

FILED
OCTOBER 26, 2016
INDIANA UTILITY
REGULATORY COMMISSION

BEFORE THE
INDIANA UTILITY REGULATORY COMMISSION

**VERIFIED PETITION OF WESTFIELD GAS, LLC,)
D/B/A CITIZENS GAS OF WESTFIELD FOR (1))
AUTHORITY TO INCREASE RATES AND CHARGES)
FOR GAS UTILITY SERVICE AND APPROVAL OF A)
NEW SCHEDULE OF RATES AND CHARGES; (2))
APPROVAL OF CERTAIN REVISIONS TO ITS)
TERMS AND CONDITIONS APPLICABLE TO GAS)
UTILITY SERVICE; AND (3) APPROVAL PURSUANT)
TO INDIANA CODE SECTION 8-1-2.5-6 OF AN)
ALTERNATIVE REGULATORY PLAN UNDER)
WHICH IT WOULD CONTINUE ITS ENERGY)
EFFICIENCY PROGRAM PORTFOLIO AND ENERGY)
EFFICIENCY RIDER)**

CAUSE NO. 44731

VERIFIED REBUTTAL TESTIMONY
of
AARON D. JOHNSON

On Behalf of
Citizens Gas of Westfield

Petitioner's Exhibit 6

1 **INTRODUCTION AND BACKGROUND**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Aaron D. Johnson. My business address is 2020 N. Meridian Street,
4 Indianapolis, Indiana 46202.

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am employed by the Board of Directors for Utilities of the Department of Public
7 Utilities of the City of Indianapolis d/b/a Citizens Energy Group. Citizens Energy
8 Group is the successor trustee of a trust related to the provision of energy utility
9 services and, acting by and through the Board owns, manages and controls a number
10 of utility assets. Citizens Energy Group also owns the stock of Citizens By-Products
11 Coal Company d/b/a Citizens Resources, which itself owns a number of energy and
12 utility related businesses. I serve as Vice President of Strategy and Corporate
13 Development of Citizens Energy Group and have overall responsibility for the
14 management and operation of the businesses directly and indirectly owned by
15 Citizens Resources. Citizens Westfield Utilities, LLC, which is a subsidiary of
16 Citizens Resources, owns the sole membership interest of the Petitioner in this
17 proceeding, Westfield Gas, LLC d/b/a Citizens Gas of Westfield ("Petitioner" or
18 "Citizens Gas of Westfield"). I am also President of Citizens Gas of Westfield.

19 **Q. ARE YOU THE SAME AARON D. JOHNSON WHO PREVIOUSLY**
20 **TESTIFIED ON BEHALF OF CITIZENS GAS OF WESTFIELD IN THIS**
21 **PROCEEDING?**

1 A. Yes I am.

2 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

3 A. My rebuttal testimony addresses the decrease to Petitioner's authorized revenue
4 requirement proposed by the Indiana Office of Utility Consumer Counselor
5 ("OUCC") in this case.

6 **OUCC'S PROPOSED REVENUE REQUIREMENT DECREASE**

7 **Q. AS YOU MENTIONED, THE OUCC PROPOSES A DECREASE TO**
8 **CITIZENS GAS OF WESTFIELD'S AUTHORIZED REVENUE**
9 **REQUIREMENT. WHAT IS YOUR REACTION TO THE DECREASE**
10 **PROPOSED BY THE OUCC?**

11 A. I am disappointed. The OUCC's proposed decrease flies in the face of the
12 tremendous growth the Westfield community has experienced for years and the
13 millions of dollars Citizens Gas of Westfield has invested in utility plant to keep up
14 with that growth. It is particularly surprising to see the OUCC recommend a
15 valuation of Petitioner's utility property that is almost \$100,000 less than the value
16 established in Petitioner's last rate case almost eight years ago. Likewise, I'm not
17 sure how to react to the OUCC's recommendation that the Commission authorize a
18 return on equity for Petitioner that is 130 – 140 basis points lower than the returns on
19 equity the Commission has authorized for other gas utilities in recent cases. I believe
20 those positions alone demonstrate the extremeness of the OUCC's approach in this
21 case and why its recommended decrease to Petitioner's authorized revenue

1 requirement should be rejected out of hand.

2 **Q. IN LIGHT OF THE GROWTH THE WESTFIELD COMMUNITY HAS**
3 **EXPERIENCED AND THE UTILITY PLANT INVESTMENTS CITIZENS**
4 **GAS OF WESTFIELD HAS MADE SINCE ITS LAST RATE CASE, IS**
5 **THERE ANY BASIS FOR THE OUCC'S POSITION THAT THE VALUE OF**
6 **PETITIONER'S UTILITY PLANT IS ACTUALLY LESS THAN THE FAIR**
7 **VALUE THAT WAS ESTABLISHED IN PETITIONER'S LAST RATE**
8 **CASE?**

9 A. No. The OUCC's position is the result of its continued refusal to acknowledge that
10 Indiana law requires the Commission to "value all property of every public utility
11 actually used and useful for the convenience of the public at its fair value"¹¹ and
12 insistence that the Commission rely solely on the original cost of a utility's plant,
13 which ignores inflation, to establish the rate base upon which a return is authorized.
14 Indeed, throughout his testimony, OUCC witness Grosskopf distinguishes Petitioner's
15 proposed valuation of utility plant from the OUCC's proposed valuation by referring
16 to Petitioner's proposal as a "fair value rate base" and the OUCC's proposal as an
17 "original cost rate base." Petitioner's witness Scott Miller discusses the fair value of
18 Petitioner's utility plant in detail in his rebuttal testimony.

19 **Q. IS THE OUCC'S PROPOSED 8.8 PERCENT RETURN ON EQUITY**

¹¹ Indiana Code § 8-1-2-6(a) (emphasis added).

1 **SIMILARLY FLAWED?**

2 A. Yes. Petitioner's witness Adrien McKenzie describes the OUCC's return on equity
3 proposal as "extreme and out of the mainstream" and explains the fundamental flaws
4 underlying the OUCC's analysis that led to its significantly understated return on
5 equity.

6 **Q. ARE THERE OTHER EXAMPLES THAT SUPPORT YOUR ASSERTION**
7 **THE OUCC HAS TAKEN EXTREME POSITIONS TO SUPPORT ITS**
8 **PROPOSED DECREASE IN PETITIONER'S AUTHORIZED REVENUE**
9 **REQUIREMENT?**

10 A. Yes. One such example is the OUCC's recommendation that a portion of Petitioner's
11 rate case expenses be disallowed because those expenses should be borne by
12 Petitioner's parent company. The OUCC's own witness who testifies in support of
13 this recommendation acknowledges that the OUCC made the same recommendation
14 in a prior case and that "the Commission did not accept the OUCC's
15 recommendation." As Petitioner's witness Prentice points out in her rebuttal
16 testimony, there is also another Order in which the Commission rejected the rate case
17 expenses recommendation advanced by the OUCC in this case. Much like the
18 OUCC's continued refusal to accept fair value ratemaking as a legal requirement in
19 Indiana, the OUCC continues to advocate its previously rejected rate case expense
20 arguments simply because the OUCC witness testifying in support of those arguments
21 does not agree "with [the Commission's] rationale for rejecting the sharing of rate

1 case expense.” (Pub. Exh. No. 3 at page 7, lines 14 – 16) Paradoxically, by
2 continuing to take extreme positions, particularly those that have been continually
3 rejected by the Commission, the OUCC puts utilities in the position of defending
4 against these positions, thereby increasing rate case expenses.

5 **Q. ARE THERE ANY OTHER ASPECTS OF THE OUCC'S CASE IN CHIEF**
6 **YOU WISH TO ADDRESS?**

7 A. Yes. I believe the payroll and payroll tax adjustments proposed by OUCC witness
8 Wilcox further demonstrate an overly zealous attempt to reduce Petitioner's revenue
9 requirement by disallowing legitimate operating expenses.

10 OUCC witness Wilcox proposes a reduction to Petitioner's payroll and payroll
11 taxes based on the argument that certain compensation allocated to Citizens Gas of
12 Westfield does not conform to the Commission's March 2014 Order in Cause No.
13 44306, which was a rate case involving the Indianapolis Citizens Water utility that is
14 regulated for ratemaking purposes under Indiana's municipal ratemaking statute,
15 Indiana Code Section 8-1.5-3-8. Specifically, the Commission disallowed a portion
16 of Citizens Water's incentive compensation based on the Commission's belief that
17 including all the incentive compensation in Citizens Water's revenue requirement
18 resulted in “allocation of for-profit based costs [that was] inappropriate for a
19 municipal utility.” While the Order in Cause No. 44306 notes that it could have an
20 impact on Citizens Energy Group's other Indianapolis-based utilities, there is nothing
21 in that Order to suggest it extends to Citizens Gas of Westfield. Rather, the premise

1 behind the above referenced Order is that the utilities owned by Citizens Energy
2 Group that are regulated under the municipal ratemaking statute should, in general, be
3 treated differently from investor-owned utilities. The OUCC ignores the obvious in
4 the current case that Petitioner is indeed an investor owned utility.

5 Finally, it is noteworthy that the OUCC has chosen to re-litigate the same
6 arguments regarding Petitioner's decoupling mechanism known as the Sales
7 Reconciliation Component ("SRC") that were rejected by the Commission in Cause
8 No. 42144, even though the OUCC has since recommended that Vectren Energy's
9 SRCs be continued, and without a cap as to the amount that can be recovered through
10 the mechanism. Ms. Prentice discusses in her rebuttal testimony the reasons the
11 Commission should once again reject the OUCC's arguments on decoupling.

12 **CONCLUSION**

13 **Q. MR. JOHNSON, WHAT DO YOU RECOMMEND IN THIS PROCEEDING?**

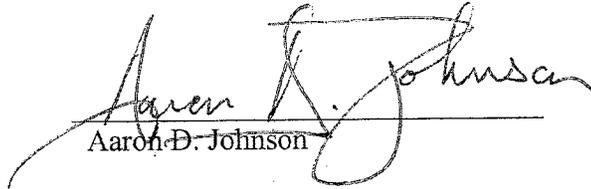
14 A. I recommend the Commission approve the revenue requirement proposed by
15 Petitioner and reject the OUCC's proposed adjustments to Petitioner's proposed pro
16 forma revenue requirement. I also recommend the Commission approve Petitioner's
17 energy efficiency, decoupling and rate design proposals described in Ms. Prentice's
18 case-in-chief and rebuttal testimony.

19 **Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY IN THIS**
20 **PROCEEDING?**

21 A. Yes, at this time.

VERIFICATION

The undersigned affirms under the penalties for perjury that the foregoing testimony is true to the best of his knowledge, information and belief.


Aaron D. Johnson