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INDIANA UTILITY REGULATORY COMMISSION

**PETITION OF SWITZERLAND COUNTY)
NATURAL GAS COMPANY, INC. FOR) CAUSE NO. 45117
AUTHORITY TO CHANGE ITS RATES,)
CHARGES, TARIFFS, RULES, AND) APPROVED: MAY 29 2019
REGULATIONS)**

ORDER ON RECONSIDERATION

Presiding Officers:

Stefanie N. Krevda, Commissioner

Carol Sparks Drake, Senior Administrative Law Judge

On April 17, 2019, the Indiana Utility Regulatory Commission ("Commission") issued a final Order in this Cause ("April Final Order"). On May 2, 2019, the Indiana Office of Utility Consumer Counselor ("OUCC") filed Indiana Office of Utility Consumer Counselor's Motion for Reconsideration of April 17, 2019 Final Commission Order ("Motion for Reconsideration") in which the OUCC asks the Commission to reconsider the OUCC's request to include the Belterra Casino ("Belterra") note in the capital structure of Switzerland County Natural Gas Company, Inc. ("Switzco" or "Petitioner"). The OUCC asserts that doing otherwise resulted in a higher rate of return for Switzco than the Commission authorized.

On May 9, 2019, Switzco filed Petitioner's Response to the OUCC's Motion for Reconsideration ("Petitioner's Response") contending the theory upon which the OUCC bases the Motion for Reconsideration is wrong, and the motion should be denied.

On May 13, 2019, the OUCC filed Indiana Office of Utility Consumer Counselor's Reply to Petitioner's Response to the OUCC's Motion for Reconsideration of April 17, 2019 Final Commission Order ("OUCC's Reply") responding to Petitioner's Response and renewing the OUCC's request that the Commission reconsider the April Final Order.

After reviewing the filings on reconsideration and the related evidence presented in this Cause, the Commission denies the Motion for Reconsideration and in doing so, based upon the applicable law and the evidence, finds as follows:

OUCC's Issue on Reconsideration. The OUCC asks the Commission to reconsider excluding the Belterra note from Switzco's capital structure because, according to the OUCC, not doing so "has resulted" in a higher rate of return than the Commission authorized. Motion for Reconsideration at p. 2, ¶ 4. Notably, the OUCC is not also urging inclusion of the Belterra main in Switzco's rate base consistent with its case-in-chief. Public's Ex. 4 at p. 3. Such disparate treatment on reconsideration is not explained.

As Switzco correctly noted in responding to the Motion for Reconsideration, setting an authorized rate of return does not guarantee Switzco will earn that rate of return. Petitioner's Response at p. 2. In fact, Ms. Mann's testimony in this Cause demonstrated Switzco has not been earning its

authorized return and has not paid dividends in a long time, probably since 2001. The authorized rate of return is used in establishing rates to provide an opportunity for the utility to earn a return to attract investor capital and continue providing reliable service, yet should be reasonable to minimize ratepayers' costs. Notwithstanding the OUCC's assertion, the record does not show the return the Commission authorized in the April Final Order has resulted in Switzco earning a rate of return higher than Petitioner was authorized.

Whether Switzco's earnings actually meet or exceed the return the Commission authorized will depend on multiple factors, including how effectively Switzco operates and manages its utility. We find the rates approved in the April Final Order afford an opportunity for Switzco to earn a 9.90% return on equity to attract investor capital, but this return is not a certainty. Moreover, Ind. Code § 8-1-2-42(g)(3)(C) provides a mechanism for prospectively monitoring Switzco's earnings. If Switzco earns a higher net operating income than authorized, the earnings test applied under Ind. Code § 8-1-2-42(g)(3)(C) when reviewing Petitioner's semi-annual gas cost adjustment ("GCA") petition will enable the Commission to address this scenario and assure that Switzco does not exceed what was authorized in this Cause. We reject as premature and speculative the proposition that exclusion of the Belterra note from Switzco's capital structure "has resulted" in a higher rate of return than the Commission authorized. Motion for Reconsideration at p. 2, ¶ 4.

Based on our analysis, if the Commission used the same methodology as the OUCC uses on reconsideration and added the Belterra note into Switzco's authorized capital structure, we find Petitioner's overall rate of return would be unreasonably diluted to 2.79%. Using the original cost rate base of \$908,986 under this methodology results in net operating income of \$25,361 ($\$908,986 \times 2.79\% = \$25,361$). Subtracting then Petitioner's interest on long-term debt (\$3,216) and interest on customer deposits (\$639) results in an amount available for return of \$21,506. When this amount is divided by Petitioner's actual common equity (\$510,189), this yields a return on equity of 4.22% ($\$21,506/\$510,189 = 4.22\%$), a difference of 568 basis points or 57.4% lower than the 9.90% return authorized. This result is, we believe, expected given the significance of weighting the components (especially the Belterra note at almost 60% of total capital at \$0 cost) within Petitioner's capital structure but is a result we do not find reasonable. Having excluded the Belterra main from Switzco's rate base, we also find it is appropriate to exclude the associated note from Petitioner's capital structure.

As the Commission in the April Final Order stated:

We find the Belterra main has been properly excluded from rate base and the capital structure because Switzco should not earn a return on the investment its customer, Belterra, funded in full. We approved that capital structure in Cause No. 42844, and we find the OUCC has provided [and continues to have provided on reconsideration] no compelling evidence to deviate from the consistency principle of accounting and change today the longstanding ratemaking treatment for the main and note. In so finding, we are also mindful of the impact the OUCC's about-face would have on Switzco. Petitioner has consistently under-earned its authorized net operating income based on the earnings test submitted in its GCA proceedings. **If the Commission accepted the OUCC's proposal and included 58% of its capital structure at 0% cost (since the note has no interest), we find it would have an unreasonable, adverse impact of Petitioner's rate of return.** (emphasis added).

April Final Order at p. 24 (IURC April 17, 2019). The Commission, therefore, denies the Motion for Reconsideration.

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

1. The OUCC's Motion for Reconsideration is denied.
2. This Order shall be effective on and after the date of its approval.

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

APPROVED: MAY 29 2019

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



Mary M. Becerra
Secretary of the Commission