

OFFICIAL EXHIBITS

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF COMMUNITY NATURAL GAS
CO., INC. FOR APPROVAL OF A TDSIC PLAN
FOR ELIGIBLE TRANSMISSION AND
DISTRIBUTION IMPROVEMENTS PURSUANT
TO IND. CODE § 8-1-39-1, *et seq.*

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) CAUSE NO. 44710
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PETITIONER'S

EXHIBIT NO. 3

DATE 2-22-16

REPORTER AT

DIRECT TESTIMONY

AND

EXHIBITS

OF

MANDY LEACH

On Behalf of
Community Natural Gas Co., Inc.

**DIRECT TESTIMONY AND EXHIBITS OF
MANDY LEACH
ON BEHALF OF
COMMUNITY NATURAL GAS CO., INC.**

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

2 A. Mandy Leach, Community Natural Gas, 933 W. 3rd Street, Mt. Carmel, Illinois, 62863.

3 **2. Q. Are you associated with the Petitioner in this Cause?**

4 A. Yes, I am. I currently serve as the Controller for the Petitioner.

5 **3. Q. Please describe your general responsibilities for this Petitioner.**

6 A. I am primarily responsible for Petitioner's financial books and records, and all financial
7 analysis performed internally for the Petitioner, including financial material presented to
8 our Board of Directors. I am also regularly involved with gas acquisition and the GCA
9 process before the Indiana Utility Regulatory Commission ("Commission").

10 **4. Q. Were you involved with Petitioner's last base rate proceeding?**

11 A. Yes I was. Though I did not offer testimony in Cause No. 44298, I worked directly with
12 our President who did offer testimony, along with the outside consultants who provided
13 testimony and exhibits in that proceeding.

14 **5. Q. Do you agree with Petitioner's witness Kieffer that none of the mains included in
15 this proposed TDSIC plan was included in that base rate case?**

16 A. Yes. That base rate case included utility plant which was used and useful and already in
17 service. The test year we used in that proceeding was September 30, 2012 as adjusted for
18 the succeeding 12 months. The earliest any of the projects described in the TDSIC plan
19 would begin in May 2016. Thus none of these projects was included in the last base rate
20 case.

1 **6. Q. Please describe any educational background or work experiences that you believe**
2 **are relevant to the opinions or conclusions that you offer in this direct testimony.**

3 A. In addition to my role with the Company and work in the Company's last base rate case
4 as described above, I believe it is important to note that I hold a B.S. degree in
5 Accounting. I also believe it is important to note that I have been employed by
6 Community Natural Gas since 1991. Finally I would point out that I regularly participate
7 in the Indiana Energy Association, and regularly meet with my counterparts with other
8 natural gas utilities around the State of Indiana. Based on that background, I am familiar
9 with our service territory and the customers we serve, and I believe that TDSIC
10 proceedings now authorized for natural gas companies are designed to allow companies
11 to first present a plan to the Commission about anticipated plant investments that would
12 be considered eligible transmission, distribution, or storage improvements. If that plan is
13 approved, the utility can subsequently file a request with the Commission in a separate
14 filing to seek recovery of costs associated with that investment.

15 **7. Q. Is the Petitioner in this proceeding seeking approval of a TDSIC plan, and a tracker**
16 **to recover TDSIC costs?**

17 A. As noted by Mr. Kieffer in his testimony, we are only seeking approval of our
18 construction plan. Petitioner's Board of Directors has made no decision on when or how
19 Petitioner should seek recovery of these investments.

20 **8. Q. Please explain your answer above.**

21 A. At this time our Board of Directors has decided it is appropriate to obtain approval of our
22 plan for rural extensions through the TDSIC statute; but the Board has not made a
23 decision on whether that recovery should come in the form of a future tracker or in the

1 form of a base rate case. As we indicated to the OUCC in a meeting prior to filing the
2 Petition in this cause, this proceeding deals with the TDSIC plan of proposed projects.

3 **9. Q. Mrs. Leach, did you perform an analysis of the ability of Petitioner to recover the**
4 **costs associated with these main extensions over a 20-year period?**

5 A. Yes I did. It is my understanding that the TDSIC statutes encourage the extension of
6 mains into unserved rural areas if a positive contribution to the utility's overall cost of
7 service will occur over a 20-year period. I thought it prudent to determine if the
8 estimated margin revenue from the customers of this area would produce a positive
9 contribution to Petitioner's cost of service within 20 years after natural gas is available. I
10 believed this would be helpful as our Board considered these projects. I have also
11 attached that analysis to this Testimony as Exhibit ML-1.

12 **10. Q. Does that analysis show a positive contribution from these extensions?**

13 A. Yes, it does. The projects included in this TDSIC plan collectively and individually
14 provide a positive contribution within the 20-year time period.

15 **11. Q. Please describe your 20-year analysis.**

16 A. I obtained the estimated cost of construction for extending these lines from my colleague
17 Mr. Kieffer. I then obtained from Mr. Kieffer the number of customers that he believed
18 conservatively would be connecting within the first year after natural gas is available.
19 Mr. Kieffer used a similar approach in estimating large volume customers, which are
20 essentially grain dryers, in these areas. I then reviewed our books and records to
21 determine the margin dollars recovered from these types of customers, and used 45 Dth
22 for residential customer usage for purposes of developing the margins for my 20-year
23 analysis. Next I multiplied these margin dollars times the estimated customers over the

1 20-year period to establish the amount of margin revenue these new customers should
2 produce over this period. I compared this result against the total cost of construction for
3 each area. The result is that these areas collectively and individually recover the costs of
4 these extensions and provide a positive contribution well within 20 years.

5 **12. Q. Mr. Kieffer's testimony references average residential customer use of 65 Dth**
6 **during the heating season. Why did you use 45 Dth in your 20-year analysis?**

7 A. Our 20-year analysis was initially prepared for discussion with our Board of Directors.
8 In that discussion, we wanted to be very conservative in determining whether the payback
9 on the cost of construction would occur within 20 years. This analysis helped us select
10 which projects should be included in this group of projects in this TDSIC plan, and which
11 should not. Thus if a project's costs might not be recovered in 20 years, it was dropped
12 from our list of projects. This TDSIC list is made up solely of gas main extension
13 projects which from a conservative analysis will clearly be paid for over 20 years, and
14 provide a positive contribution to our cost of service as described by the TDSIC statute.

15 **13. Q. Beyond the dollars used for margin recovery, were there any other decisions made**
16 **to insure this is a conservative analysis?**

17 A. Yes there were. The number of customers that we reflect in the analysis is based on
18 existing homes and commercial enterprises, and then reduced based upon our historical
19 experience. As an example, we show 35 customers for the Holland Southwest project.
20 That number represents approximately 70% of the existing customers in that area.
21 Though we know we will have more customers than shown, we wanted to make sure that
22 the payback would occur within the 20-year period of the analysis for discussion with our
23 Board.

1 **14. Q. Are you suggesting that you are expecting more customers being served from these**
2 **mains in the future than shown in this 20-year analysis?**

3 A. Yes I am. Rather than show all of the potential customers that might connect after the
4 line has been constructed, we thought a better business decision could be made if we used
5 a conservative approach based on our historical experience as we have done in this 20-
6 year analysis.

7 **15. Q. What is the total anticipated investment in the construction of the projects in the list**
8 **included in this TDSIC plan?**

9 A. \$2,767,308.

10 **16. Q. Will all of this investment occur in year one?**

11 A. No. We are anticipating \$1,069,940 in the first year following approval of the TDSIC
12 plan; \$993,979 to be invested in year two and year three; and an additional \$703,389
13 which we will begin to invest in year three for a project that will be completed in year
14 four.

15 **17. Q. How does this investment compare to your rate base as determined in the last base**
16 **rate case?**

17 A. It is a significant investment, but not an unreasonable investment. In our last rate case the
18 evidence presented was that the Petitioner believed that its rate base valued at
19 reproduction cost new less depreciation was \$26,900,000. That case was settled using an
20 agreed original cost rate base of \$6,604,154. Since that rate case concluded, we have
21 added other investments in plant. Further, this investment will not occur all at once.
22 Rather, we will be making investments over a period of four years. However because of

1 the total size of this investment, and recognizing that the pre-approval process of a
2 TDSIC proceeding was available, we thought this filing was appropriate.

3 **18. Q. Mrs. Leach, should I assume that you agree with Mr. Kieffer that public**
4 **convenience and necessity requires that these improvements be made?**

5 A. Yes. I believe Mr. Kieffer has explained in detail how public convenience and necessity
6 is supported by these extensions. In addition to that information, I know from working
7 directly with our Spencer, Indiana office that we have received a number of calls from
8 potential customers west of Spencer in Owen County asking about the availability of
9 natural gas service. Further I believe the Commission has already found in prior
10 Community necessity certificate proceedings that public convenience and necessity
11 requires natural gas service in these areas.

12 **19. Q. Mrs. Leach do you believe there will be incremental benefits attributable to the**
13 **extension of these mains which justify the cost of extension?**

14 A. Yes, I do. As noted by Mr. Kieffer, our customers will save money on the cost of heating
15 their homes. A similar benefit will flow to our large volume customers that heat their
16 facilities with natural gas or use natural gas to fire boilers or generators. In addition I
17 should point out that many of Petitioner's costs of operation are fixed. Adding these new
18 customers will not cause us to add personnel, change the rate of return, or incur costs
19 other than those directly related to the extension of these mains. Thus the Petitioner will
20 have additional customers over which to spread its fixed costs. Further over my 20 years
21 of working with Community Natural Gas, I have seen new homes built, businesses
22 expanded, and facilities located all based on the availability of natural gas. Finally,
23 absent Community's willingness to extend these mains, and the ability to do so free of

1 charge under the TDSIC statute, many of these areas would not receive natural gas
2 service as quickly as reflected in our TDSIC plan.

3 **20. Q. Does this conclude your prefiled direct testimony?**

4 A. Yes it does.

Exhibit ML-1

Holland Southwest Extention	
Feasibility (\$309 per customer per year x 35 customers x 20 years)=	216,300.00
(\$2603 per large volume customer x 4 customers x 20 years)	208,240.00
Construction Cost plus material	-327,047.90
Margin	97,492.10

Paxton Extention

Feasibility (\$309 per customer per year x 102 customers x 20 years)=	630,360.00
(\$1760 per large volume customer x 12 customers x 20 years)	422,400.00
Construction Cost plus material	-742,891.50
Margin	309,868.50

Patrickburg Extension	
Feasibility (\$309 per customer per year x 135 customers x 20 years)=	834,300.00
Construction Cost plus material	-619,214.15
Margin	215,085.85

Spencer CR 330 W Extension	
Feasibility (\$309 per customer per year x 81 customers x 20 years)=	500,580.00
Construction Cost plus material	-374,763.94
Margin	125,816.06

Jordan Village

Feasibility (\$309 per customer per year x 152 customers x 20 years)=

939,360.00

Construction Cost plus material

-703,388.85

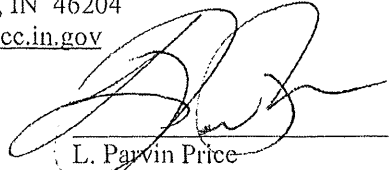
Margin

235,971.15

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing has been served upon the following counsel of record electronically or by hand delivery this 6th day of November, 2015:

Indiana Office of Utility Consumer Counselor
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L. Parvin Price