

STATE OF INDIANA

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. 45761

**VERIFIED DIRECT TESTIMONY
of
SABINE E. KARNER**

**On Behalf of
Westfield Gas, LLC**

Petitioner's Exhibit No. 5

1 **INTRODUCTION AND BACKGROUND**

2 **Q1. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A1. My name is Sabine E. Karner. My business address is 2020 North Meridian Street,
4 Indianapolis, Indiana.

5 **Q2. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A2. I am employed by the Board of Directors for Utilities of the Department of Public
7 Utilities of the City of Indianapolis (the "Board"), which does business as Citizens
8 Energy Group ("Citizens"), as its Vice President and Controller. Citizens also owns
9 the stock of Citizens By-Products Coal Company d/b/a Citizens Resources, which
10 itself owns a number of energy and utility related businesses. Citizens Westfield
11 Utilities, LLC ("CWU"), which is a subsidiary of Citizens Resources, owns the sole
12 membership interest in Westfield Gas, LLC d/b/a Citizens Gas of Westfield, which
13 is the Petitioner in this proceeding ("Petitioner" or "Utility").

14 **Q3. PLEASE DESCRIBE THE DUTIES AND RESPONSIBILITIES OF YOUR**
15 **PRESENT POSITION.**

16 A3. My duties include overall responsibility for the accounting, financial planning and
17 reporting functions of Citizens Energy Group.

18 **Q4. HOW LONG HAVE YOU BEEN EMPLOYED BY THE BOARD?**

19 A4. I have been employed by the Board since September of 2001.

20 **Q5. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

1 A5. I graduated from a 5-year degree program at the Höhere Lehranstalt für
2 wirtschaftliche Berufe in Wiener Neustadt, Austria in 1990 with majors in
3 Accounting and Foreign Languages (English and French).

4 **Q6. PLEASE DESCRIBE YOUR PRIOR BUSINESS EXPERIENCE.**

5 A6. I moved to the United States in 1995. I worked for R. T. Dodge Company in Dayton,
6 Ohio in 1996 as an Office Manager. My responsibilities included reconciliation of
7 cash accounts, processing payroll, accounts payable, accounts receivable, and
8 miscellaneous general ledger entries.

9 From 1996 through 2000, I worked for Alexander, Root & Company, a CPA
10 firm in Dayton, Ohio, in the capacity of a Staff Accountant. I prepared and reviewed
11 individual, corporate, property, and payroll tax returns; prepared compilation
12 reports in compliance with GAAP; prepared depreciation schedules; guided clients
13 through year-end accounting processes, including preparation and review of
14 adjusting entries; set up accounting systems for small businesses and provided
15 technical support; trained non-financial client personnel on daily accounting tasks;
16 performed investigative clean-up of accounting records for transfer clients; planned
17 and executed special projects involving database systems; purchased, maintained,
18 and supported the firm's PC network, server, and workstations, and participated in
19 the selection and implementation of the firm's software.

20 During the period of time I was employed by Alexander, Root & Company,
21 I also provided accounting services as an independent consultant to small
22 businesses in the greater Dayton, Ohio area and taught various mainstream software
23 applications at the Kettering Adult School in Ohio.

1 From 2000 through 2001, I worked as Project Manager for ACG
2 Incorporated, a computer consulting company in Dayton, Ohio. I designed and
3 implemented project plans to transition client accounting systems across platforms;
4 planned and executed data import strategies to transfer databases across accounting
5 systems; trained clients of all skill levels in the use of mid-range accounting systems
6 and third-party tools including financial reporting software; and designed custom
7 financial reports.

8 From 2001 to date, I have been employed by Citizens in positions of
9 increasing responsibility. From September 2001 to December 2003, I served as
10 Senior Accountant. My responsibilities were comprised of all Property Records
11 functions, including preparation of property tax returns, capital expenditures
12 reporting, and maintenance of depreciation systems, as well as comprehensive
13 subsidiary accounting, including preparation of consolidated financial statements.

14 From January 2004 to May 2005, I served as Accounting Supervisor. My
15 duties included oversight of property records and subsidiary accounting functions;
16 preparation of depreciation and property tax projections and subsidiary budgets;
17 preparation of federal and state subsidiary income tax returns; accounting for gas
18 cost and gas cost adjustments, and preparation of regulatory reports.

19 From June 2005 to February 2006, I served as Accounting Manager. My
20 duties included all of the assignments enumerated above and were expanded to
21 include additional managerial responsibilities, such as drafting and revising internal
22 accounting policies, composition of white papers on internal accounting practices

1 for reference by accounting personnel and external auditors, and management of
2 process improvement projects.

3 From March 2006 to February 2009, I served as Divisional Controller for
4 Citizens' gas and oil divisions. My duties included oversight and management of
5 the financial closing process, review and presentation of divisional financial
6 statements, preparation of divisional budgets and forecasts, participation in
7 financial management teams, and analysis of variances.

8 From March 2009 to May 2011, I served as Executive Manager, Financial
9 Planning and Analysis. I was accountable for the development and dissemination
10 of financial trend analysis relating to all of Citizens' business units, and for
11 researching, developing, and maintaining enterprise-wide standards for economic
12 analysis. Additionally, I was responsible for adapting and executing processes for
13 forecasts, financial reviews with senior management, and financial planning and
14 budgeting.

15 From September 2010 to September 2011, I served as Interim Executive
16 Director & Controller while the incumbent was fully dedicated to a strategic
17 project.

18 From June 2011 to September 2015, I served as Director of Strategic
19 Finance. I was responsible for directing and overseeing accounting support for
20 regulatory proceedings and regulatory reporting, including preparation of certain
21 pro forma adjustments to the revenue requirements in base rate cases. Furthermore,
22 my duties included streamlining shared services cost allocations, financial
23 planning, and Property Records functions and reporting.

1 From October 2015 to date, I have served as Vice President and Controller.
2 In that capacity, I am responsible for overseeing the financial accounting, planning
3 and reporting activities of Citizens and for ensuring an effective internal controls
4 framework. I also direct the Director of Accounting Services and the Senior
5 Accounting Manager for Shared Services and Financial Planning in the
6 performance of their duties.

7 **Q7. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?**

8 A7. Yes. I have sponsored testimony in base rate cases on behalf of Petitioner, Citizens
9 Thermal, Citizens Gas, Citizens Water, CWA Authority, Inc. ("CWA"), and
10 Westfield Wastewater.

11 **Q8. WHAT HAVE YOU DONE TO PREPARE YOURSELF TO TESTIFY IN**
12 **THIS PROCEEDING?**

13 A8. As Vice President and Controller, I am responsible for the review and dissemination
14 of financial results for all Citizens business units, including the test year "Statement
15 of Operations" or income statement, the "Statement of Financial Position" or
16 balance sheet, and the "Statement of Cash Flows" for the Utility. In the normal
17 course of performing those duties, I met with certain members of Citizens'
18 accounting staff who are responsible for making entries to the books and records,
19 as well as those responsible for financial statement preparation, in order to
20 understand the data presented in the financial statements. In addition, in the normal
21 course of my duties I have become familiar with Citizens' internal control
22 procedures related to financial statements. I have read the Verified Petition and
23 direct testimony and attachments directly relating to Petitioner's revenue

1 requirements filed in this proceeding. I have also familiarized myself with certain
2 parts of the Indiana Code as it relates to utilities operated by the Board and I have
3 relied upon the advice of counsel in interpreting said sections of the Code.

4 **Q9. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
5 **PROCEEDING?**

6 A9. The purpose of my testimony is to provide support for and sponsor the test year
7 financial statements for Citizens Gas of Westfield. In addition, I am sponsoring
8 pro forma adjustments related to certain operating expenses. My testimony
9 addresses the following topics:

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1 **TEST YEAR FINANCIAL STATEMENTS**

2 **Q10. PLEASE DESCRIBE THE FINANCIAL SYSTEM THAT GENERATES**
3 **THE AMOUNTS ON THE FINANCIAL STATEMENTS.**

4 A10. Citizens utilizes an enterprise-wide system or financial suite housing multiple
5 integrated modules and interfaces to other systems that ultimately feed data to the
6 general ledger upon which the financial statements are based. I have provided a
7 detailed discussion of the financial suite in my Attachment SEK-6.

8 **Q11. PLEASE DISCUSS THE BALANCE SHEET AS OF THE END OF THE**
9 **TEST YEAR.**

10 A11. The Utility's Statements of Financial Position, or balance sheets, as of December
11 31, 2021 (the last day of the test year) and December 31, 2020, are presented in
12 Attachment SEK-1, page 1. The following discussion relates to the balance sheet
13 as of the end of the test year.

14 Total assets were \$22.7 million (line 16), of which \$15.2 million was net
15 utility plant. Current assets of \$6.9 million were comprised mostly of \$1.9 million
16 in cash, \$1.3 million in accounts receivable and accrued revenues, \$1.2 million in
17 natural gas in storage, and \$2.2 million in recoverable gas costs. Deferred charges
18 of \$0.6 million consisted primarily of decoupling revenue.

19 Total capitalization and non-current liabilities were \$19.1 million (line 21),
20 comprised of \$15.1 million equity and \$4.0 million long-term borrowings.
21 Petitioner's witness Craig Jackson discusses capital structure in more detail in his
22 testimony. Current liabilities of \$3.6 million (line 26) were comprised mostly of

1 short-term borrowings of \$1.0 million, and accounts payable and accrued expenses
2 of \$2.4 million.

3 **Q12. PLEASE DISCUSS THE STATEMENT OF OPERATIONS FOR THE TEST**
4 **YEAR.**

5 A12. The Utility's Statements of Operations, or income statements, for the twelve
6 months ended December 31, 2021 (the test year for this proceeding) and December
7 31, 2020, are presented in Attachment SEK-1, page 2. The following discussion
8 relates to the income statement for the test year.

9 The Utility generated gross margin of \$3.3 million on operating revenues of
10 \$5.7 million. Operating income was \$660 thousand (line 8).

11 Of the \$1.6 million in operations and maintenance (O&M) expenses shown
12 on line 4, \$1 million was for employee-related costs, including wages, payroll taxes,
13 and benefits. Also included are \$0.5 million of outside services costs.

14 Of the \$754 thousand in depreciation and amortization expenses (line 5),
15 \$644 thousand was for depreciation of utility plant in service. The remaining \$110
16 thousand was for amortization of the acquisition adjustment.

17 Of the \$212 thousand in taxes (line 6), \$145 thousand was for property tax
18 and \$67 thousand for utility receipts tax.

19 The Utility received inconsequential amounts of other income, net, and
20 incurred \$68 thousand of interest charges, mostly for long-term borrowings.

21 Petitioner's witness Debi Bardhan-Akala uses the information from
22 Attachment SEK-1, page 2 as the basis for determining the pro forma revenue
23 requirements in this Cause as shown in Attachment DBA-1.

1 **Q13. PLEASE DISCUSS THE STATEMENT OF CASH FLOWS FOR THE TEST**
2 **YEAR.**

3 A13. The Utility's Statement of Cash Flows for the test year is presented in Attachment
4 SEK-1, page 3. Operating activities and construction expenditures used \$0.7
5 million and \$3.1 million of cash, respectively. The Utility financed these
6 expenditures with \$3.5 million of draws on a line of credit and \$1.5 million
7 additional paid-in capital. Petitioner's witness Craig Jackson discusses the
8 financing activities in more detail in his testimony. On a net basis, Petitioner
9 experienced a net cash inflow of \$1.2 million for the test year, as shown on line 15,
10 ending with a cash balance of \$1.9 million (line 17).

11 **Q14. ARE THE FINANCIAL RECORDS OF THE UTILITY SUBJECT TO**
12 **REGULAR AUDITS BY AN INDEPENDENT FIRM OF CERTIFIED**
13 **PUBLIC ACCOUNTANTS?**

14 A14. Yes. The international certified public accounting firm of Deloitte & Touche LLP
15 conducts annual financial audits for Citizens Energy Group, including CWU.

16 **Q15. HAVE YOU PROVIDED THE MOST RECENT AUDITED FINANCIAL**
17 **REPORT THAT INCLUDES CWU?**

18 A15. Yes. I have included the fiscal year 2021 audited financial report for Citizens
19 Energy Group as workpaper 120, including footnotes, which are considered an
20 integral part of the financial statements. The condensed financial statements of
21 CWU are presented in footnote 9.

1 **SHARED SERVICES**

2 **OVERVIEW AND ALLOCATION METHODOLOGY**

3 **Q16. PLEASE EXPLAIN SHARED SERVICES.**

4 A16. Shared Services is an organizational framework for the consolidation of resources
5 and centralization of costs that provides process or knowledge-based and field
6 services to Citizens' seven regulated utilities and its various other business units.
7 Shared Services is designed to deliver high-quality services efficiently and
8 effectively by streamlining high-volume, routine transactions and utilizing
9 resources with specialized skill sets who are dedicated to providing these services,
10 including executive management, administrative, customer focused, engineering,
11 meter reading, and field services.

12 **Q17. HOW ARE SHARED SERVICES COSTS ASSIGNED TO THE VARIOUS**
13 **BUSINESS UNITS THAT ARE SERVED BY AND BENEFIT FROM THE**
14 **ACTIVITIES OF SHARED SERVICES PERSONNEL?**

15 A17. The first choice is to direct-charge all costs that can clearly be assigned to the
16 business unit driving the cost. A prime example of this is the activity within the
17 engineering group: most engineering personnel provide services for distinct
18 projects within a given business unit; consequently, rather than charge their time to
19 their Shared Services home area which would cause the associated costs to be
20 allocated, they charge their time to the distinct project. Another example is the cost
21 for lawn care at various facilities: these costs can be readily identified with the
22 business unit whose facilities are being maintained and are therefore direct-charged

1 to that business unit, even though the activity itself is managed by Shared Services
2 personnel.

3 When it is not possible or practical to specifically identify costs as being
4 attributable to a particular business unit, a comprehensive cost allocation
5 methodology is utilized to assign Shared Services costs to the ultimate cost causer
6 or consumer of a particular service based on numerous cost drivers. The objective
7 of the cost allocation methodology is to assign the Shared Services costs as
8 accurately as possible to the consumers or beneficiaries of each service. However,
9 it is important to keep in mind that all allocations are inherently estimates.
10 Consequently, Citizens strives to strike an optimal balance between the most
11 accurate assignment of costs and the avoidance of overly complicated allocations.

12 **Q18. PLEASE IDENTIFY THE TYPES OF COST DRIVERS USED IN**
13 **ALLOCATING COSTS.**

14 A18. Citizens uses three main types of cost drivers: (i) statistical drivers where feasible,
15 (ii) estimates of time spent on activities for each business unit where statistical
16 drivers cannot be obtained, or (iii) the Trust Administration driver when there is no
17 other reasonable cost benefit relationship that can be determined.

18 For example, the costs associated with providing human resources services,
19 such as benefits administration or payroll, are assigned to the different business
20 units based upon the number of employees in each unit (a statistical driver). In the
21 same manner, costs associated with the Citizens customer call center are assigned
22 to the regulated utilities of Citizens Energy Group based on the number of

1 customers in each unit. A list of statistical cost drivers, including their derivation,
2 is provided in my supporting workpaper 270.

3 In contrast, costs for most accounting functions have no correlation to any
4 statistics that drive the amount of accounting activity for any given unit; the number
5 of journal entries made or the dollar amounts reconciled are not indicators of the
6 amount of time required to accomplish these activities for any business unit, to
7 name but two well-known and frequent accounting activities. Thus, accounting
8 personnel who are dedicated to an operating unit estimate how much time they
9 spend on behalf of the applicable business units. The same concept is true for
10 employees in other departments, such as Environmental Stewardship, Occupational
11 Health and Safety, and others. Some employees may estimate a portion of their time
12 to be allocated to Trust Administration, explained below, in addition to specific
13 business units.

14 **Q19. PLEASE DESCRIBE FURTHER THE CIRCUMSTANCES UNDER**
15 **WHICH THE TRUST ADMINISTRATION DRIVER IS USED.**

16 A19. The Trust Administration driver is used to assign costs that cannot otherwise
17 reasonably be assigned to any specific business unit, and for overall entity costs
18 which are incurred to support Citizens. For example, the Financial Business
19 Applications Analyst in Accounting is responsible for the functional administration
20 of the General Ledger, involving activities such as maintaining the chart of
21 accounts, posting and balancing interface transactions, researching and correcting
22 posting errors, or managing system processes for consolidation or financial

1 statement generation. These activities transcend individual business units and are
2 therefore charged to Trust Administration.

3 Trust Administration costs are allocated to business units based on the
4 respective business unit's percentage of prior year revenues to total Trust prior year
5 revenues. Citizens has applied this methodology since fiscal year 2007, pursuant to
6 the Order in Cause No. 42767 (Citizens Gas), pages 42 to 44.

7 **Q20. PLEASE GIVE AN OVERVIEW OF THE PROCESS FOR ESTABLISHING**
8 **COST ALLOCATIONS.**

9 A20. Citizens uses a multi-step model to determine the allocation of Shared Services
10 costs. Because Shared Services costs are predominantly people-driven, the first step
11 is to establish a person-by-person allocation of labor costs using the various cost
12 drivers explained previously.

13 The second step is to establish a weighted average attributable to each
14 business unit based on the aggregate of the individualized allocations weighted by
15 the estimated expensed wages for each employee. This overall labor-based
16 allocation is then also applied to the estimated payroll-related expenses such as
17 benefits and payroll taxes that are, for the most part, not directly assignable to
18 individual employees.

19 The third step is to estimate all non-labor expenses for each department and
20 apply appropriate drivers to allocate the costs.

21 The fourth step is to summarize all of the allocated cost categories (labor,
22 labor-related costs, and non-labor costs) by major department or function. The
23 result is converted to a percentage of total cost for each department or function

1 which is then used as the allocation factor for all charges generated by that
2 department or function.

3 **Q21. HOW ARE ALLOCATED COSTS TRANSFERRED TO EACH BUSINESS**
4 **UNIT?**

5 A21. The allocation factors are maintained in Oracle EBS to effect an automated monthly
6 allocation of expensed actual costs by account.

7 **Q22. HOW OFTEN ARE ALLOCATION FACTORS UPDATED?**

8 A22. Generally, Citizens updates allocation factors annually to establish factors for the
9 new fiscal year, which begins on October 1st, though major organizational changes
10 could warrant an interim update of the allocation factors. Such updates are normally
11 forward-looking and not retroactive, in addition to being rare.

12 **Q23. PLEASE DESCRIBE THE REIMBURSEMENT PROCESS FOR**
13 **ALLOCATED COSTS.**

14 A23. Shared Services maintains cash accounts with which it funds expenditures, and
15 business units reimburse allocated costs through ongoing sweeps of intercompany
16 balances. Certain costs that are not unique to Shared Services are paid from the
17 Shared Services cash account as a matter of efficiency and are reimbursed within a
18 few business days by the appropriate business units. For example, payroll liabilities
19 for all business units within Citizens are paid from the Shared Services cash account
20 and reimbursed within three to four business days. Likewise, as a result of
21 combined billing, all customer receipts are collected in the Shared Services cash
22 account first and then disbursed to the appropriate business unit.

1 **TEST YEAR ALLOCATIONS**

2 **Q24. WAS THERE A CHANGE IN ALLOCATION FACTORS DURING THE**
3 **TEST YEAR?**

4 A24. Yes. Because the 2021 calendar test year spans two Citizens fiscal years, there were
5 two sets of allocation factors in use in the test year. From January through
6 September, the allocation factors were based on the fiscal year 2021 estimates.
7 From October through December, the allocation factors were based on the fiscal
8 year 2022 estimates.

9 **Q25. WHAT SHARE OF SHARED SERVICES COSTS ULTIMATELY WAS**
10 **ALLOCATED TO THE UTILITY FOR THE TEST YEAR?**

11 A25. The Utility received approximately 1.16% of Shared Services allocations for the
12 period from January through September, and approximately 1.26% for the period
13 from October through December, yielding a blended effective rate of 1.18% for the
14 test year. Attachment SEK-2 presents a summary of Shared Services allocations for
15 the test year.

16 **PRO FORMA ALLOCATIONS**

17 **Q26. WHAT IS THE PRO FORMA ALLOCATION FOR ADJUSTMENTS TO**
18 **SHARED SERVICES COSTS?**

19 A26. I used the actual test year percentage incurred for each type of cost. Although the
20 going-forward percentages are slightly higher than the test year's, I considered the
21 test year percentages representative enough and the impact immaterial to the overall

1 revenue requirement. In addition to providing slightly lower pro forma cost
2 allocations, this approach also minimizes complexity.

3 **PRO FORMA ADJUSTMENTS**

4 **OVERVIEW**

5 **Q27. PLEASE PROVIDE A HIGH-LEVEL ASSESSMENT OF PRO FORMA**
6 **O&M.**

7 A27. In summary, the \$1.6 million incurred in the test year for O&M expenses is not
8 representative of going-level O&M costs of \$2.0 million. I provide an overview
9 and key drivers below, including the witnesses sponsoring various aspects of O&M
10 pro forma adjustments:

Test Year O&M	\$1,640,499
Pro Forma adjustments, SEK:	
Line Locate costs	171,510
Wages & Payroll Taxes	15,775
Various O&M expenses	16,730
Pro Forma adjustments, CAJ:	901
Pro Forma adjustments, DBA:	<u>160,025</u>
Pro Forma O&M	\$2,005,440

11
12 The biggest increase is in line locate costs, where a combination of growth
13 in the service area and a new pricing structure from the contractor are driving the
14 \$172 thousand increase to the test year. Petitioner's witness J.P. Ghio also discusses
15 this cost increase in his testimony. Employee costs see a \$16 thousand increase
16 primarily as a result of increased operational labor. I also made adjustments to a
17 variety of non-labor O&M expenses which netted an increase of \$17 thousand.
18 Petitioner's witness Debi Bardhan-Akala discusses the \$160 thousand increase in

1 regulatory commission expense, which constitutes the bulk of the remaining
2 adjustments to O&M.

3 I discuss the adjustments which I am sponsoring in more detail further
4 below in my testimony.

5 **Q28. WHAT STEPS WERE TAKEN TO DETERMINE PRO FORMA**
6 **ADJUSTMENTS TO THE TEST YEAR?**

7 A28. I reviewed the Utility's trial balance by account and by expense type. I discussed
8 the test year financial statements with management and operations representatives
9 to obtain their input on whether various expenses were reflective of normal and
10 ongoing expenditure levels. Additionally, I reviewed transaction level detail for
11 certain accounts and expense types where I thought the test year may have included
12 unusual costs. I also reviewed 170 IAC 1-3 (Advertising Expenditures by Public
13 Utilities), IC § 8-1.5-3-8 (Rates and Charges), IC § 8-1-2-6(c) (Valuation of
14 Property), and Commission Orders from certain prior Citizens business unit rate
15 cases to determine allowable expenses.

16 **Q29. DO YOU BELIEVE THAT THE PROPOSED PRO FORMA**
17 **ADJUSTMENTS ARE REASONABLE AND MATERIALLY COMPLETE?**

18 A29. Yes. For purposes of determining pro forma adjustments, to the best of my
19 knowledge, I identified non-allowed expenditures at any level and generally used a
20 materiality threshold of \$1,000 for other types of adjustments for the Utility, and
21 \$5,000 for Shared Services. For example, I removed non-recurring expenses if they
22 were above \$1,000 each as direct-charged to the Utility, and \$5,000 each as direct-
23 charged to Shared Services (i.e. prior to the portion allocated to the Utility). This

1 threshold represents my assessment of a cost-benefit limit based on my professional
2 knowledge of the data and transactions of Shared Services and the Utility.

3 There are more than 654,000 income statement transaction line items in the
4 test year between the ledgers of the Utility and Shared Services, excluding
5 allocation transactions which increase the number of total transactions. I believe
6 using the materiality thresholds I described is reasonable and conservative, and
7 does not misstate the revenue requirement in any way that would detract from the
8 standard of reasonable and just rates and charges for services, as set forth in IC §
9 8-1.5-3-8. While there is not specific reference to accepted materiality thresholds
10 in 170 IAC 1-5 (Minimum Standard Filing Requirements for an Expedited Rate
11 Case), the regulations do establish a reporting threshold of \$10,000 in the section
12 on working papers and data for revenues, expenses and taxes (1-5-8, subdivision
13 20). I interpret this as further confirmation that a threshold below that level to
14 evaluate test year transactions for pro forma adjustments is reasonable.

15 **Q30. BRIEFLY EXPLAIN YOUR WORKPAPER FORMAT AND ORDER.**

16 A30. I used the following numbering scheme for workpapers related to accounting
17 adjustments:

18	1xx:	Financial and Accounting Data
19	2xx:	Shared Services
20	3xx:	Pro Forma Adjustments to Payroll, Payroll Taxes
21	41x:	Pro Forma Adjustments to Non-Labor Expenses
22	43x:	Non-Allowed and Non-Recurring
23	5xx:	Miscellaneous Informational Schedules
24		

25 Where workpapers required additional supporting calculations, I have
26 numbered these supporting workpapers the same as the workpaper in question and

1 added the suffix –Sn, where n denotes the next sequential number (e.g. 301-S1 is a
2 supporting workpaper for workpaper 301).

3 **Q31. DID YOU INCLUDE A SUMMARY OF PRO FORMA ADJUSTMENTS IN**
4 **YOUR TESTIMONY?**

5 A31. Yes. Attachment SEK-3, page 1 presents a summary of my pro forma adjustments
6 to certain operating expenses of the Utility during the test year. In addition, I have
7 provided an income statement by FERC account which shows adjustments made
8 by all Petitioner's witnesses and includes references to workpapers or attachments.

9 **PAYROLL**

10 **Q32. PLEASE DESCRIBE YOUR PRO FORMA ADJUSTMENT TO PAYROLL.**

11 A32. The pro forma payroll was determined by obtaining a list of active employees as of
12 March 31 who charge time to Shared Services or Westfield Gas, and removing from
13 this list employees whose retirement date was imminent and whose successors were
14 already in place, for a net total of 739 positions. I then added 42 positions to be
15 hired ("TBH"): 30 part-time positions in Meter Reading, 10 part-time positions in
16 Customer Service, and two full-time positions in Information Technology. These
17 TBH positions were posted and actively being recruited at the time of preparing the
18 pro forma workpapers, and constituted only a portion of the more than 70 vacancies
19 as of April 1.

20 In terms of amount of time charged to the Utility, I generally considered the
21 test year level representative. I did, however, increase the amount of time for certain
22 operational activities to account for compliance work such as valve inspections,

1 odorant tests, system survey, or instrument calibration, which mistakenly had not
2 been charged to the Utility during the test year. The error has since been corrected.
3 For employees who were hired during the test year and for TBHs, I used the test
4 year departmental average amount of time charged.

5 Next, I updated the pay rate for all non-bargaining positions with a pay
6 increase that became effective April 25. I annualized the base pay for bargaining
7 positions by applying a 3% pro forma pay increase which will be effective in June
8 2022 per contract. I added overtime pay at the level incurred during the test year.
9 In addition, I added supplemental pay to base pay based upon the level at which
10 these expenses occurred during the test year after removing accruals and other
11 general ledger adjustments. I added short-term variable pay at the percentages
12 applicable to each position and assumed 100% of target payout, and I adjusted
13 capitalized loadings for variable pay and paid absences based on the pro forma
14 payroll amounts. Finally, I deducted the amount of pro forma payroll associated
15 with capital projects to obtain the amount of expensed pro forma payroll. Overall,
16 payroll expenses increased by \$14,377; the detail calculations are presented in my
17 workpapers 300 through 309.

18 **PAYROLL TAXES**

19 **Q33. HAVE YOU MADE A COMPUTATION REGARDING PRO FORMA**
20 **PAYROLL TAXES?**

1 A33. Yes. I applied the current payroll tax rates to the pro forma payroll subject to the
2 tax and deducted capitalized payroll taxes. Overall, payroll tax expense increased
3 by \$1,398. The detail calculations are presented in my workpapers 330 through 334.

4 **LINE LOCATE COSTS**

5 **Q34. PLEASE PROVIDE AN OVERVIEW OF YOUR PRO FORMA**
6 **ADJUSTMENT FOR LINE LOCATE COSTS.**

7 A34. There are two components for line locate costs: the costs associated with the activity
8 itself, as provided by SAMCO, and the costs associated with Indiana Underground
9 Plant Protection Service ("IUPPS"), the receipt center for all locates requested
10 within the state. Both components were adjusted to account for annual growth in
11 volume of line locate activity, and the costs associated with SAMCO were
12 additionally adjusted for a projected price increase effective July 1, 2022.
13 Petitioner's witness JP Ghio discusses the conditions leading to an increase in
14 volume and pricing for line locates.

15 **Q35. HOW, SPECIFICALLY, DID YOU DETERMINE THE PRO FORMA**
16 **LEVEL OF LINE LOCATE COSTS?**

17 A35. The approach is the same for both SAMCO and IUPPS. First, I obtained historical
18 invoices and ticket counts applicable to each of the calendar years 2019, 2020, and
19 2021. I was able to separate the SAMCO activity by type of locate: normal notice,
20 emergency, and project. The per-ticket cost is different for each type, with the
21 majority of activity in normal notice locates.

1 I then calculated the effective cost per ticket type for each calendar year,
2 and the increase in volume year over year. In calendar year 2021, the Utility began
3 to attribute SAMCO line locate costs to capital projects; accordingly, I calculated
4 the amount of cost and number of tickets associated with O&M work to arrive at
5 an effective per-ticket cost for expense. Next, I adjusted the calendar year 2021
6 expensed costs for various out-of-period transactions to arrive at actual test year
7 costs as recorded on the general ledger.

8 To obtain the pro forma ticket count, I averaged the annual growth since
9 2019, applied that percentage to the calendar year 2021 ticket count, and subtracted
10 from the result the number of tickets attributable to capital projects for calendar
11 year 2021, yielding a pro forma expensed ticket count. I then multiplied this count
12 by an expected price increase for normal notice locates proposed by SAMCO, an
13 average of 25% for the parameters predominantly billed to Westfield Gas. The
14 IUPPS locate costs did not receive a price increase adjustment.

15 In summary, line locate costs increased by \$167,631 for SAMCO, and by
16 \$3,879 for IUPPS, for a total of \$171,510. The adjustment is reflected on workpaper
17 410, including supporting schedules.

18 **Q36. PLEASE DESCRIBE YOUR REMAINING PRO FORMA ADJUSTMENTS**
19 **TO O&M TEST YEAR EXPENSES.**

20 A36. Certainly. My adjustments to remaining test year expenses are described below.

1 **NORMALIZATION OF CERTAIN TEST YEAR EXPENSES**

2 I normalized test year expenses for a number of items which are
3 summarized on workpaper 411 and explained individually below; the sum total of
4 all such adjustments amounted to a pro forma increase of \$11,104.

5 First, I made a pro forma adjustment to business insurance expense to
6 account for the most current or anticipated coverages and premiums, resulting in a
7 pro forma increase of \$11,907 (workpaper 411-S1). Key drivers of this adjustment
8 include significant increases in premiums for cyber, property, general liability, and
9 excess liability insurance.

10 Second, I identified a number of transactions in the test year where the
11 expense covered a period of more than 12 months, for example software support
12 agreements covering two or three years. I determined the cost applicable for a
13 twelve-month period for each of these transactions, netting a pro forma decrease of
14 \$425 (workpaper 411-S2).

15 Third, I made an adjustment to reflect financial audit fees for the fiscal year
16 2022 audit which were approved in February 2022. The resulting pro forma
17 adjustment is an increase of \$359 (workpaper 411-S3).

18 Last, I made an adjustment to bring the amount of executive search fees
19 incurred during the test year to a three-year average. The test year had an unusually
20 high amount of search fees given turnover for two senior executive positions. The
21 pro forma adjustment resulted in a decrease of \$736 (workpaper 411-S4).

1 **HEALTH CARE COSTS**

2 I evaluated the test year level of health care costs and proposed a 7.3%
3 increase, based on trend data suggesting a return to pre-pandemic levels of costs. I
4 have based this increase on the findings of the 2022 Segal Health Plan Cost Trend
5 Survey of managed care organizations, health insurers, and other players in the
6 health care industry. The resulting pro forma adjustment is an increase of \$8,190
7 (workpapers 412 and 412-S1).

8 **OUT OF PERIOD EXPENSES**

9 I made a pro forma adjustment to various operating expenses to account for
10 out-of-period charges (workpaper 413). Only transactions greater than \$1,000 and
11 \$5,000 each for the Utility and Shared Services, respectively, were selected for this
12 adjustment, which I believe to be a reasonable threshold, unless transactions below
13 that threshold were readily identifiable. Applying these criteria, I listed all test year
14 credits to expense for reversals of prior year accruals, all charges that were
15 expensed in the test year for prior period invoices, and all expensed accruals at the
16 end of the test year for invoices not yet received. This establishes the net test year
17 amount for out-of-period charges. Next, I added amounts for invoices expensed
18 after the test year where services were rendered during the test year. This is the pro
19 forma amount. The resulting adjustment is an increase of \$3,042 for the Utility.

1 **NON-RECURRING EXPENSES (O&M)**

2 I generally applied the same thresholds as for out-of-period expenses in my
3 search for non-recurring transactions. However, I included transactions below that
4 threshold if they were easily identified or otherwise known to me.

5 I made a pro forma adjustment to remove a total of \$4,668 in non-recurring
6 expenses from the test year. My workpaper 431 presents a list of the transactions
7 that were identified as non-recurring. Following is a description of the individual
8 components of this adjustment:

- 9 (a) Various accounting adjusting entries and corrections made in the course
10 of normal reconciliation and review procedures
11 (b) Costs and refunds related to discontinued benefits
12 (c) Fees for permanently withdrawing records from off-site storage
13 (d) Costs associated with enhanced COVID-19 cleaning protocols

14 **NON-ALLOWED EXPENSES**

15 **Q37. HOW DID YOU DETERMINE NON-ALLOWED EXPENSES?**

16 A37. I reviewed IC § 8-1-2-6(c) which provides: "In determining the amount of
17 allowable operating expenses of a utility, the commission may not take into
18 consideration or approve any expense for institutional or image building
19 advertising, charitable contributions, or political contributions." I reviewed the
20 general ledger for the occurrence of such transactions in the test year and I inquired
21 of other personnel familiar with the books and records whether they were aware of

1 non-allowed expenses in the test year. I relied upon the advice of counsel to help
2 interpret prior Commission rulings on this subject.

3 **Q38. PLEASE DESCRIBE YOUR ADJUSTMENTS TO NON-ALLOWED**
4 **EXPENSES.**

5 A38. Non-allowed expenses are presented in my workpaper 432. I attempted to find non-
6 allowed expenses at all transaction levels and did not confine my search to a
7 minimum threshold:

8 I reviewed dues statements from the Greater Indianapolis Chamber of
9 Commerce, the Indiana Chamber of Commerce, and the Indiana Energy
10 Association for lobbying percentages, if any, that may need to be excluded from
11 such dues. I removed a total of \$328 as the non-allowed portion of dues for these
12 organizations. I provided a list of all dues paid during the test year in workpaper
13 152 for informational purposes.

14 Further, I removed \$616 of expenses incurred for a registered lobbying firm.
15 In summary, I removed a total of \$943 of non-allowed expenses from the test year.

16 **CONSERVATION AND SAFETY MESSAGES**

17 **Q39. DID YOU PROVIDE A SUMMARY OF ALLOWED ADVERTISING**
18 **EXPENSES INCURRED DURING THE TEST YEAR?**

19 A39. Yes. Attachment SEK-4 presents the allowed test year advertising expenses related
20 to safety and conservation messages. I reviewed 170 IAC 1-3-3 (Allowable
21 expenditures; includable costs) and 170 IAC 1-3-4 (Material benefit defined) to

1 determine the type of advertising costs allowed, and I obtained representative
2 samples of the items being charged in accordance with 170 IAC 1-3-5 (Material
3 benefit; burden of proof).

4 Of the \$1,323 in allowed advertising expenses allocated to the Utility by
5 Shared Services in the test year, \$940 was spent on conservation messaging. All
6 media used (print, TV, radio, billboard, and an LED sign inside a stadium) provided
7 messaging related to the conservation of energy or water (see workpaper 551 for
8 representative samples).

9 The remaining \$383 was spent on safety messaging, for which I provided
10 representative samples in workpaper 552.

11 **CONCLUSION**

12 **Q40. DID YOU INCLUDE A LIST OF ALL WORKPAPERS SUPPORTING**
13 **YOUR TESTIMONY AND ATTACHMENTS?**

14 A40. Yes, I present such a list in Attachment SEK-5.

15 **Q41. DO YOU BELIEVE THAT THE PRO FORMA ADJUSTMENTS YOU**
16 **PRESENTED ARE JUST AND REASONABLE?**

17 A41. Yes. I have made adjustments to obtain representative going-level costs and believe
18 I have done so reasonably and in accordance with acceptable standards, laws, and
19 prior Commission rulings. I have made a good faith effort to review the transactions
20 during the test year and remove any non-recurring or non-allowed items, and to
21 make adjustments to normalize expenses.

1 **Q42. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

2 A42. Yes, at this time.

VERIFICATION

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



Sabine E. Karner

Westfield Gas, LLC
Statements of Financial Position
as of December 31

Attachment SEK-1
page 1

Line No.	<u>Assets</u>	2021	2020
	Utility Plant		
	Plant in service at original cost		
1	Utility plant in service	\$ 18,793,675	\$ 15,948,084
2	Accumulated depreciation	<u>(5,984,833)</u>	<u>(5,453,802)</u>
3	Net plant in service at original cost	12,808,842	10,494,282
4	Acquisition adjustment, net	<u>1,731,348</u>	<u>1,841,278</u>
5	Net plant in service	14,540,190	12,335,560
6	Construction work in progress	<u>680,013</u>	<u>447,093</u>
7	Net Utility Plant	15,220,203	12,782,653
	Current Assets		
8	Cash on hand	1,870,181	700,249
9	Accounts receivable, net	1,172,659	735,187
10	Accrued utility revenue	156,469	153,724
11	Natural gas in storage	1,157,672	239,294
12	Recoverable gas costs	2,183,089	13,307
13	Other current assets	<u>391,195</u>	<u>82,184</u>
14	Total Current Assets	6,931,265	1,923,945
15	Deferred Charges	568,525	570,310
16	Total Assets	<u><u>\$ 22,719,993</u></u>	<u><u>\$ 15,276,908</u></u>
	<u>Capitalization and Liabilities</u>		
	Capitalization and non-current liabilities		
17	Equity	\$ 15,109,326	\$ 13,016,186
18	Long-term borrowings	4,000,000	-
19	Total Capitalization	<u>19,109,326</u>	<u>13,016,186</u>
20	Non-current liabilities	522	515
21	Total capitalization and non-current liabilities	19,109,848	13,016,701
	Current Liabilities		
22	Short-term borrowings	1,000,000	1,500,000
23	Accounts payable and accrued expenses	2,358,380	678,097
24	Customer deposits	36,500	61,887
25	Other	<u>214,265</u>	<u>20,223</u>
26	Total Current Liabilities	3,609,145	2,260,207
27	Total Capitalization and Liabilities	<u><u>\$ 22,718,993</u></u>	<u><u>\$ 15,276,908</u></u>

Westfield Gas, LLC
Statements of Operations
12 months ended December 31

Attachment SEK-1
page 2

Line No.

	2021	2020
1 Operating Revenues	\$ 5,671,284	\$ 4,499,829
2 Cost of Goods Sold	<u>2,404,341</u>	<u>1,446,274</u>
3 Gross Margin	3,266,943	3,053,555
Other Operating Expenses:		
4 Operations & maintenance	1,640,499	1,412,962
5 Depreciation & amortization	753,704	671,362
6 Taxes	<u>212,470</u>	<u>201,620</u>
7 Total Other Operating Expenses	2,606,673	2,285,944
8 Operating Income	660,270	767,611
9 Other Income (Expense), Net	1,011	713
10 Interest Charges	68,141	21,700
11 Net Income	<u>\$ 593,140</u>	<u>\$ 746,624</u>

Westfield Gas, LLC
Statement of Cash Flows
12 months ended December 31, 2021

Attachment SEK-1
page 3

Line No.

	Operating Activities		
1	Net income	\$	593,140
2	Depreciation and amortization		661,581
	Changes in operating assets and liabilities:		
3	Accounts receivable and accrued utility revenue, net		(440,217)
4	Recoverable/refundable fuel costs		(1,970,226)
5	Natural gas in storage		(918,378)
6	Prepayments and deposits		(1,979)
7	Accounts payable and accrued expenses		1,671,564
8	Net change in deferred charges		1,785
9	Other operating activities		<u>(332,415)</u>
10	Net cash used by operating activities		<u>(735,145)</u>
	Investing Activities		
11	Construction expenditures		(3,094,923)
	Financing Activities		
12	Proceeds from bank line of credit		3,500,000
13	Additional paid-in capital		<u>1,500,000</u>
14	Net cash provided by financing activities		<u>5,000,000</u>
15	Net change in cash and cash equivalents		1,169,932
16	Cash and cash equivalents at beginning of period		<u>700,249</u>
17	Cash and cash equivalents at end of period	\$	<u><u>1,870,181</u></u>

Westfield Gas, LLC
Summary of Shared Services Allocations for Test Year Ending December 31, 2021

Attachment SEK-2

Line	A Organization	B Gas	C Water	D CWA	E Steam	F WF Gas	G WF Water	H WF WW	I Other	J Total
1	Chief Officer	1,467,922	1,213,024	1,553,724	346,964	32,689	62,992	73,614	222,532	4,973,460
2	Community Relations	637,389	558,433	517,473	117,469	8,621	18,550	23,587	75,435	1,956,957
3	CP&E	497,684	172,549	191,996	7,916	3,724	24,779	27,251	9,388	935,287
4	Customer Relationships	7,622,964	5,510,480	4,186,200	143,541	210,528	325,893	283,089	132,512	18,415,207
5	Environmental Stewardship	159,195	1,535,312	1,316,759	210,420	-	141,558	55,861	63,156	3,482,262
6	Facilities	693,718	598,850	825,118	172,560	16,665	30,535	37,561	112,364	2,487,371
7	Finance	1,225,939	1,009,796	1,116,298	383,062	180,086	184,141	198,205	467,343	4,764,870
8	Fleet	1,444,144	1,760,726	1,614,844	252,954	18,520	124,193	111,290	109,441	5,436,113
9	Human Resources	843,599	861,594	994,782	283,162	10,467	42,305	43,993	163,136	3,243,038
10	Information Technology	4,296,408	3,663,768	4,705,118	1,159,094	70,558	204,343	189,359	695,940	14,984,588
11	Internal Audit	221,950	181,710	249,122	57,402	4,169	8,883	11,335	36,926	771,497
12	Legal	318,275	261,178	358,369	82,461	5,983	12,781	16,298	53,028	1,108,372
13	Legal & Auditing Fees	539,979	444,142	609,918	140,150	10,159	21,759	27,723	90,095	1,883,925
14	OHS & Security	620,918	539,625	647,613	182,769	14,160	20,451	22,905	90,124	2,138,564
15	Quality	205,714	168,961	231,908	53,334	3,868	8,272	10,544	34,293	716,894
16	Regulatory Affairs	500,131	766,494	592,816	312,394	375,688	227,440	126,134	36,035	2,937,132
17	Shared Field Services	8,924,080	6,542,076	1,892,301	3,987	103,332	211,321	58,391	-	17,735,489
18	Supply Chain	428,802	508,475	963,581	160,122	7,534	27,577	29,870	48,812	2,174,773
19	Trust Administration	4,986,110	4,082,159	3,402,734	508,544	155,571	248,342	198,077	303,399	13,884,936
20	Total Test Year Actual Costs	\$35,634,922	\$30,379,352	\$25,970,673	\$4,578,307	\$1,232,322	\$1,946,115	\$1,545,086	\$2,743,958	\$104,030,736
21	Overall allocation %	34.25%	29.20%	24.96%	4.40%	1.18%	1.87%	1.49%	2.64%	100.00%
Test Year Jan-Sep 2021, fiscal year 2021 allocation %										
22	Total Shared Services Costs	27,107,777	22,805,379	19,258,871	3,447,040	906,092	1,399,388	1,111,062	2,065,124	78,100,732
23	Overall allocation %	34.71%	29.20%	24.66%	4.41%	1.16%	1.79%	1.42%	2.64%	100.00%
Test Year Oct-Dec 2021, fiscal year 2022 allocation %										
24	Total Shared Services Costs	8,527,145	7,573,974	6,711,803	1,131,266	326,230	546,727	434,024	678,835	25,930,003
25	Overall allocation %	32.89%	29.21%	25.88%	4.36%	1.26%	2.11%	1.67%	2.62%	100.00%
Fiscal Year 2022 budget										
26	Total Shared Services Costs	35,358,971	31,381,192	28,268,553	4,806,407	1,319,344	2,207,356	1,753,819	2,861,036	107,956,679
27	Overall allocation %	32.75%	29.07%	26.19%	4.45%	1.22%	2.04%	1.62%	2.65%	100.00%

Description	Reference	Pro Forma Adjustment	
		Total	by FERC category
Payroll	wp 30x	14,377.33	
Distribution Expenses			2,168.43
Customer Accounts Expenses			420.83
Customer Service and Informational Expenses			987.47
Administrative and General Expenses			10,800.60
Payroll Taxes	wp 33x	1,397.85	
Distribution Expenses			145.12
Customer Accounts Expenses			61.50
Customer Service and Informational Expenses			133.26
Administrative and General Expenses			1,057.97
Line Locate Costs	wp 410	171,510.10	
Distribution Expenses			167,631.57
Customer Service and Informational Expenses			3,878.53
Normalization of Costs	wp 411	11,104.31	
Distribution Expenses			(22.88)
Administrative and General Expenses			11,127.19
Health Insurance	wp 412	8,190.28	
Administrative and General Expenses			8,190.28
Out of Period Expenses	wp 413	3,042.51	
Distribution Expenses			1,133.90
Customer Accounts Expenses			382.22
Customer Service and Informational Expenses			(1,394.53)
Administrative and General Expenses			2,920.92
Non-Recurring Expenses	wp 431	(4,668.18)	
Distribution Expenses			(255.99)
Administrative and General Expenses			(4,408.00)
Taxes			(4.19)
Non-Allowed Expenses	wp 432	(943.45)	
Administrative and General Expenses			(943.45)
Total		204,010.75	204,010.75
Summary by FERC Category			
Distribution Expenses			170,800.15
Customer Accounts Expenses			864.55
Customer Service and Informational Expenses			3,604.73
Administrative and General Expenses			28,745.51
Taxes			(4.19)
Total			204,010.75

Westfield Gas, LLC
Pro Forma Net Operating Income

This schedule may reflect rounding differences

FERC #	Account	Test Year	Adjustments	Pro forma proposed rates	Reference for adjustments
48x, 49x	Operating Revenues	5,671,283.60	2,673,496.85	8,344,780.45	DBA-1
80x, 81x	Other Gas Supply Expenses	2,404,341.32	1,419,574.68	3,823,916.00	DBA-1
	Gross Margin	3,266,942.28	1,253,922.17	4,520,864.45	
Operations & Maintenance					
870	Operation supervision and engineering.	7,251.03	857.95	8,108.98	wp 30x, 33x
874	Mains and services expenses.	219,707.76	169,838.09	389,545.85	wp 30x, 33x, 410, 413
878	Meter and house regulator expenses.	10,469.87	78.02	10,547.89	wp 30x, 33x
879	Customer installations expenses.	6,850.16	51.76	6,901.92	wp 30x, 33x
880	Other expenses.	52,347.72	(382.02)	51,965.70	wp 30x, 33x, 411, 413, 431
887	Maintenance of mains.	(1,933.74)	87.57	(1,846.17)	wp 30x, 33x
892	Maintenance of services.	2,580.97	268.46	2,849.43	wp 30x, 33x
893	Maintenance of meters and house regulators.	46.26	0.32	46.58	wp 30x, 33x
902	Meter reading expenses.	43,829.42	351.07	44,180.49	wp 30x, 33x
903	Customer records and collection expenses.	44,296.20	513.48	44,809.68	wp 30x, 33x, 413
904	Uncollectible accounts.	12,639.06	19.42	12,658.48	DBA-1
909	Informational and instructional advertising expenses.	4,192.67	(1,126.50)	3,066.17	wp 413
910	Miscellaneous customer service and informational expenses.	172,177.47	4,731.23	176,908.70	wp 30x, 33x, 410, 413
920	Administrative and general salaries.	723,994.22	7,775.71	731,769.93	wp 30x, 33x, 431
921	Office supplies and expenses.	86,403.80	584.88	86,988.68	wp 411, 413, 431, 432, 471
923	Outside services employed.	119,508.42	1,597.72	121,106.14	wp 411, 413, 431, 432
924	Property insurance.	7,598.37	1,698.80	9,297.17	wp 411
925	Injuries and damages.	79,431.38	8,516.59	87,947.97	wp 411, 413
926	Employee pensions and benefits.	28,506.57	10,790.56	39,297.13	wp 411, 412, 413, 431
928	Regulatory commission expenses.	5,682.76	160,006.36	165,689.12	DBA-1
930.2	Miscellaneous general expenses.	1,225.17		1,225.17	
932	Maintenance of general plant.	13,692.96	(1,317.95)	12,375.01	wp 413, 431
	Total Operations & Maintenance	1,640,498.50	364,941.52	2,005,440.02	
Depreciation & Amortization					
403	Depreciation Expense	643,774.09	(137,132.27)	506,641.82	wp 470
406	Amortization Expense	109,930.32	(109,930.32)	-	wp 471
	Total Depreciation & Amortization	753,704.41	(247,062.59)	506,641.82	
Taxes					
408	Property taxes	145,304.17	3,582.45	148,886.62	wp 450
408	Utility receipts taxes	67,161.99	(67,161.99)	-	DBA-1
408	Misc. taxes	4.19	(4.19)	-	wp 431
	Total Taxes	212,470.35	(63,583.73)	148,886.62	
	Net Operating Income	660,269.02	1,199,626.97	1,859,895.99	

Allowed Advertising included in Operations & Maintenance Expenses

Line	Description	Westfield	SS <i>at WFG share</i>	Total
Conservation Messaging				
1	Be WaterWise irrigation messaging		112	112
2	Earth Day Indiana event		25	25
3	Indianapolis Colts messaging		803	803
4	Total Conservation Messaging	-	940	940
Conservation/Safety Messaging				
5	Safety Campaign		359	359
6	Indianapolis Indians messaging		25	25
7	Total Conservation/Safety Messaging	-	383	383
8	Total Allowed Advertising	-	1,323	1,323

Workpapers submitted by Petitioner's Witness Sabine E. Karner

Topic	Workpaper	MSFR	Description
Financial & Accounting Data	100	170 IAC 1-5-8 (7)	Trial Balance - all accounts
Financial & Accounting Data	101	170 IAC 1-5-8 (7)	Test Year Income Statement trial balance by account
Financial & Accounting Data	102	170 IAC 1-5-8 (7)	Test Year Income Statement trial balance by expense type
Financial & Accounting Data	103	170 IAC 1-5-6 (1)(A)	Statements of Financial Position
Financial & Accounting Data	104	170 IAC 1-5-6 (1)(C)	Statements of Operations - by GL account
Financial & Accounting Data	105	170 IAC 1-5-6 (1)(C)	Statements of Operations - by FERC account
Financial & Accounting Data	106	170 IAC 1-5-6 (1)(C)	Statements of Operations - by FERC category
Financial & Accounting Data	110	170 IAC 1-5-7 (2)	Standard monthly journal entries
Financial & Accounting Data	120	170 IAC 1-5-7 (3)	Audited Financial Statements Fiscal Year 2021
Financial & Accounting Data	131	170 IAC 1-5-7 (6) and (7)	Fiscal Year 2020 Operating Budget
Financial & Accounting Data	132	170 IAC 1-5-7 (6) and (7)	Fiscal Year 2021 Operating Budget
Financial & Accounting Data	141	170 IAC 1-5-8 (18)	Monthly amounts of injury and damage for the test year
Financial & Accounting Data	151	170 IAC 1-5-8 (20)	Schedule of outside services
Financial & Accounting Data	152	170 IAC 1-5-8 (23)	Schedule of dues and memberships
Financial & Accounting Data	153	170 IAC 1-5-8 (29)	Schedule of taxes recorded
Financial & Accounting Data	161	170 IAC 1-5-8 (10)	Actual payroll charged and allocated for the test year
Financial & Accounting Data	162	170 IAC 1-5-8 (13)	Charges for benefits provided to employees for the test year
Financial & Accounting Data	171	170 IAC 1-5-8 (25)(A) and (26)	Test Year Charges to Advertising Expenses
Shared Services	201	170 IAC 1-5-8 (28)	Determination of Shared Services Expense Allocation %
Shared Services	201-S1	170 IAC 1-5-8 (28)	Shared Services Allocation Oct 2021 to Dec 2021
Shared Services	201-S2	170 IAC 1-5-8 (28)	Shared Services Allocation Jan 2021 to Sep 2021
Shared Services	201-S3	170 IAC 1-5-8 (28)	Shared Services Budgeted Allocations Fiscal Year 2022
Shared Services	201-S4	170 IAC 1-5-8 (28)	Shared Services Budgeted Allocations Fiscal Year 2021
Shared Services	270	170 IAC 1-5-8 (28)	Statistical drivers for 2022 Shared Services allocations
Pro Forma Workpapers	300	170 IAC 1-5-8 (2)	Summary of Payroll Adjustments
Pro Forma Workpapers	300-S1	170 IAC 1-5-8 (2)	Distribution of Expensed Payroll to Pro Forma Accounts by FERC Account
Pro Forma Workpapers	300-S2	170 IAC 1-5-8 (2)	Distribution of Expensed Payroll to Pro Forma Accounts by GL Account
Pro Forma Workpapers	301	170 IAC 1-5-8 (2)	Summary of Total Test Year Payroll
Pro Forma Workpapers	301-S1	170 IAC 1-5-8 (2)	Determination of Test Year Expensed Payroll
Pro Forma Workpapers	301-S2	170 IAC 1-5-8 (2)	Determination of Test Year Capitalized Payroll
Pro Forma Workpapers	302	170 IAC 1-5-8 (2)	Determination of Total Pro Forma Payroll
Pro Forma Workpapers	302-S1	170 IAC 1-5-8 (2)	Pro Forma Payroll Detail
Pro Forma Workpapers	303	170 IAC 1-5-8 (2)	Determination of Pro Forma Overtime Payroll
Pro Forma Workpapers	304	170 IAC 1-5-8 (2)	Determination of Pro Forma Supplemental Payroll
Pro Forma Workpapers	304-S1	170 IAC 1-5-8 (2)	Test Year Supplemental Pay
Pro Forma Workpapers	305	170 IAC 1-5-8 (2)	Determination of Pro Forma Capitalized Payroll
Pro Forma Workpapers	306	170 IAC 1-5-8 (2)	Determination of Pro Forma Short Term Incentive Plan (STIP)
Pro Forma Workpapers	308	170 IAC 1-5-8 (2)	Determination of Pro Forma Capitalized Variable Pay Credits to Expense
Pro Forma Workpapers	309	170 IAC 1-5-8 (2)	Determination of Pro Forma Capitalized Paid Absences Credits to Expense
Pro Forma Workpapers	330	170 IAC 1-5-8 (2)	Determination of Total Payroll Tax Adjustment
Pro Forma Workpapers	330-S1	170 IAC 1-5-8 (2)	Distribution of Expensed Payroll Tax to Pro Forma Accounts by FERC Account
Pro Forma Workpapers	330-S2	170 IAC 1-5-8 (2)	Distribution of Expensed Payroll Tax to Pro Forma Accounts by GL Account
Pro Forma Workpapers	331	170 IAC 1-5-8 (2)	Determination of Test Year Expensed Payroll Taxes
Pro Forma Workpapers	332	170 IAC 1-5-8 (2)	Determination of Pro Forma Expensed Payroll Taxes: Social Security and Medicare ("FICA")
Pro Forma Workpapers	332-S1	170 IAC 1-5-8 (2)	Determination of Pro Forma Expensed Payroll Taxes: Social Security and Medicare ("FICA") for Shared Services
Pro Forma Workpapers	332-S2	170 IAC 1-5-8 (2)	Determination of Percentage of Test Year Deductions Exempt from Social Security and Medicare Tax
Pro Forma Workpapers	332-S3	170 IAC 1-5-8 (2)	Determination of Pro Forma compensation exempt from social security tax
Pro Forma Workpapers	333	170 IAC 1-5-8 (2)	Determination of Pro Forma Expensed Payroll Taxes: State Unemployment (SUI)

Pro Forma Workpapers	334	170 IAC 1-5-8 (2)	Determination of Pro Forma Loaded Payroll Tax Credits
Pro Forma Workpapers	410	170 IAC 1-5-8 (2)	Determination of line locate costs
Pro Forma Workpapers	410-S1	170 IAC 1-5-8 (2)	History of SAMCO Line Locate Activity
Pro Forma Workpapers	410-S2	170 IAC 1-5-8 (2)	History of IUPPS charges for line locates
Pro Forma Workpapers	411	170 IAC 1-5-8 (2)	Summary of Adjustment to Normalize Certain Test Year Expenses
Pro Forma Workpapers	411-S1	170 IAC 1-5-8 (2)	Determination of Pro Forma Business Insurance
Pro Forma Workpapers	411-S2	170 IAC 1-5-8 (2)	Determination of Multi-Period Support Expenses in the Test Year
Pro Forma Workpapers	411-S3	170 IAC 1-5-8 (2)	Normalization of audit fees
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Pro Forma Workpapers	412	170 IAC 1-5-8 (2)	Determination of Pro Forma Employee Health Insurance
Pro Forma Workpapers	412-S1	170 IAC 1-5-8 (2)	Segal 2022 Trend Survey
Pro Forma Workpapers	413	170 IAC 1-5-8 (2)	Determination of Out-of-Period Expenses
Pro Forma Workpapers	413-S1	170 IAC 1-5-8 (2)	Prior period reversed accrual estimates in test year
Pro Forma Workpapers	413-S2	170 IAC 1-5-8 (2)	Prior period actual expenses in test year
Pro Forma Workpapers	413-S3	170 IAC 1-5-8 (2)	Accrual estimates at end of test year
Pro Forma Workpapers	413-S4	170 IAC 1-5-8 (2)	Test year expenses charged outside test year
Pro Forma Workpapers	413-S5	170 IAC 1-5-8 (2)	Summary by pro forma account
Pro Forma Workpapers	431	170 IAC 1-5-8 (2)	Determination of Non-Recurring Expenses
Pro Forma Workpapers	431-S1	170 IAC 1-5-8 (2)	Test Year Non-Recurring Expenses Detail
Pro Forma Workpapers	432	170 IAC 1-5-8 (2)	Determination of Non-Allowed Expenses
Pro Forma Workpapers	432-S1	170 IAC 1-5-8 (2)	Test Year Non-Allowed Expenses Detail - Lobbying portion in dues
Pro Forma Workpapers	432-S2	170 IAC 1-5-8 (2)	Test Year Non-Allowed Expenses Detail - Lobbying Consultant
Misc. Informational	501	170 IAC 1-5-8 (9)	Number of employees by month for the test year
Misc. Informational	503	170 IAC 1-5-8 (11)	Payroll increases during the test year
Misc. Informational	505	170 IAC 1-5-8 (12)	Description of other employee compensation programs, including performance bonuses and incentive payments
Misc. Informational	510	n/a	Oracle modules flowchart
Misc. Informational	511	170 IAC 1-5-7 (1)	Segment Values: Business Units & Inter Business Units
Misc. Informational	512	170 IAC 1-5-7 (1)	Segment Values: Areas
Misc. Informational	513	170 IAC 1-5-7 (1)	Segment Values: Accounts (FERC)
Misc. Informational	515	170 IAC 1-5-7 (1)	Segment Values: Expense Types
Misc. Informational	516	170 IAC 1-5-7 (1)	Expense Type Coding Guide
Misc. Informational	551	170 IAC 1-5-8 (25)(B)	Representative samples of conservation messaging
Misc. Informational	552	170 IAC 1-5-8 (25)(B)	Representative samples of safety messaging

FINANCIAL SYSTEM AND ACCOUNTING RECORDS

High-level overview

CEG utilizes Oracle E-Business Suite (“Oracle EBS”) for its financial recordkeeping. The system originally was implemented in 2006 and currently comprises modules for general ledger, accounts payable, billing, purchasing, inventory, projects, fixed assets, time & labor, payroll, human resources, and treasury. In addition, there are interfaces to other systems. CEG is continually evaluating improvements to its many processes, therefore, the mix of interfaces and modules changes periodically. I have included a flowchart of the current Oracle EBS modules as workpaper 510.

Oracle EBS General Ledger Account Structure and Transaction Flow

CEG’s general ledger account string is divided into five segments for a total of 18 digits:

1. Business Unit (2 digits)
2. Area/Cost Center (4 digits)
3. Account (6 digits)
4. Expense Type (4 digits)
5. Inter-Business Unit (2 digits)

For example, the account string “40.7010.403010.1201.00” denotes:

1. Business Unit: Citizens Gas of Westfield
2. Cost Center: Westfield Gas System
3. Account: Depreciation Expense
4. Expense Type: Depreciation
5. Inter-Business Unit: None

A complete list of all currently active segment values and their descriptions can be found in workpapers 511 through 516.

Oracle EBS was implemented as a project-centric system to enable FERC-based accounting (at the time of system implementation in 2006, CEG owned only energy utilities). The result of this setup is that the average user is not required to understand 18-digit general ledger account codes, as he or she is only asked to select a “project” and a descriptive “task.” The combination of these two items, the project and the task, determine programmatically where on the general ledger the transaction will post, including which business unit receives the charge, as each project is unique to a specific business unit. An expense type is added to provide a more detailed description of the transaction itself.¹ The expense type aids in analysis of costs by providing a further breakdown of the charge, particularly in the FERC accounting structure which accumulates a variety of types of charges in the same account representing a function (the project and task). For example, FERC account 910 “shall include the cost of labor, materials used and expenses incurred in connection with customer service [...]”. The project and task combination in the CEG transaction determines that the charge posts to FERC account 910. The expense type delineates whether it is labor, office supplies, or a variety of other expenditures.

¹ Expense types are defaulted in by system interfaces and sub-modules for the majority of general ledger transactions. For purchasing transactions, which comprise a relatively low percentage of total transactions, end-users must select from a limited list of expense types to categorize their purchases.

Conclusion

CEG maintains a sophisticated, constantly evolving enterprise-wide financial system which incorporates advances in technology to help make associated processes more efficient and cost-effective, and which supports a solid internal controls environment. Financial reporting is monitored constantly and improvement opportunities are continually evaluated and pursued as feasible.