

FILED
June 26, 2018
INDIANA UTILITY
REGULATORY COMMISSION

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

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

**DIRECT TESTIMONY
OF
BONNIE J. MANN**

**ON BEHALF OF
SWITZERLAND NATURAL GAS COMPANY, INC.**

**DIRECT TESTIMONY OF BONNIE J. MANN
ON BEHALF OF SWITZERLAND COUNTY NATURAL GAS COMPANY, INC.**

1 **Q.1. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Bonnie J. Mann; my business address is 1776 N. Meridian, Suite 500,
3 Indianapolis, Indiana 46202.

4 **Q.2. MS. MANN, WHAT IS YOUR OCCUPATION?**

5 A. I am a Certified Public Accountant with LWG CPAs and Advisors, an accounting firm
6 which specializes in utility regulation before the Indiana Utility Regulatory Commission.

7 **Q.3. WOULD YOU PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND
8 AND PROFESSIONAL QUALIFICATIONS, WHICH YOU BELIEVE MIGHT
9 BE RELEVANT TO THE TESTIMONY AND OPINIONS YOU OFFER IN THIS
10 CAUSE?**

11 A. I am a 1987 graduate of Butler University where I earned a Bachelor of Science Degree
12 in business, with a concentration in accounting. Following graduation, I was employed
13 by the international accounting firm of Peat Marwick, where I performed financial and
14 operational audits for a variety of clients. Since September 1988, I have been employed
15 by the firm now known as LWG CPAs and Advisors (“LWG”), a firm specializing in
16 various financial matters including utility regulation on behalf of not for profit utilities,
17 municipalities, investor-owned utilities, and intervenors before the Indiana Utility
18 Regulatory Commission. I am currently a Principal with LWG concentrating in the
19 utilities area.

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1 **Q.4. WHAT ARE YOUR RELEVANT PROFESSIONAL AFFILIATIONS?**

2 A. I am a member of the American Institute of Certified Public Accountants (AICPA), and
3 the Indiana CPA Society (INCPAS), for which I have served as a chair of its Utilities
4 Committee.

5 **Q.5. ON WHOSE BEHALF ARE YOU APPEARING IN THIS CAUSE?**

6 A. I am appearing on behalf of the Petitioner, Switzerland County Natural Gas Company,
7 Inc.

8 **Q.6. MS. MANN, HAVE YOU PREVIOUSLY TESTIFIED ON BEHALF OF THIS**
9 **PETITIONER BEFORE THE COMMISSION?**

10 A. Yes, I have.

11 **Q.7. PLEASE SUMMARIZE THE SCOPE OF YOUR WORK FOR THE**
12 **PETITIONER IN THIS CASE.**

13 A. Having worked with this Petitioner previously, and for numerous other small gas utilities,
14 I along with my colleagues at LWG were requested by the Petitioner to review its
15 financial records in order to form an opinion as to the appropriate level of revenues
16 required to recover the Company's current cost of service; to advise the management on
17 various adjustments that should be made in this base rate case; and to prepare Testimony
18 and Exhibits on the Petitioner's behalf for presentation before the IURC supporting
19 Petitioner's request to change its rates and charges. Prior to the filing of the Verified
20 Petition, I met with Petitioner's management on multiple occasions starting in February
21 2017.

22

23 **Q.8. CAN YOU SHARE WITH US THE NUMBER AND NATURE OF MEETINGS**
24 **YOU HAD WITH THE BOARD OF DIRECTORS CONCERNING THE FILING**

1 **OF THIS BASE RATE PROCEEDING?**

2 A. My first meeting with the board of directors on the possibility of a rate case came in
3 February 2017 and included a discussion related to the utility not achieving its authorized
4 earnings for several years and the possible timing of a rate case in either 2017 or 2018.
5 In July 2017, I met with the board of directors to discuss the decrease in tariff rates
6 necessary due to the removal of rate case expense from base rates. This decrease in
7 revenue of 3.5% along with the utility's consistent under earnings prompted the board to
8 authorize a rate case review to be performed by LWG with a test year of September 2017.
9 My next meeting with the board of directors was on December 21, 2017, the day before
10 the President signed the Tax Cuts and Jobs Act. At that time the discussion centered on
11 the need for increased rates and the uncertainty related to the impacts of the new law on
12 rates. My next meeting with the board of directors was in February 2018. During this
13 meeting the IURC investigation in Cause No. 45032 was discussed along with its impact
14 on rates and charges. Because Petitioner is small the tax rates currently embedded in
15 base rates were less than the new Federal Tax Rate. This meant that the increase the
16 utility needed in rates was larger. Also discussed was the Phase I Order issued by the
17 IURC in Cause No. 45032 on February 16, 2018 that ordered utilities to update their
18 current base rates to include the new tax rate based on their prior embedded tax rate. The
19 board authorized a filing within Phase I of Cause No. 45032. My next meeting with the
20 board of directors was in May 2018 where the discussion was about the denial of the
21 Phase I filing by the utility and the lack of a subdocket issued to the utility in Phase II of
22 the Commission's tax investigation in Cause No. 45032. At that time the board asked
23 that impacts including the under collection of deferred income taxes be included in the
24 base rate filing.

1 **Q.9. MS. MANN HAVING REVIEWED PETITIONER'S BOOKS AND RECORDS**
2 **FOR THE TEST YEAR WHAT CONCLUSIONS DID YOU REACH?**

3 A. Petitioner is not earning its authorized return on rate base approved in its last rate case –
4 Cause Number 44293. That last rate case was filed in 2013, but it only provided for costs
5 associated with the Energy Efficiency proceeding of Cause No. 43995 and certain
6 changes in taxes, bad debt, working capital and the IURC fee that were updated at that
7 time. Essentially Petitioner's rate base and operating costs have not been updated since
8 2010 and Cause No. 43897-U. Petitioner's costs of operating this utility have increased
9 since 2010. Additionally Petitioner's impacts from the Tax Cuts and Jobs Act was an
10 increase in its tax rate not a decrease as is the case for most other tax paying utilities.
11 Increases in its rates will assist Petitioner to cover all of its current operating expenses
12 and allow it to continue to provide reasonable service to its customers. This increase will
13 also allow Petitioner the opportunity of earning a reasonable return on its investments.

14 **Q.10. CAN YOU IDENTIFY THE PETITION AND THE EXHIBITS ATTACHED TO**
15 **YOUR TESTIMONY?**

16 A. The Petition was prepared by counsel, and discussed with Petitioner's management.
17 Exhibit BJM-1 are the accounting schedules which include the technical exhibits and
18 schedules supporting a change in Petitioner's current base rates. I along with my
19 colleagues at LWG prepared those accounting schedules.

20 **Q.11. PLEASE EXPLAIN WHAT IS INCLUDED IN EXHIBITS A AND B OF EXHIBIT**
21 **BJM-1.**

22 A. Exhibits A and B show the Comparative Balance Sheets and Statements of Net Income,
23 respectively, for the Petitioner. This historical information is presented as of September
24 30, 2017 and 2016. The twelve months ended September 30, 2017, is the test year

1 proposed by the Petitioner initiating this Cause. The books and records of Petitioner are
2 kept in accordance with the uniform system of accounts for a gas utility. They are the
3 representations of the management of the Petitioner, and are the starting point for our
4 fixed, known and measurable accounting adjustments. Schedules A-1, B-1 and B-2 are
5 the supporting details for the major Balance Sheet and Statement of Income elements,
6 respectively.

7 **Q.12. PLEASE DESCRIBE THE ADJUSTMENTS CONTAINED IN SCHEDULE C-1**
8 **OF EXHIBIT BJM-1.**

9 A. **Adjustment Nos. 1, through 6,** are comprised of several adjustments to Operating
10 Revenues and Expenses.

11 **Adjustment No. 1** which adjusts sales revenue is comprised of three (3) separate
12 adjustments totaling (\$500,175) as follows:

13 a) Elimination of (\$476,626) in net Gas Cost Adjustment (GCA) revenues recorded
14 during the test year ended September 30, 2017.

15 b) Decrease in sales revenues of (\$3,619) due to use of the most recent NOAA 30-year
16 averages in the calculation of the Normal Temperature Adjustment (“NTA”).
17 Petitioner’s current temperature normalization adjustment tariff is based upon heating
18 degree day normals from 1971-2000. At the time of the Petitioner’s last rate case in
19 2012, the National Oceanic and Atmospheric Administration (NOAA) had not issued
20 the heating degree day normals for 1981-2010 (New Normals) and therefore, this
21 tariff was unable to be updated at that time. However, new heating degree day
22 normals have now been established by NOAA. I have used those New Normals to
23 recalculate the test year revenue once the NTA is applied.

24 Because the NTA is applied to each heating customer on an individual basis, the time

1 necessary to recalculate each customer's bill by hand using the New Normals for the
2 test year is prohibitive, and ultimately would not be a more accurate estimate in
3 helping establish the revenue requirement. For this calculation total customer
4 volumes by class were weather normalized using both the 1971-2000 NOAA
5 averages and the 1981-2010 NOAA averages. The difference in volumes for each
6 customer class was multiplied by the applicable block rate for each class and the
7 resulting revenues totaled. This has resulted in an adjustment to test year operating
8 revenues of (\$3,619) due to the New Normals which are overall warmer than the
9 previous values.

10 c) Decrease of (\$19,930) in sales revenue due to a tariff filed August 29, 2017.
11 Petitioner does not prorate sales for its billing reports and the first billing using the
12 new rate went out in October 2017.

13 **Adjustment No. 2** adjusts the natural gas purchased to remove the cost of gas except for
14 unaccounted for gas from base rates and is a decrease of (\$482,942) in Natural Gas
15 Purchased. The unaccounted for percentage used is based on the test year unaccounted
16 for and is calculated in the same manner used by the utility in its semi-annual GCA
17 filings. The cost of gas used in pricing the unaccounted for gas was based on the test
18 year cost of gas. As petitioner doesn't fix large portions of its gas purchases and the
19 current contract it holds for fixed gas runs through March 2020, Petitioner feels this is an
20 accurate representation of the price of gas consumers will be charged.

21 **Adjustment No. 3** adjusts "Operation and Maintenance" expense and consists of nine (9)
22 adjustments totaling \$43,070 as follows:

23 a) Increase in payroll expenses of \$5,835 which reflects the cost of salaries and wages for
24 Petitioner's employees included in operations and maintenance expenses. The proforma

1 payroll was calculated by first annualizing the 2017 wages and then applying an expected
2 3% pay rate increase for all employees. The proforma payroll was compared to test year
3 payroll. Petitioner hires outside contractor labor for most of its extension and replacement
4 work. As a result there was no capitalized payroll during the test year.

5 b) Increase in retirement contribution made on behalf of employees of \$583. This is
6 based on the Pro Forma salaries calculated for the payroll adjustment, as described above.
7 Petitioner contributes 10% of all employee salary and wages to retirement accounts on
8 behalf of employees. This is the same contribution rate and the same employee coverage
9 as approved in every case filed by Petitioner since it implemented its retirement benefit.

10 c) Amortization of estimated rate case expense, plus the estimated cost of Notice to
11 Customers resulting in an increase of \$35,944. Petitioner is proposing a rate case
12 amortization period of 5 years which is the same number approved for amortization in its
13 last rate case. Additionally looking at Petitioner's history rate requests yields the
14 following review:

Cause No. 44293	01/09/2013
Cause No. 43897-U	05/07/2010
Cause No. 42844	04/25/2005
Cause No. 41044	10/31/1997
Cause No. 40223-U	06/21/1995
Cause No. 39291	9/23/1991

15
16 This review of the filing dates of Petitioner's last 6 rate cases along with the date the
17 Petition was filed in this cause shows an average of 4.5 years between rate cases.
18 Therefore Petitioner believes that a 5 year amortization properly reflects the time between

1 rate cases for this Petitioner.

2 In the settlement agreement of the Petitioner's last rate case and in recent rate
3 proceedings approved by the IURC it has been ordered that if a rate proceeding is not
4 filed within the time period reflected in the rate case amortization adjustment, Petitioner
5 must adjust tariffs to reflect the removal of that expense. While I do not agree with this
6 decision and believe it accelerates the rate at which customers will receive rate increases,
7 Petitioner will do so if ordered by the Commission. If that adjustment is part of the order
8 from the Commission I would request that the Petitioner be granted deferred accounting
9 on the cost of refileing its tariffs to allow for the collection from customers of this
10 mandatory regulatory filing within a future proceeding.

11 d) Increase of \$174 to reflect the current IURC fee on the applicable Pro-Forma Present
12 Rate Revenues.

13 e) Increase in insurance expenses to reflect the changes in the cost of property, worker's
14 compensation, casualty and general liability insurance of \$1,874.

15 f) Increase in insurance expense of \$1,162 for payments to employees to compensate for
16 the cost of health insurance.

17 g) Increase of \$2,241 for bad debts. This adjustment is based on a three-year average
18 using the calendar years of 2014, 2015, and 2016. A three year average is one that has
19 been used by this utility in the past to determine the average bad debt write off.
20 Petitioner bad debts write offs have improved since the end of the recession and
21 Petitioner believes these years to provide an accurate picture of Petitioner's potential
22 write offs.

23 h) A decrease for amortization of regulatory expenses related to the cost of the required
24 tariff adjustment made in August 2018 as described above. Petitioner would like to

1 recover the cost of that required regulatory filing over the same 5 year life over which it
2 is asking for recovery of expense from this rate proceeding. After removing the costs
3 included in Petitioner's expenses the adjustment is a decrease of (\$5,457).

4 (i) An increase to continue collection of the cost of outside services relating to the
5 continued wrap up related to Petitioner's participation in the pilot energy efficiency
6 program approved in Cause No. 43995.

7 **Adjustment 4** reflects the increase in the Pro-Forma depreciation and amortization
8 expense. Utility Plant in Service at September 30, 2018 has been decreased by fully the
9 cost of fully depreciated assets still on the Petitioners books. This adjustment uses 2.5%
10 depreciation for distribution plant; 20% depreciation for transportation and computer
11 equipment; and 10% depreciation for all other equipment. These are the same
12 depreciation rates approved in the Petitioner's last rate proceeding. This results in a
13 decrease in Depreciation of (\$5,518).

14 **Adjustment 5** adjusts "Taxes Other Than Income Taxes" expense and consists of three
15 (3) different adjustments totaling (\$5,768) as follows:

16 a) Increase of \$446 to for changes in payroll taxes due to the changes in the payroll tax
17 adjustment.

18 b) Decrease of (\$7,447) to annualize the property tax for utility plant as of September
19 30, 2017 based on the marginal property tax rate paid by Petitioner during the test
20 year.

21 c) Increase of (\$1,233) to adjust utility receipts tax based on Pro-Forma present
22 revenues.

23 **Adjustment 6** adjusts income tax expense and consists of two (2) different adjustments
24 totaling (\$18,352) as follows:

1 a) Increase in State Income Taxes of \$115 using the current State Income Tax rate of
2 5.75%. This tax rate goes into effect as of July 1, 2018.

3 b) Decrease in Federal Income Taxes by (\$18,467) including synchronized interest; but
4 adjusted for the recent Tax Cuts and Jobs Act of 2017 as to the actual tax rate that
5 will be paid by Petitioner.

6 **Q.13. PLEASE DESCRIBE THE ADJUSTMENTS PRESENTED IN SCHEUDLE C-2**
7 **AND SCHEDULE C-3 OF EXHIBIT BJM-1.**

8 A. **Schedule C- 2** reflects adjustments that are correlated with the increase in revenues as
9 proposed by Petitioner.

10 **Adjustment A** of Schedule C-2, reflects the projected proposed increase in
11 annual revenue of \$83,699.

12 **Adjustment B** reflects the application of the current IURC fee to the increase in
13 annual revenue resulting in an adjustment of \$111.

14 **Adjustment C** applies the bad debt rate used in Schedule C-1 to the increased
15 annual revenue reflecting an adjustment of \$567.

16 **Adjustment D** reflects the application of Utility Receipts Taxes to the increase in
17 annual revenue resulting in an adjustment of \$1,164

18 **Adjustment E** adjusts income taxes to the increase in annual revenue and consists
19 of two (2) different adjustments totaling \$20,961 as follows:

20 a) State Income Taxes of \$4,774.

21 b) Federal Income Taxes of \$16,187.

22 **Schedule C-3** is the calculation of overall revenues on which the proposed rate increase
23 is based. GCA revenue (adjusted for Utility Receipt Tax) has been added to present rate
24 revenue to calculate the Pro-Forma rate increase on average.

1 **Q.14. WHAT IS EXHIBIT D?**

2 A. Exhibit D is the calculation of Original Cost Rate Base. It is comprised of several
3 components.

4 **Q.15. WHAT ARE THOSE COMPONENTS?**

5 A. The major component is Utility Plant-in-Service as of September 30, 2017, less the cost
6 of the main extension paid for by the utility's largest customer Belterra Casino which
7 results in an original cost of utility plant of \$1,693.868 The original cost is offset by the
8 total accumulated depreciation on utility plant in service as of September 30, 2017, less
9 the accumulated depreciation on the Belterra Casino line extension which results in an
10 accumulated depreciation for this calculation of (\$836,639). This is the same approach
11 previously used for this Petitioner in prior base rate proceedings. This results in the Net
12 Utility Plant in Service of \$857,229. To the Net Utility Plant-in-Service, we have added
13 working capital in the amount of \$50,868 using the FERC 45-day working capital
14 formula, which has been accepted for gas utilities the size of Petitioner in lieu of
15 performing a cash lead-lag study. The total original cost rate base included in these
16 exhibits is \$908.098.

17 **Q.16. WHAT IS EXHIBIT E?**

18 A. Exhibit E reflects the capital structure of the Petitioner. Petitioner's capital structure
19 includes common equity, existing long-term debt, customer deposits, and deferred taxes.

20 **Q.17. MS. MANN HAVE YOU MADE ALL CHANGES IN PETITIONER'S**
21 **ACCOUNTING SCHEDULES THAT MAY BE IMPACTED BY THE TAX CUTS**
22 **AND JOBS ACT OF 2017?**

23 A. To the extent I could. Petitioner was not given an opportunity to update its base rates for
24 the under collection of revenue between its prior 15% tax rate and its current 21% tax

1 rate. Additionally Petitioner has been collecting deferred taxes at a rate of 15% but will
2 have to pay them at 21%. However the language in the both the tax law and the IURC
3 order in Cause No. 45032 make it impossible for the utility to make up those moneys.
4 The non-symmetrical nature of this tax treatment means that this utility will continue to
5 fall further behind until it can acquire new base rates, the only option available to address
6 this issue.

7 **Q.18. MS. MANN, ON THE BASIS OF YOUR ANALYSIS, WHAT NET OPERATING**
8 **INCOME SHOULD THIS PETITIONER BE AUTHORIZED AN OPPORTUNITY**
9 **TO EARN?**

10 A. I believe this Petitioner should be authorized the opportunity to earn at least \$67,380
11 annually in net operating income.

12 **Q.19. IF THIS COMMISSION AUTHORIZED A NET OPERATING INCOME OF**
13 **\$67,380, WHAT IS THE OVERALL RATE OF RETURN ON PETITIONER'S**
14 **USED AND USEFUL PLANT?**

15 A. This would be an overall return of 7.42%. The components comprising the overall return
16 are detailed on Exhibit E.

17 **Q.20. IN YOUR OPINION, WHAT INCREASE IN REVENUE SHOULD THE**
18 **COMMISSION AUTHORIZE FOR THE PETITIONER?**

19 A. Based upon Exhibit C, the increase in operating revenue should be \$83,699 which is an
20 overall increase of 7.71% of Pro-Forma present rate revenue as reflected on my Exhibit
21 BJM-1 (Exhibit C-1).

22 **Q.21. MS. MANN, HOW WILL AN INCREASE IN THE REVENUE REQUIREMENT**
23 **BE ASSIGNED TO EACH CUSTOMER CLASS?**

24 A. The overall increase will be allocated based on a cost of service study performed by

1 Kerry Heid, as requested by the Commission's Order in 44293. Mr. Heid is also a witness
2 in this proceeding.

3 **Q.22. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

4 A. Yes it does.

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VERIFICATION

I affirm under the penalties of perjury that the foregoing is true to the best of my knowledge, information and belief as of the date here filed.

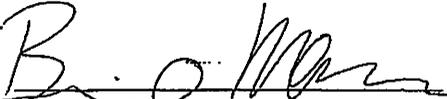

Bonnie J. Mann

EXHIBIT BJM-1

Switzerland County Natural Gas Co., Inc.
Vevay, IN

BALANCE SHEETS
September 31, 2017 and 2016

	ASSETS	<u>2017</u>	<u>2016</u>
UTILITY PLANT IN SERVICE			
Gas plant in service		\$ 2,908,801	\$ 2,870,742
General plant		485,659	444,898
Accumulated depreciation		<u>(1,659,298)</u>	<u>(1,561,386)</u>
Net utility plant in service		<u>1,735,162</u>	<u>1,754,254</u>
CURRENT ASSETS			
Cash		224,971	250,748
Accounts receivable		36,873	30,338
Recoverable gas costs		-	-
Deferred assets		82,548	115,316
Prepaid expenses and other current assets		<u>27,873</u>	<u>21,749</u>
Total current assets		<u>372,265</u>	<u>418,151</u>
Total assets		<u>\$ 2,107,427</u>	<u>\$ 2,172,405</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
SHAREHOLDERS' EQUITY			
Common stock		\$ 1,000	\$ 1,000
Retained earnings		<u>530,835</u>	<u>494,562</u>
Total shareholders' equity		<u>531,835</u>	<u>495,562</u>
CURRENT LIABILITIES			
Accounts payable		56,043	46,549
Customer deposits		9,895	10,089
Accrued expenses		43,727	118,667
Current portion of note payable		<u>55,214</u>	<u>55,214</u>
Total current liabilities		<u>164,879</u>	<u>230,519</u>
NOTE PAYABLE - LESS CURRENT PORTION		<u>1,214,304</u>	<u>1,245,061</u>
DEFERRED INCOME TAXES		<u>196,409</u>	<u>201,263</u>
Total liabilities and shareholders' equity		<u>\$ 2,107,427</u>	<u>\$ 2,172,405</u>

SCHEDULE A-1

Switzerland County Natural Gas Co., Inc.
Vevay, IN

DETAIL OF UTILITY PLANT-IN-SERVICE
September 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<u>Utility Plant in Service</u>		
<u>Distribution Plant</u>		
Mains	\$ 2,229,571	\$ 2,195,186
Reg. stations equipment	91,754	91,340
Services	240,812	240,642
Meters	228,838	225,748
New meter installations	67,919	67,919
House reg/install	49,907	49,907
	<hr/>	<hr/>
Total distribution plant	<u>2,908,801</u>	<u>2,870,742</u>
<u>General Plant</u>		
Land	73,088	73,088
Structures and improvements	193,692	184,608
Office furniture and equipment	40,701	40,701
Transportation equipment	79,609	52,065
Miscellaneous equipment	98,569	94,436
	<hr/>	<hr/>
Total general plant	<u>485,659</u>	<u>444,898</u>
Total utility plant in service	<u>\$ 3,394,460</u>	<u>\$ 3,315,640</u>

Switzerland County Natural Gas Co., Inc.
Vevay, IN

COMPARATIVE STATEMENTS OF NET INCOME
For the Twelve Months Ended September 30, 2017 and 2016

	2017	2016
<u>Operating Revenues</u>		
Gas sales	\$ 1,041,615	\$ 952,891
Other gas revenues	7,018	7,371
Total operating revenues	1,048,633	960,262
 <u>Operating Expenses</u>		
Natural gas purchased	495,757	434,086
Distribution expense	8,778	6,690
Customer accounts expense	4,813	7,525
Administrative and general expense	350,286	330,166
Depreciation	97,912	78,368
Taxes other than income taxes	35,471	38,386
Income taxes	18,467	4,412
Total operating expenses	1,011,484	899,633
Net operating income	37,149	60,629
 <u>Other Income and Expense - Net</u>		
Interest income	306	301
Interest expense	(2,810)	(3,780)
All other income, net	1,626	1,267
Total other income and expense - net	(878)	(2,212)
Net income	\$ 36,271	\$ 58,417

Switzerland County Natural Gas Co., Inc.
Vevay, IN

COMPARATIVE DETAIL OF OPERATING REVENUES
For the Twelve Months Ended Spetember 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<u>Operating Revenues</u>		
Gas sales		
Residential	\$ 301,832	\$ 301,022
Commercial	102,757	110,215
Industrial	<u>637,026</u>	<u>541,654</u>
Total gas sales	<u>1,041,615</u>	<u>952,891</u>
Other gas revenues		
Penalties	4,364	5,227
Connect fees	1,920	1,290
Reconnect fees	690	810
Return check fees	<u>44</u>	<u>44</u>
Total operating revenues	<u><u>\$ 7,018</u></u>	<u><u>\$ 7,371</u></u>

Switzerland County Natural Gas Co., Inc.
Vevay, IN

COMPARATIVE DETAIL OF OPERATING EXPENSES
For the Twelve Months Ended Spetember 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<u>Operating Expenses</u>		
Natural gas purchased		
Natural gas purchases	\$ 567,396	\$ 457,865
Gas cost adjustments	(71,639)	(23,779)
Total natural gas purchased	<u>495,757</u>	<u>434,086</u>
Distribution expense		
Mains & service expense	<u>8,778</u>	<u>6,690</u>
Total distribution expense	<u>8,778</u>	<u>6,690</u>
Customer accounts expenses		
Uncollectible accounts	5,500	9,000
Bad debt recovery	(687)	(1,475)
Total customer accounts expenses	<u>4,813</u>	<u>7,525</u>
Administrative & general expenses		
Administrative & general salaries	164,455	159,880
Office supplies & expense	11,215	13,440
Outside services	55,438	30,570
Property insurance	17,869	25,580
Employee benefits	30,413	25,990
Regulatory commission expense	11,436	10,111
Miscellaneous expense	59,460	64,595
Total administrative & general expenses	<u>350,286</u>	<u>330,166</u>

Switzerland County Natural Gas Co., Inc.
Vevay, IN

COMPARATIVE DETAIL OF OPERATING EXPENSES
For the Twelve Months Ended Spetember 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Depreciation expense		
Depreciation - plant	<u>97,912</u>	<u>78,368</u>
Total depreciation expense	<u>97,912</u>	<u>78,368</u>
Taxes other than income taxes		
Property taxes	16,651	16,064
Utility receipts tax	6,333	9,986
FICA tax-company share	12,256	12,033
Federal unemployment	69	132
State unemployment	<u>162</u>	<u>171</u>
Total taxes other than income taxes	<u>35,471</u>	<u>38,386</u>
Income Taxes		
Federal income taxes		
Deferred income taxes	18,467	4,412
State Income taxes		
Total income taxes	<u>18,467</u>	<u>4,412</u>
Total operating expenses	<u><u>\$ 1,011,484</u></u>	<u><u>\$ 899,633</u></u>

Switzerland County Natural Gas Co., Inc.
Vevay, IN

Pro-Forma Operating Income Statement
At Pro-Forma Present and Proposed Rates
For the Twelve Months Ended September 30, 2017

Increase Required: 7.71%

	<u>September</u> <u>2017</u>	<u>Adjustments</u>	<u>Ref</u>	<u>Pro-Forma</u> <u>Present</u> <u>Rates</u>	<u>Adjustments</u>	<u>Ref</u>	<u>Pro-Forma</u> <u>Proposed</u> <u>Rates</u>
<u>Operating Revenues</u>							
Gas sales	\$ 1,041,615	\$ (500,175)	(1)	\$ 541,440	\$ 83,699	(A)	\$ 625,139
Other gas revenues	7,018			7,018			7,018
Total operating revenues	<u>1,048,633</u>	<u>(500,175)</u>		<u>548,458</u>	<u>83,699</u>		<u>632,157</u>
<u>Operating Expenses</u>							
Natural gas purchased	495,757	(482,942)	(2)	12,815			12,815
Other operation & maintenance	363,877	43,070	(3)	406,947	678	(B & C)	407,625
Depreciation	97,912	(5,518)	(4)	92,394			92,394
Taxes other than income taxes	35,471	(5,768)	(5)	29,703	1,164	(D)	30,867
Income taxes	18,467	(18,352)	(6)	115	20,961	(E)	21,076
Total operating expenses	<u>1,011,484</u>	<u>(469,511)</u>		<u>541,973</u>	<u>22,803</u>		<u>564,776</u>
Net operating income	<u>\$ 37,149</u>	<u>\$ (30,664)</u>		<u>\$ 6,485</u>	<u>\$ 60,896</u>		<u>\$ 67,381</u>

Switzerland County Natural Gas Co., Inc.
Vevay, IN

DETAIL OF PRO-FORMA PRESENT RATE ADJUSTMENTS

(1) REVENUE ADJUSTMENTS

(a) To adjust operating revenues to eliminate GCA revenue included in the test year.	<u>\$ (476,626)</u>
(b) To adjust operating revenues to move to new NOAA averages for NTA.	<u>\$ (3,619)</u>
(c) To adjust operating revenues for decrease in tariff rate from settlement in Cause No. 44293	<u>\$ (19,930)</u>
Total adjustment to operating revenues - increase / (decrease)	<u>\$ (500,175)</u>

Switzerland County Natural Gas Co., Inc.
Vevay, IN

DETAIL OF PRO-FORMA PRESENT RATE ADJUSTMENTS

(2) NATURAL GAS PURCHASED ADJUSTMENT

To adjust natural gas purchased to eliminate the cost of natural gas purchased from base rates.

Sales - Dth	140,026	
Unaccounted for gas percentage	<u>2.35%</u>	
Pro-Forma purchased gas	3,296	
Estimated cost of purchased gas (Schedule C-3)	<u>\$ 3.89</u>	
Pro-Forma cost of gas		\$ 12,815
Less: test year purchased gas		<u>495,757</u>
Increase / (decrease) in natural gas purchased		<u>\$ (482,942)</u>

Switzerland County Natural Gas Co., Inc.
Vevay, IN

DETAIL OF PRO-FORMA PRESENT RATE ADJUSTMENTS

(3) OPERATION AND MAINTENANCE EXPENSE ADJUSTMENTS

(a)

To adjust other operation and maintenance expense for the annualization of payroll and wage increases

Pro-Forma payroll expense	\$ 170,290
Test year payroll expense	<u>164,455</u>
Payroll adjustment - increase / (decrease)	<u>\$ 5,835</u>

(b)

To adjust other operations and maintenance expense for retirement contribution made on behalf of employees.

Payroll adjustment from 3(a)	\$ 5,835
Test year contribution rate	<u>10.00%</u>
Retirement expense adjustment - increase / (decrease)	<u>\$ 583</u>

(c)

To adjust other operation and maintenance expense for the amortization of rate case expense.

Estimated cost of rate case filing	\$ 230,000
Estimated cost of mailing notice to customers	<u>500</u>
Total estimated cost	230,500
Amortization period - years	<u>5</u>
Annual amortization	46,100
Test year amortization	<u>10,156</u>
Adjustment - increase / (decrease)	<u>\$ 35,944</u>

(d)

To adjust other operation and maintenance expense to reflect current IURC fee.

Applicable revenues at present rates including GCA revenue	\$ 1,092,795
Current IURC rate	<u>0.001330868</u>
Pro-Forma IURC fee at present rates	1,454
Less: Test year IURC fee	<u>1,280</u>
Adjustment - increase	<u>\$ 174</u>

Switzerland County Natural Gas Co., Inc.
Vevay, IN

DETAIL OF PRO-FORMA PRESENT RATE ADJUSTMENTS

(3) OPERATION AND MAINTENANCE EXPENSE ADJUSTMENTS (continued)

(e)

To adjust other operations and maintenance expense for property, worker's compensation, casualty and general liability insurance.

Pro-Forma insurance expense	\$ 19,743
Less: Test year insurance expense	<u>17,869</u>
Adjustment - increase / (decrease)	<u>\$ 1,874</u>

(f)

To adjust other operations and maintenance expense for the increase in the employer contribution toward employee health insurance

Pro-Forma contribution expense	\$ 13,003
Less: Test year contribution expense	<u>11,841</u>
Adjustment - increase / (decrease)	<u>\$ 1,162</u>

(g)

To adjust other operations and maintenance expense for bad debts.

Annual bad debt write-offs for calendar years:

2016	\$ 7,131
2015	6,677
2014	<u>7,355</u>
3 year average	\$ 7,054
Test year	<u>4,813</u>
Adjustment - increase / (decrease)	<u>\$ 2,241</u>

(h)

To adjust other operations and maintenance expense for the amortization of tariff changes required by settlement language in Cause No. 44293

Expenses incurred	\$ 6,821
Amortization period	<u>5</u>
Annual amorticaization	\$ 1,364
Test year expense	<u>(6,821)</u>
Adjustment - increase / (decrease)	<u>\$ (5,457)</u>

Switzerland County Natural Gas Co., Inc.
Vevay, IN

DETAIL OF PRO-FORMA PRESENT RATE ADJUSTMENTS

(3) OPERATION AND MAINTENANCE EXPENSE ADJUSTMENTS (continued)

(i)

To adjust other operations and maintenance expense to increase outside services for additional services related to decoupling.

\$ 714

Total adjustment to other operations and maintenance expense - increase / (decrease)

\$ 43,070

Switzerland County Natural Gas Co., Inc.
Vevay, IN

DETAIL OF PRO-FORMA PRESENT RATE ADJUSTMENTS

(4) DEPRECIATION EXPENSE ADJUSTMENT

To adjust depreciation expense to reflect current plant in service.

Total Utility Plant in Service @ 9/30/17	\$ 3,394,460	
Less:		
Land	73,088	
Transportation equipment	79,609	
Office furniture & fixtures	40,701	
Miscellaneous equipment	98,569	
Structures equipment	<u>193,692</u>	
Less: Non-Distribution rate plant	<u>(485,659)</u>	
Distribution rate plant	2,908,801	
Depreciation rate	<u>2.5%</u>	
Pro-Forma depreciation expense @ 2.5%		\$ 72,720
Transportation equipment	79,609	
Less: Fully depreciated	<u>(12,124)</u>	
Depreciable transportation and computer equipment	67,485	
Depreciation rate	<u>20%</u>	
Pro-Forma depreciation expense @ 20%		13,497
Office furniture & fixtures	40,701	
Miscellaneous equipment	98,569	
Structures equipment	<u>193,692</u>	
Total 10% equipment	332,962	
Less: Fully depreciated	<u>(271,194)</u>	
Depreciable 10% equipment	61,768	
Depreciation rate	<u>10%</u>	
Pro-Forma depreciation expense @ 10%		<u>6,177</u>
Total pro-forma depreciation expense		92,394
Less: Test year depreciation expense		<u>97,912</u>
Adjustment - increase / (decrease) in depreciation expense		<u>\$ (5,518)</u>

Switzerland County Natural Gas Co., Inc.
Vevay, IN

DETAIL OF PRO-FORMA PRESENT RATE ADJUSTMENTS

(5) TAXES OTHER THAN INCOME TAX ADJUSTMENTS

(a)

To adjust taxes other than income taxes for increase in FICA and SUTA taxes due to payroll increase

Payroll wage increase subject to FICA limits	\$	5,835	
FICA tax rate		<u>7.65%</u>	
Adjustment - increase / (decrease) in FICA taxes	\$		<u>446</u>

(b)

To adjust taxes other than income taxes for increased cost of property taxes based on current utility plant in service

Total taxes paid 2017 - 2016	\$	9,306	
Utility plant in service for property taxes (December 31, 2016)		<u>1,754,254</u>	
Effective property tax rate		0.53%	
Current utility plant in service		<u>1,735,162</u>	
Pro Forma property tax payment		9,204	
Test year property tax expense		<u>16,651</u>	
Adjustment - increase / (decrease) in property tax expense	\$		<u>(7,447)</u>

(c)

To adjust taxes other than income taxes to reflect changes in applicable revenues for utility receipts tax

Utility Receipts	\$	548,458	
Less: Exemptions		1,000	
Bad Debts		<u>7,054</u>	
Utility receipts subject to utility receipts tax		540,404	
Applicable utility receipts tax rate		<u>1.40%</u>	
Pro-Forma at present rates		7,566	
Less: test year expense		<u>6,333</u>	
Adjustment - increase / (decrease) in state utility receipt tax expense	\$		<u>1,233</u>
Adjustment - increase / (decrease) in taxes other than income taxes	\$		<u>(5,768)</u>

Switzerland County Natural Gas Co., Inc.
Vevay, IN

DETAIL OF PRO-FORMA PRESENT RATE ADJUSTMENTS

(6) INCOME TAX ADJUSTMENTS

To adjust income taxes to reflect changes in revenues and expenses
(a)

State Income Tax:

Net operating income and state tax	\$ 6,599	
Plus: utility receipts tax	7,566	
Less: synchronized interest	<u>(12,169)</u>	
	1,996	
Applicable state income tax rate	<u>5.75%</u>	
Pro-Forma at present rates		115
Less: test year expense		<u>-</u>
Adjustment - increase / (decrease) in state income tax expense		<u>\$ 115</u>

(b)

Federal Income Tax:

Net operating income before federal and state income tax	\$ 6,599	
Less:		
Synchronized interest	12,169	
Adjusted state income tax	<u>115</u>	
Federal taxable income	(5,685)	
Federal taxable rate	<u>21%</u>	
Adjusted federal income tax expense		-
Less: test year federal income tax		<u>18,467</u>
Adjustment - increase / (decrease) in federal income tax expense		<u>\$ (18,467)</u>
Adjustment - increase / (decrease) income taxes		<u>\$ (18,352)</u>

Switzerland County Natural Gas Co., Inc.
Vevay, IN

DETAIL OF PRO-FORMA PROPOSED RATE ADJUSTMENTS

(A)

To adjust operating Revenues to reflect proposed revenue increase.

Proforma sales of gas at present rates - schedule C-3	\$ 1,085,777	
Requested rate increase	<u>7.710%</u>	
Adjustment - increase / (decrease)		<u>\$ 83,699</u>

(B)

To adjust other operation and maintenance expense to reflect increase in IURC fee.

Proposed revenue increase	\$ 83,699	
Current effective IURC fee rate	<u>0.13308680%</u>	
Adjustment - increase / (decrease)		<u>111</u>

(C)

To adjust other operations and maintenance expense to reflect the increase in bad debts.

Proposed revenue increase	\$ 83,699	
Current effective rate	<u>0.006772</u>	
Adjustment - increase / (decrease)		<u>567</u>
Total adjustment - increase / (decrease)		<u>\$ 678</u>

Switzerland County Natural Gas Co., Inc.
Vevay, IN

DETAIL OF PRO-FORMA PROPOSED RATE ADJUSTMENTS

(D)

To adjust taxes other than income taxes to reflect pro-forma changes in revenues and expenses.

Utility Receipts Tax

Proposed revenue increase	\$	83,699	
Less: Increase in bad debts		567	
		83,132	
Applicable utility receipts tax rate		1.40%	
Adjustment - increase / (decrease)	\$		<u>1,164</u>

(E)

To adjust income taxes to reflect pro-forma changes in revenue and expenses.

State Income Tax:

Proposed revenue increase	\$	83,699	
Less: Increase in IURC fee		(111)	
Increase in bad debts		(567)	
Taxable increase		83,021	
Applicable income tax rate		5.75%	
Adjustment - increase	\$		<u>4,774</u>

Federal Income Tax:

Proposed revenue increase	\$	83,699	
Less: Increase in IURC fee		(111)	
Increase in utility receipts tax		(1,164)	
Increase in bad debts		(567)	
Increase in state income tax		(4,774)	
Federal taxable income increase		77,083	
Applicable tax rate		21%	
Adjustment - increase	\$		<u>16,187</u>
Total increase / (decrease) to income taxes	\$		<u>20,961</u>

SCHEDULE C-3

Switzerland County Natural Gas Co., Inc.
Vevay, IN

TOTAL BILLED REVENUE CALCULATION

Estimated volume of gas purchased - DTH	140,026
Estimated base cost of gas for GCA	<u>\$ 3.8874</u>
Estimated cost of gas to be included in revenues	\$ 544,337
Pro-Forma present rate gas sales revenue	<u>541,440</u>
Total revenue including gas costs	1,085,777
Requested percentage increase	<u>7.71%</u>
Revenue adjustment requested	<u><u>\$83,699</u></u>

Switzerland County Natural Gas Co., Inc.
Vevay, IN

ORIGINAL COST RATE BASE

Utility plant in service as of September 30, 2017	\$ 3,394,460	
Less: Belterra Main	<u>\$ (1,700,592)</u>	\$ 1,693,868
Less: Accumulated depreciation	(1,659,298)	
Accumulated depreciation - Belterra Main	<u>822,659</u>	<u>(836,639)</u>
Net utility plant in service		857,229
Plus:		
Working capital	\$ 406,947 /8	<u>50,868</u>
Total original cost rate base		<u><u>\$ 908,098</u></u>
Net operating income authorized	<u><u>\$ 67,381</u></u>	

EXHIBIT E

Switzerland County Natural Gas Co., Inc.
Vevay, IN

CAPITAL STRUCTURE
As of December 31, 2017

<u>Description</u>	<u>Amount</u>	<u>Percent of Total</u>	<u>Cost</u>	<u>Weighted Cost</u>
Common equity	\$ 510,189	67.47%	10.25%	6.92%
Long-term debt	75,133.05	9.94%	4.28%	0.42%
Customer deposits	10,645	1.41%	6.00%	0.08%
Deferred tax	<u>160,238</u>	<u>21.19%</u>	0.00%	<u>0.00%</u>
Total	<u>\$ 756,205</u>	<u>100.00%</u>		<u>7.42%</u>

**CALCULATION OF SYNCHRONIZED INTEREST
As of December 31, 2017**

Description	Amount	Percent of Total	Cost	Weighted Cost	Weighted Cost of Debt
Common Equity	\$510,189	70.78%	10.25%	7.25%	0.00%
Long-term debt	200,000	27.75%	4.50%	1.25%	1.25%
Customer Deposits	<u>10,645</u>	<u>1.48%</u>	6.00%	<u>0.09%</u>	<u>0.09%</u>
Total	<u>\$720,834</u>	<u>100.01%</u>		<u>8.59%</u>	<u>1.34%</u>
 Rate Base	 \$908,098				
Weighted Cost of Debt	<u>1.34%</u>				
Synchronized Interest	<u>\$12,169</u>				

CERTIFICATE OF SERVICE

The undersigned certifies that a copy of the foregoing has been served upon the following counsel of record by electronic mail this 26th day of June, 2018:

Indiana Office of Utility Consumer Counselor
115 West Washington Street, Suite 1500S
Indianapolis, IN 46204
infomgt@oucc.in.gov



L. Parvin Price