

**DIRECT TESTIMONY OF CYNTHIA S. HUGHES
ON BEHALF OF SYCAMORE GAS COMPANY, INC.**

IURC CAUSE NO. 45032-S3

**IURC
RESPONDENT'S**
EXHIBIT NO. 1-20-18
DATE 1-20-18 REPORTER UR

1 **Q1. Please state your name.**

2 A1. Cynthia S. Hughes

3 **Q2. Please state your business address and occupation.**

4 A2. My business address is 370 Industrial Rd., Suite 200, Lawrenceburg, Indiana 47025. I
5 am the Chief Financial Officer (CFO) for Sycamore Gas Company, Inc. ("Sycamore" or
6 "Petitioner").

7 **Q3. Please describe your education and work experience.**

8 A3. I received a Bachelor of Science degree in industrial management from Purdue
9 University 1975 and a Master of Business Administration degree from the University of Chicago
10 in 1983. I am a certified public accountant in the State of Illinois. I have been Sycamore's CFO
11 since May, 2015. Prior to that I was a CFO for private and public companies in the
12 manufacturing and distribution industries.

13 **Q4. Have you previously testified before the Indiana Utility Regulatory Commission**
14 **("IURC")?**

15 A4. Yes, I regularly file testimony in support of Sycamore's quarterly gas cost adjustment
16 petitions in the GCA subdockets of IURC Cause No. 37368. I have also prefiled direct
17 testimony in Sycamore's pending base rate case, IURC Cause No. 45072.

**OFFICIAL
EXHIBITS**

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1 **Q5. What is the purpose of your testimony in this subdocket?**

2 A5. As Sycamore's CFO, I am familiar with the company's financial records. I am
3 sponsoring financial exhibits, including the Petitioner's income statement and balance sheet at
4 September 30, 2017, which was the end of the test year utilized in Cause No. 45072, as well as
5 schedules showing its rate base, amortization and cost of capital calculations. I also support
6 various adjustments made to the Petitioner's test year operating expenses, including but not
7 limited to the reducing Sycamore's test year federal income tax expense to reflect the lower rates
8 adopted at the end of 2017 in the federal Tax Cuts and Jobs Act of 2017 ("Act"), to derive pro
9 forma operating expenses and, ultimately, the revenue required for Sycamore to be able to
10 continue providing safe and reliable utility service and earn a fair return on its investments which
11 enable it to provide such service.

12 **Q6. How is your testimony in this subdocket different from what you've prefiled in**
13 **Sycamore's base rate case, Cause No. 45072?**

14 A6. The primary difference relates to Sycamore's deferred income tax liability. It is my
15 understanding that the IURC has established a separate process in Phase Two of this underlying
16 generic investigation, Cause No. 45032, to address that aspect of the Act's impact on utilities,
17 including Sycamore. So while Sycamore's evidence in its base rate case also reflected the
18 changes to its deferred tax expense as a result of the Act (see the testimony of Nichole Clement
19 in Cause No. 45072), for purposes of this subdocket in Phase One of the IURC's generic tax
20 investigation, I have backed out those impacts.

21 **Q7. Please describe Exhibit CSH-1.**

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1 A7. Exhibit CSH-1 is the Petitioner's Balance Sheet. Sycamore is proposing a cut-off date of
2 March 31, 2018 for determining the fair value of its rate base, which I determined based on the
3 depreciated original cost of those assets.

4 **Q8. Please describe Exhibits CSH-2 and CH-3.**

5 A8. Exhibit CSH-2 is the Petitioner's unadjusted Income Statement as of the end of the test
6 year utilized in this case, the twelve months ending September 30, 2017. The first page of this
7 exhibit is the summary income statement, and pages two and three contain the same information
8 with additional detail organized by FERC account. I then incorporated the adjustments
9 developed by Sycamore witness Michael Martin shown in his Exhibit MJM-2 to develop my
10 Exhibit CSH-3, Sycamore's Adjusted Income Statement reflecting adjustments for fixed, known
11 and measurable changes during the twelve-month period October 1, 2017 through September 30,
12 2018. The Adjusted Income Statement shows the revenue requirement Sycamore is requesting in
13 this case.

14 **Q9. Please describe Exhibit CSH-4.**

15 A9. I show in Exhibit CSH-4 amounts added to Sycamore's test year depreciation expense. I
16 made two adjustments to the test year figure. The first adjustment is to reflect the difference
17 between the depreciation expense included in the test year on plant that had been added during
18 the test year, and the annual depreciation on such plant. The second adjustment adds the
19 annualized depreciation on plant added between the end of the test year and the cutoff date for
20 Sycamore's rate base.

21 **Q10. Please describe Exhibit CSH-5.**

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1 A10. My Exhibits CSH-5 and CSH-6 show the basis for Sycamore's adjustment to its test year
2 income tax expenses for Indiana. Taxable income is computed by adding the utility receipts tax
3 and deducting interest expense from Total Operating Revenue less Operating Expenses before
4 Income Tax. I used an income tax rate of 5.75% to determine the state income tax, which is
5 subtracted from the tax expense per the books for the proforma adjustment.

6 **Q11. Please describe Exhibit CSH-6.**

7 A11. Exhibit CSH-6 calculates the federal income tax on the adjustments. Taxable income is
8 calculated by subtracting Operating Expenses before Income Tax, Indiana income tax and
9 interest expense from Total Operating Revenue. Income tax expense is reduced by \$297,538.

10 **Q12. What is Sycamore's cost of capital?**

11 A12. Exhibit CSH-7 presents Sycamore's Cost of Capital as of the date of the rate base cutoff
12 in this case, March 31, 2018. For purposes of this subdocket, I used the same rate of 10.4%
13 approved by the IURC in Sycamore's last rate case. This is another distinction between this
14 subdocket and Sycamore's pending base rate case, in which Sycamore has reached a settlement
15 with the Indiana Office of Utility Consumer Counselor at a cost of equity rate of 10.05%. Neither
16 Sycamore nor its parent company, Sycamore Gas Corporation d/b/a Sycamore Energy, has any
17 long-term debt as of March 31, 2018. The other two components of Sycamore's capital structure
18 are customer deposits, with a cost of 6% based on the Commission's rule for such deposits, 170
19 IAC 5-1-15(f)(1), and the balance of deferred income taxes. In addition to the cost of equity rate,
20 another difference between my Exhibit CSH-7 in this subdocket and the Exhibit CSH-7 included
21 with my testimony in Sycamore's base rate case because, as noted above, Sycamore's deferred
22 income taxes are to be addressed separately in Phase Two of this docket. Thus, the balance

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1 shown on Exhibit CSH-7 does not reflect the reduction to deferred taxes resulting from lower
2 federal income tax rates that went into effect on January 1, 2018.

3 **Q13. Have you calculated how much additional revenue Sycamore requires?**

4 A13. Yes. Sycamore's rate base is \$16,115,658. When multiplied by the 9.22% proposed rate
5 of return, that yields \$2,029,407 after grossing up for taxes. As shown in my Exhibit CSH-8, this
6 will require an additional \$984,840 above operating revenue at current rates.

7 **Q14. Have you prepared a proposed statement of income?**

8 A14. Yes. Exhibit CSH-9 calculates the adjustments for the needed additional revenue using
9 the effective rates after applying a gross revenue conversion factor of 1.366279 as determined by
10 Sycamore witness Nichole Clement in Sycamore's pending base rate case, IURC Cause No.
11 45072. The additional revenue and operating expenses are combined with the Adjusted Income
12 Statement, Exhibit CSH-3, for the Proposed Statement of Income, Exhibit CSH-10.

13 **Q15. Please describe Exhibit CSH-11.**

14 A15. Exhibit CSH-11 shows my calculation of the percentage increase in Sycamore's billed
15 revenues, including gas costs, proposed in this subdocket.

16 **Q16. Does this conclude your direct testimony?**

17 A16. Yes.

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SYCAMORE GAS COMPANY INC.

Balance Sheet

for the Twelve Months Ended March 31, 2018

ASSETS

UTILITY PLANT	
Utility Plant in Service	\$ 31,105,858
Less Accumulated Depreciation	\$ (15,598,077)
Net Utility Plant in Service	15,507,781
Construction Work in Progress	365
Total Utility Plant	15,508,146
OTHER INVESTMENTS	
Intercompany Receivable	13,817,087
CURRENT ASSETS	
Accounts Receivable	(3,393,425)
Materials and Supplies	278,304
Prepaid Expenses	322,508
Recoverable Gas Costs	227,740
Deferred Income Tax	20,250
Total Current Assets	(2,544,623)
TOTAL ASSETS	\$ 26,780,609

SHAREHOLDERS' EQUITY AND LIABILITIES

SHAREHOLDERS' EQUITY	
Retained Earnings	\$ 24,457,932
Total Shareholders' Equity	24,457,932
CURRENT LIABILITIES	
Accounts Payable	(3,175,554)
Bank Overdraft	141,660
Other Accrued Liabilities and Expenses	808,921
Customer Deposits	217,690
Income Taxes Payable	(351,963)
Current Portion of Long Term Debt	-
Total Current Liabilities	(2,359,247)
LONG TERM LIABILITIES	
Deferred Income Tax	4,681,924
Total Long Term Liabilities	4,681,924
TOTAL LIABILITIES	2,322,678
TOTAL SHAREHOLDERS EQUITY AND LIABILITIES	\$ 26,780,609

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SYCAMORE GAS COMPANY INC.

Income Statement (Summary)

for the Twelve Months Ended September 30, 2017

OPERATING REVENUE

Gas Sales Service Revenue	\$	7,553,912
Transportation Revenue		813,749
Other Operating Revenue		<u>97,564</u>
Total Operating Revenue		8,465,225

OPERATING EXPENSES

Natural Gas Purchases	3,560,327
Operations and Maintenance	985,623
Administration	1,207,755
Bad Debt Expense	(176)
Depreciation	901,745
Taxes - Other Than Income Taxes	240,052
Federal Income Taxes	497,590
Indiana Income Taxes	<u>101,386</u>
Total Operating Expenses	<u>7,494,302</u>

OPERATING INCOME

970,923

NON-OPERATING EXPENSE

Interest Expense	<u>11,959</u>
Total Non Operating Expense	<u>11,959</u>

NET INCOME

\$ 958,964

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SYCAMORE GAS COMPANY INC.
Income Statement (By FERC Account)
for the Twelve Months Ended September 30, 2017

OPERATING REVENUE

Gas Residential Sales	\$ 3,720,342
NTA Revenue	307,438
Commercial Gas Sales	1,937,631
Sales for Resale	1,018,969
Industrial Gas Sales	511,138
IT Sales Revenue	324,318
Total Gas Revenue	<u>7,819,838</u>
Transportation Revenue	547,823
Residential Penalty Revenue	48,123
Miscellaneous Revenue	49,441
Total Miscellaneous Revenue	<u>645,387</u>
Total Operating Revenue	8,465,225

PURCHASED GAS

804 Purchased Gas	3,441,312
805 Amortization of Variances	119,015
Total Purchased Gas	<u>3,560,327</u>

DISTRIBUTION

872 Compressor Station Labor	60
874 Main and Services Expenses	456,758
875 Measuring and Regulating Equipment	73,011
876 Measuring and Regulating - Station City Gate	17,674
877 Measuring and Regulating - Industrial	2,098
880 Other Expense	99,264
Total Distribution Operating Expense	<u>648,865</u>
887 Maintenance of Mains	7,078
889 Maintenance Measuring and Regulating Equipment	19,988
890 Maintenance Measuring and Regulating Equipment-Industrial	22,469
892 Maintenance Services	102,158
893 Maintenance Meters and Regulators	11,627
894 Maintenance Other Equipment	12,046
Total Distribution Maintenance Expense	<u>175,367</u>
Total Distribution Expense	824,231

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SYCAMORE GAS COMPANY INC.
Income Statement (By FERC Account)
for the Twelve Months Ended September 30, 2017

CUSTOMER ACCOUNTING

902 Meter Reading Expense	128,831
903 Billing and Collection Expense	44,221
904 Uncollectible Accounts	(176)
905 NTA Rebates	19,650
908 Customer Assistance Expense	14,717
909 Informational Advertising Expense	6,251
Total Customer Accounting Expense	<u>213,494</u>

ADMINISTRATIVE AND GENERAL

920 Administrative and General Salaries	464,846
921 Office Expenses	184,880
923 Outside Services	125,064
924 Property Insurance Expense	215,145
926 Employee Benefits	51,466
928 Regulatory Commission Expense	8,941
930 Miscellaneous General Expense	13,469
931 Rents	57,339
932 Travel and Entertainment	1,766
935 Maintenance General Plant	32,561
Total Administrative and General	<u>1,155,476</u>

Total Operation and Maintenance Expense 5,753,528

403 DEPRECIATION EXPENSE 901,745

408 TAXES - GENERAL

408.1 Taxes Other Than Income Taxes	68,245
408.2 Real Estate Tax	105,440
408.3 Utility Receipts Tax	66,367
Total Taxes - General	<u>240,052</u>

409 TAXES - INCOME

409.1 Federal Income Taxes, Utility Operations	497,590
409.1 Indiana Income Taxes, Utility Operations	101,386
Total Taxes - Income	<u>598,976</u>

INTEREST EXPENSE

424.0 Interest Expense - Customer Deposits	8,515
424.1 Interest Expense - Other	3,444
Total Interest Expense	<u>11,959</u>

NET INCOME

\$ 958,964

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SYCAMORE GAS COMPANY INC.
Adjusted Income Statement
for the Twelve Months Ended March 31, 2018

	Per Books 09/30/17	Adjustments	Adjusted at 03/31/18
OPERATING REVENUE			
Gas Sales Service Revenue	\$ 7,553,912	\$ (3,634,156)	\$ 3,919,756
Transportation Revenue	813,749	(901)	812,848
Other Operating Revenue	97,564		97,564
Total Operating Revenue	8,465,225	(3,635,057)	4,830,168
OPERATING EXPENSES			
Natural Gas Purchases	3,560,327	(3,546,386)	13,941
Operations and Maintenance	985,623	221,642	1,207,265
Administration	1,207,755	233,310	1,441,065
Bad Debt Expense	(176)	7,213	7,037
Depreciation	901,745	39,019	940,764
Taxes - Other Than Income Taxes	240,052	(46,715)	193,337
Amortization of Regulatory Liability			-
Federal Income Taxes	497,590	(297,538)	200,052
Indiana Income Taxes	101,386	(39,213)	62,173
Total Operating Expenses	7,494,302	(3,428,669)	4,065,633
OPERATING INCOME	970,923	(206,388)	764,535
NON-OPERATING EXPENSE			
Interest Expense	11,959		11,959
Total Non Operating Expense	11,959	-	11,959
NET INCOME	\$ 958,964	\$ (206,388)	\$ 752,576

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SYCAMORE GAS COMPANY INC.
Depreciation Adjustments
for the Twelve Months Ended March 31, 2018

Additional depreciation to annualize depreciation for assets placed in service in the test year.	\$ 29,544
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Annualized depreciation for assets placed in service October 1, 2017 to March 31, 2018.	9,475
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Total Depreciation Adjustments	<u>\$ 39,019</u>
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SYCAMORE GAS COMPANY INC.

Adjustment to Indiana Income Tax Expense

	Per Books 09/30/17	Adjustments	Adjusted at 09/30/17
OPERATING REVENUE			
Gas Sales Service Revenue	\$ 7,553,912	\$(3,634,156)	\$ 3,919,756
Transportation Revenue	813,749	(901)	812,848
Other Operating Revenue	97,564		97,564
Total Operating Revenue	8,465,225	(3,635,057)	4,830,168
OPERATING EXPENSES			
Natural Gas Purchases	3,560,327	(3,546,386)	13,941
Operations and Maintenance	985,623	221,642	1,207,265
Administration	1,207,755	233,310	1,441,065
Bad Debt Expense	(176)	7,213	7,037
Depreciation	901,745	39,019	940,764
Taxes - Other Than Income Taxes	240,052	(46,715)	193,337
Operating Expenses before Income Tax	6,895,326	(3,091,917)	3,803,409
Add Utility Receipts Tax			66,461
Less Interest Expense			11,959
Taxable Income			1,081,261
Tax Rate			5.75%
Indiana Income Tax			62,173
Less tax expense per books for year ended 9/30/17			101,386
Proforma adjustment to Indiana Income Tax			<u>\$ (39,213)</u>

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SYCAMORE GAS COMPANY INC.

Adjustment to Federal Income Tax Expense

	Per Books 09/30/17	Adjustments	Adjusted at 09/30/17
OPERATING REVENUE			
Gas Sales Service Revenue	\$7,553,912	\$(3,634,156)	\$ 3,919,756
Transportation Revenue	813,749	(901)	812,848
Other Operating Revenue	97,564		97,564
Total Operating Revenue	8,465,225	(3,635,057)	4,830,168
OPERATING EXPENSES			
Natural Gas Purchases	3,560,327	(3,546,386)	13,941
Operations and Maintenance	985,623	221,642	1,207,265
Administration	1,207,755	233,310	1,441,065
Bad Debt Expense	(176)	7,213	7,037
Depreciation	901,745	39,019	940,764
Taxes - Other Than Income Taxes	240,052	(46,715)	193,337
Operating Expenses before Income Tax	6,895,326	(3,091,917)	3,803,409
Less Indiana Income Tax			62,173
Less Interest Expense			11,959
Taxable Income			952,627
Tax Rate			21%
Federal Income Tax			200,052
Less FIT per books for year ended 9/30/17			497,590
Proforma adjustment to Federal Income Tax			(297,538)

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SYCAMORE GAS COMPANY INC.

Cost of Capital

at March 31, 2018

<u>Component</u>	<u>Amount</u>	<u>Percent of Total - %</u>	<u>Cost - %</u>	<u>Weighted Cost - %</u>
Common Equity	\$ 24,457,932	88.17%	10.40%	9.17%
Customer Deposits	217,690	0.78%	6.00%	0.05%
Long Term Debt	-	0.00%	0.00%	0.00%
Deferred Income Tax	3,063,686	11.04%	0.00%	0.00%
Total	<u>\$ 27,739,307</u>	<u>100.00%</u>		<u>9.22%</u>

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SYCAMORE GAS COMPANY INC.
Revenue Requirement
at March 31, 2018

Total Rate Base	\$ 16,115,658
Proposed Rate of Return	9.22%
Proposed Operating Income	<u>\$ 1,485,354</u>

Proposed Utility Operating Income	\$ 1,485,354
Adjusted Utility Operating Income	<u>764,535</u>
Additional Utility Operating Income Required	720,819
Revenue Conversion Factor	<u>1.366279</u>
Additional Revenue Required	<u>\$ 984,840</u>

Operating Income adjusted for Revenue Conversion Factor:	
Proposed Utility Operating Revenue	\$ 2,029,407
Adjusted Utility Operating Revenue at Current Rates	<u>1,044,567</u>
Additional Utility Operating Revenue Required	<u>\$ 984,840</u>

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SYCAMORE GAS COMPANY INC.
Calculation of Adjustments Due to Proposed Additional Revenue

Uncollectible Accounts Expense:	
Proposed Increase in Revenue	984,840
Current Effective Rate	<u>0.083128%</u>
Proposed Increase in Uncollectible Expense	<u><u>819</u></u>
Public Utility Fee:	
Proposed Increase in Revenue	984,840
Current Effective Rate	<u>0.132976%</u>
Proposed Increase in Public Utility Fee	<u><u>1,310</u></u>
Utility Receipts Tax:	
Proposed Increase in Revenue	984,840
Current Effective Rate	<u>1.398836%</u>
Proposed Increase in Utility Receipts Tax	<u><u>13,776</u></u>
Indiana Income Tax:	
Proposed Increase in Revenue	984,840
Current Effective Rate	<u>5.737574%</u>
Proposed Increase in Indiana Income Tax	<u><u>56,506</u></u>
Federal Income Tax:	
Proposed Increase in Revenue	984,840
Current Effective Rate	<u>19.455972%</u>
Proposed Increase in Federal Income Tax	<u><u>191,610</u></u>

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SYCAMORE GAS COMPANY INC.
Proposed Statement of Income
for the Twelve Months Ended March 31, 2018

	Adjusted 09/30/17	Proposed Rate Effect	Proposed 09/30/17
OPERATING REVENUE			
Gas Sales Service Revenue	\$ 3,919,756	\$ 984,840	\$ 4,904,596
Transportation Revenue	812,848	-	812,848
Other Operating Revenue	97,564		97,564
Total Operating Revenue	4,830,168	984,840	5,815,008
OPERATING EXPENSES			
Natural Gas Purchases	13,941	-	13,941
Operations and Maintenance	1,207,265	-	1,207,265
Administration	1,441,065	-	1,441,065
Bad Debt Expense	7,037	819	7,856
Depreciation	940,764	-	940,764
Taxes - Other Than Income Taxes	193,337	15,086	208,423
Amortization of Regulatory Liability	-	-	-
Federal Income Taxes	200,052	191,610	391,662
Indiana Income Taxes	62,173	56,506	118,678
Total Operating Expenses	4,065,633	264,021	4,329,654
OPERATING INCOME	764,535	720,819	1,485,354
NON-OPERATING EXPENSE			
Interest Expense	11,959		11,959
Total Non Operating Expense	11,959	-	11,959
NET INCOME	<u>\$ 752,576</u>	<u>\$ 720,819</u>	<u>\$ 1,473,395</u>

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SYCAMORE GAS COMPANY INC.
Computation of Proposed Billed Revenue Adjustment Impact

Weather Normalized proforma gas sales volumes billed (Dth)		946,441
add: Unaccounted for gas at	0.40%	<u>3,786</u>
Estimated gas purchases (Dth)		950,227
Estimated cost of gas from GCA 137 (Dth)		\$ 3.97
Estimated cost of gas to be included in revenues		\$ 3,772,401
Proforma present rate operating gas revenue		<u>4,830,168</u>
Proforma present rate revenue including estimated gas costs		<u><u>\$ 8,602,569</u></u>
Proposed revenue adjustment from Exhibit CSH-8		\$ 984,840
Proposed revenue adjustment percentage increase		11.45%

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