected amount of Exhibit 3 is calculated by taking the amount of unprotect items federal taxes total on Exhibit 3 page 2 less the amount of unprotect items federal taxes total on Exhibit 3 page 3 to determine the total unprotected excess deferred federal income tax which nets to \$2,864.

Q 1.6: What are the depreciation rates used by Respondent, for each asset class, as of December 31, 2017?

A. The depreciation rates used by the Respondent, for each asset class, as of December 31, 2017 are shown within the supporting workpapers proved with the filing of Cause No. 45032-S13. These workpapers reflect Federal, State and Book depreciation reports which the method of depreciation and useful lives

Q 1.7: What are the utility-plant-in-service balances, for each asset class, as of December 31, 2017?

A. The utility-plant-in-service balances, for each asset class, as of December 31, 2017 are shown on Exhibit 1 page 2.

Q 1.8: Please provide the balance sheet for Respondent as of December 31, 2017.

A. See attached.

Q 1.9: On page 8, lines 4-5, Ms. Mann states, "I have recalculated the deferred income taxes from each utility's last base rate case assuming a federal tax rate of 21%."

- a. Did Ms. Mann recalculate the deferred income taxes for each tax year after the last base rate case through December 31, 2017? Please explain.
- b. If yes, please provide the workpapers and calculations.
- c. Please provide the IRS publication and any other authoritative source Ms. Mann relied upon to support this method of calculating excess deferred income tax.

A.

- a. No.
- b. N/A
- c. The method used to calculate deferred income taxes follows the proscribed method of generally accepted accounting principles as accepted in the United

States and dictated by the Federal Accounting Standards Board in ASC 740

Q 1.10: Referring to Exhibit 1, page 1:

- a. Please confirm the line description for line 7 should read "Difference in NBV ((Sum Line 2-6) - Line 1)." If this is incorrect, what should the line description be?
- b. Please confirm the line description for line 9 should read "NBV less State Deferred Tax Estimate (Line 7 – Line 8)." If this is incorrect, what should the line description be?
- c. Please confirm the line description for line 11 should read "Current Period Deferred (Line 9*Line 10)." If this is incorrect, what should the line description be?
- d. Please confirm the line description for line 14 should read "Reg Liability (Line 12-Line 13)." If this is incorrect, what should the line description be?
- e. Please provide documentation supporting the amounts on lines 4, 5, 6, 15, 16, and 17.
- f. Please explain why Respondent included a state deferred tax estimate on lines 8 and 24-26.
- g. Please confirm the correct calculation of Respondent's protected portion of EADIT as line 14 less line 27, or as line 14 less line 23.

- A.
- a. Confirmed.
 - b. Confirmed.
 - c. Confirmed.
 - d. Confirmed.
 - e. See attached.
 - f. Because state income taxes are a deduction in the calculation of federal income taxes.
 - g. Petitioner's protected portion of EADIT is line 14 less line 27.

Q 1.11: On page 6, lines 13-20, Ms. Mann discusses a retirement component. Please explain whether this retirement component is applicable to South Eastern Indiana Natural Gas. If so, please provide a copy of the retirement study.

- A. There is no retirement component applicable to South Eastern Indiana Natural Gas Company.

CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing *Indiana Office of Utility Consumer Counselor Public's Exhibit No. 1 Testimony of OUCC Witness Amy E. Larsen* has been served upon the following counsel of record in the captioned proceeding by electronic service on August 21, 2018.

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