

**STATE OF INDIANA**

**INDIANA UTILITY REGULATORY COMMISSION**

**PETITION OF COMMUNITY NATURAL GAS )  
CO., INC. FOR AUTHORITY TO CHANGE ITS )  
RATES, CHARGES, TARIFFS, RULES, AND ) CAUSE NO. 45214  
REGULATIONS )**

**SETTLEMENT TESTIMONY  
OF  
EARL L. RIDLEN III**

**ON BEHALF OF  
COMMUNITY NATURAL GAS CO., INC.**

**SETTLEMENT TESTIMONY OF EARL L. RIDLEN  
ON BEHALF OF  
COMMUNITY NATURAL GAS CO., INC.**

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

2    A1.    My name is Earl L. Ridlen, LWG CPAs & Advisors, 1776 N. Meridian, Suite 500,  
3           Indianapolis, Indiana 46202.

4    Q2.    **HAVE YOU PREVIOUSLY OFFERED TESTIMONY IN THIS CAUSE?**

5    A2.    Yes I have.

6    Q3.    **WHAT IS THE PURPOSE OF YOUR TESTIMONY HERE?**

7    A3.    The Petitioner and the Office of Utility Consumer Counselor (OUCC) have resolved all  
8           issues raised in this rate case with the exception of two issues. My testimony is designed  
9           to support the settlement, as described in the Stipulation and Settlement Agreement which  
10          was filed by counsel of record in this Cause.

11   Q4.    **MR. RIDLEN PLEASE DESCRIBE WHAT ISSUES HAVE NOT BEEN**  
12           **RESOLVED BY THE STIPULATION AND SETTLEMENT AGREEMENT**  
13           **(SETTLEMENT AGREEMENT)?**

14   A4.    It is my understanding that the Settlement Agreement does not include a resolution of the  
15           issues raised by the OUCC on executive compensation or certain invoices associated with  
16           the tax investigation under Cause No. 45032.

17   Q5.    **MR. RIDLEN ARE THERE REMAINING ISSUES RELATED TO THE ENERGY**  
18           **EFFICIENCY PROGRAM, INCLUDING THE SRC, EEFC, AND**  
19           **ADMINISTRATIVE COSTS ASSOCIATED WITH THE ENERGY EFFICIENCY**  
20           **PROGRAM?**

1 A5. Yes there are, but the only remaining issues related to the Energy Efficiency Program  
2 include; what amounts, if any, are required to be refunded or recovered under the SRC;  
3 what amounts should be returned to ratepayers under the EEFC; what period of time any  
4 dollars will be refunded or collected pursuant to the SRC or EEFC; and what additional  
5 steps are necessary such as related to Petitioners Appendix E to wind up the Energy  
6 Efficiency Program. However, the Parties have agreed to work collaboratively; to reach  
7 out to the other small gas utilities that participated as joint Petitioners in Cause No. 43995  
8 when the Energy Efficiency Program was established and attempt to reach a global  
9 settlement for all of the small gas utilities and the OUCC related to the Energy Efficiency  
10 Program. The Parties have also agreed to a timeline for this collaboration. To the extent  
11 that the discussions that are to be held do not result in a resolution of the issues raised by  
12 the OUCC in this rate case; then either the OUCC or this Petitioner can request a sub docket  
13 under Cause No. 43995.

14 Q6. **WERE SOME OF THE ISSUES RELATED TO THE SRC AND EEFC RESOLVED**  
15 **IN THE SETTLEMENT AGREEMENT?**

16 A6. Yes. The Parties agreed not to include the SRC or EEFC calculated dollars as part of  
17 Petitioner's capital structure.

18 Q7. **MR. RIDLEN DO YOU BELIEVE THAT THE SETTLEMENT AGREEMENT IS**  
19 **REASONABLE?**

20 A7. Yes I do.

21 Q8. **WHAT IS EXHIBIT ELR-1S, WHICH IS ATTACHED TO YOUR TESTIMONY?**

1 A8. This exhibit contains the numerical results of the settlement agreement plus the remaining  
2 two accounting issues (executive compensation and invoices associated with Cause No.  
3 45032) which have not as yet been resolved.

4 Q9. **MR. RIDLEN IS THIS EXHIBIT SIMILAR TO THE PRIOR ACCOUNTING**  
5 **EXHIBITS ATTACHED TO WITNESS MANN'S DIRECT TESTIMONY AND**  
6 **REBUTTAL TESTIMONY?**

7 A9. Yes it is. In the direct testimony, Ms. Mann set forth in her exhibit BJM-1 the request of  
8 the Petitioner for a new revenue requirement. In Ms. Mann's rebuttal testimony, she set  
9 forth in her exhibit BJM-1R the resolution of various accounting adjustments that had  
10 occurred through Petitioner's direct testimony, the OUCC's direct testimony, and  
11 Petitioner's rebuttal testimony. Thus Ms. Mann's BJM-1R included both accounting issues  
12 that had been resolved, but also continued to include the position of the Petitioner as  
13 described in Petitioner's rebuttal case. My exhibit ELR-1S continues that same format.  
14 Thus we have set forth the numerical results of all the agreements with the OUCC as  
15 identified in the settlement agreement, but also continue to include the position of the  
16 Petitioner relative to the OUCC's adjustments on executive compensation and certain  
17 invoices.

18 Q10. **MR. RIDLEN DO YOU BELIEVE THE COMMISSION SHOULD ACCEPT THE**  
19 **SETTLEMENT AGREEMENT AND USE IT AS PART OF THE FINAL ORDER**  
20 **IN THIS CASE?**

21 A10. Yes I do.

1 Q11. MR. RIDLEN DO YOU BELIEVE THE COMMISSION SHOULD USE YOUR  
2 EXHIBIT ELR-1R TO ESTABLISH PETITIONER'S REVENUE REQUIREMENT  
3 IN THIS RATE CASE?

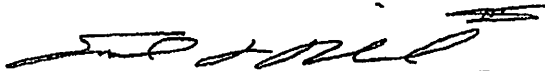
4 A11. Yes. But as I have noted above, the Petitioner and the OUCC are still litigating the issues  
5 of executive compensation and certain invoices.

6 Q12. DOES THIS CONCLUDE YOUR PREFILED SETTLEMENT TESTIMONY IN  
7 THIS CAUSE?

8 A12. Yes it does.

**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.

  
\_\_\_\_\_  
Earl L. Ridlen, III

**ELR-1S**

**COMMUNITY NATURAL GAS COMPANY, INC**  
**MT. CARMEL, IL**

**Pro-Forma Operating Income Statement**

**For the 12 Months Ended September 30, 2018**

Increase Required: 8.086%

	<u>September</u>	<u>Adjustments</u>	<u>Ref</u>	<u>Pro-Forma</u>	<u>Adjustments</u>	<u>Ref</u>	<u>Pro-Forma</u>
	<u>2018</u>			<u>Present</u>			<u>Proposed</u>
				<u>Rates</u>			<u>Rates</u>
<b><u>Operating Revenues</u></b>							
Gas sales	\$ 7,490,911	\$ (3,432,914)	(1)	\$ 4,057,997	\$ 618,417	(A)	\$ 4,676,414
Other gas revenues	(71,164)	131,365	(2)	60,201			60,201
Total Operating Revenues	<u>7,419,747</u>	<u>(3,301,549)</u>		<u>4,118,198</u>	<u>618,417</u>		<u>4,736,615</u>
<b><u>Operating Expenses</u></b>							
Natural gas purchased	3,321,940	(3,304,073)	(3)	17,867			17,867
Other operation & maintenance	2,059,998	3,198	(4)	2,063,196	3,333	(B)	2,066,529
Depreciation	822,754	117,000	(5)	939,754			939,754
Taxes other than income taxes	317,667	(39,624)	(6)	278,043	8,622	(C)	286,666
Income taxes	202,570	(78,219)	(7)	124,351	154,082	(D)	278,433
Total Operating Expenses	<u>6,724,929</u>	<u>(3,301,718)</u>		<u>3,423,211</u>	<u>166,038</u>		<u>3,589,249</u>
Net Operating Income	<u>\$ 694,818</u>	<u>\$ 169</u>		<u>\$ 694,987</u>	<u>\$ 452,379</u>		<u>\$ 1,147,366</u>



**COMMUNITY NATURAL GAS COMPANY, INC**  
**MT. CARMEL, IL**

**DETAIL OF ADJUSTMENTS**

**(1) REVENUE ADJUSTMENTS**

(a)		
Decrease in gas sales for the elimination of GCA revenue included in the test year.		<u>\$ (3,393,122)</u>
(b)		
Increase in revenue for annualization of new customers receiving gas and new customers added to the system but not receiving gas as of 12/31/2018		<u>\$ 164,655</u>
(c)		
Reduction in revenue based on change in revenue for changes to made to tariffs in April 2018		
Revenue change from October 2017 through December 2017	\$ (73,082)	
Revenue change from January 2018 through April 2018 recorded in other gas revenues	<u>(131,365)</u>	
		<u>\$ (204,447)</u>
(d)		
Change in operating revenue for the revenue impact of the order in Cause No. 45032 - S7 for the refunding of EADIT from rate base included through Cause No. 44768		<u>\$ -</u>
Total Operating Revenue adjustment		<u><u>\$ (3,432,914)</u></u>

**(2) OTHER GAS REVENUES**

To adjust other gas revenues to move the refund of excess revenue from other gas revenue to gas sales	<u><u>\$ 131,365</u></u>
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**(3) NATURAL GAS PURCHASED ADJUSTMENT**

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

	<u>RATE</u>	
Test year sales - Dth	934,877	
Adjustment for: new customers	28,000	
weather normalization for test year Dth	(4,711)	
weather normalization for new customers	<u>(141)</u>	
	958,025	
Unaccounted for gas percentage	<u>0.50%</u>	
Estimated unaccounted for gas - Dth	<u><u>4,790</u></u>	
Estimated purchases of system gas	4,790	
Anticipated cost of system gas	<u>\$ 3.7300</u>	
Total pro-forma cost of purchased gas	\$ 17,867	
Less: test year purchased gas	<u>3,321,940</u>	
Total Adjustment Increase/(Decrease)		<u><u>\$ (3,304,073)</u></u>

**COMMUNITY NATURAL GAS COMPANY, INC**  
**MT. CARMEL, IL**

**DETAIL OF ADJUSTMENTS**

**(4) OTHER OPERATION AND MAINTENANCE EXPENSE ADJUSTMENTS**

(a)

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

Estimated cost of rate filing	\$	200,000	
Unamortized portion of prior rate case		25,842	
Total rate case costs to be recovered	\$	225,842	
Amortization period - years		4	
Annual amortization amount	\$	56,461	
Less: test year expense		130,641	
Adjustment - Increase/(Decrease)			\$ (74,181)

(b)

To adjust other operation and maintenance expense to reflect the IURC fee requirement

Applicable revenues at present rates (schedule C-3)	\$	7,634,449	
Current IURC rate		0.001296408	
Pro-forma IURC fee at present rates	\$	9,897	
Less: Test year IURC fee		7,806	
Adjustment - Increase/(Decrease)			\$ 2,091

(c)

To adjust other operation and maintenance expense to remove energy efficiency contribution for NTA.

Adjustment-Increase/(Decrease)			\$ (11,300)
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(d)

To adjust other Operation and Maintenance Expense for the annualization of payroll and wage increases (net of amount capitalized)

Proforma payroll	\$	1,207,204	
Test year wages		1,096,716	
Total payroll increase			\$ 110,488
Percentage expensed per test year			91%
Payroll Adjustment - Increase/(Decrease)			\$ 100,412

(e)

To increase operations and maintenance expense for pension contribution for employee

Proforma pension expense	\$	164,610	
Test year pension expense		146,548	
Pension Expense Adjustment - Increase/(Decrease)			\$ 18,062

(f)

To adjust other operation and maintenance expense to remove charitable contributions.

Adjustment-Increase/(Decrease)			\$ (775)
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(g)

To adjust other operation and maintenance expense to remove advertising expense.

Adjustment-Increase/(Decrease)			\$ (1,547)
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**COMMUNITY NATURAL GAS COMPANY, INC**  
**MT. CARMEL, IL**

**DETAIL OF ADJUSTMENTS**

**(4) OTHER OPERATION AND MAINTENANCE EXPENSE ADJUSTMENTS CONT**

(h)

To adjust other operation and maintenance expense to average bad debts

Twelve months ended September 30, 2018	\$	15,552
Twelve months ended September 30, 2017		20,027
Twelve months ended September 30, 2016		<u>14,322</u>

Average	\$	16,634
Less: Test Year		<u>15,552</u>

Bad Debt Adjustment - Increase/(Decrease) \$ 1,082

(i)

To adjust other operations and maintenance expense for property insurance.

Proforma insurance expense		
Gas Utilities Alliance	\$	35,596
All Other		<u>44,190</u>

Total proforma insurance expense		79,786
Test year property insurance		<u>80,608</u>

Property Insurance Adjustment - Increase/(Decrease) \$ (822)

(j)

To adjust other operation and maintenance expense to increase health insurance

Proforma insurance expense	\$	114,704
Test year health insurance		<u>109,930</u>

Health Insurance Adjustment - Increase/(Decrease) \$ 4,774

(k)

To adjust other operations and maintenance expense to remove employee gifts and events

Non-recurring expenses Adjustment - Increase/(Decrease) \$ (3,889)

(l)

To adjust other operations and maintenance expense for the amortization of the cost of participation in the IURC investigation into the Tax Cuts and Jobs Act of 2017

Total cost through 11/30/2018	\$	51,941
Amortization		<u>4</u>

Adjustment - Increase/(Decrease) \$ 12,985

(m)

To adjust other operations and maintenance expense to remove non-recurring outside services costs.

\$ (40,060)

(n)

To adjust other operations and maintenance expense for lobbying fees and tax penalties.

\$ (3,635)

Total Adjustment to Other Operations and Maintenance Expense - Increase/(Decrease) \$ 3,198

**COMMUNITY NATURAL GAS COMPANY, INC**  
**MT. CARMEL, IL**

**DETAIL OF ADJUSTMENTS**

**(5) DEPRECIATION EXPENSE ADJUSTMENT**

To adjust "Depreciation Expense" to reflect current plant in service

Distribution Plant @ 09/30/2018	\$ 17,932,382	
Plant additions as of 12/31/2018	1,179,678	
Less: Land and Land Rights	(1,584)	
Less: Fully Depreciated	<u>(1,677,505)</u>	
Sub Total	17,432,971	
Depreciation Rate	<u>3%</u>	
		\$ 522,989
Transmission Plant @ 09/30/2018	1,146,726	
Additions through 12/31/2018	-	
Less: Land and Land Right	<u>(10,305)</u>	
Sub Total	1,136,421	
Depreciation Rate	<u>3%</u>	
		34,093
Buildings @ 09/30/2018	871,460	
Additions through 12/31/2018	378,226	
Less: Fully Depreciated	<u>(36,737)</u>	
Sub Total	1,212,949	
Depreciation Rate	<u>5%</u>	
		60,647
All Other General Plant @ 09/30/2018	2,182,888	
Additions through 12/31/2018	57,883	
Less: Land and Land Rights	<u>(93,361)</u>	
Less: Fully Depreciated	<u>(537,282)</u>	
Sub Total	1,610,128	
Depreciation Rate	<u>20%</u>	
		<u>322,025</u>
Total Pro-Forma Depreciation Expense		939,754
Less: Test Year Depreciation Expense		<u>822,754</u>
Adjustment - Increase / (Decrease) in Depreciation Expense		<u>\$ 117,000</u>

**COMMUNITY NATURAL GAS COMPANY, INC**  
**MT. CARMEL, IL**

**DETAIL OF ADJUSTMENTS**

**(6) TAXES OTHER THAN INCOME TAXES ADJUSTMENTS**

(a)

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

Utility receipts	\$	4,118,198
Less: Exemption		1,000
Bad debts		16,634

Receipts subject to utility receipts tax	\$	4,100,564
Applicable utility receipts tax rate		1.40%

Pro-Forma at present rates	\$	57,408
Less: Test year expense		105,484

Adjustment-Increase/(Decrease) in Utility Receipts Tax Expense	\$	(48,076)
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(b)

To adjust taxes other than income taxes to reflect changes in payroll taxes

**Payroll Taxes**

Payroll Wage Increase Subject To FICA Limits	\$	110,488
FICA tax rate		7.65%

Increase/(Decrease) in Payroll Tax Expense	\$	8,452
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Adjustment - Decrease Taxes other than Income	\$	(39,624)
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**COMMUNITY NATURAL GAS COMPANY, INC**  
**MT. CARMEL, IL**

**DETAIL OF ADJUSTMENTS**

**(7) INCOME TAXES**

To adjust "Income Tax" to reflect changes in Revenues and Expenses

(a)

**State Income Tax:**

Net Operating Income before State Tax	\$	819,338
Less: Synchronized Interest	\$	(118,997)
Plus: Utility Receipts Tax		<u>57,408</u>

Taxable State Income	\$	757,749
Applicable State Tax Rate		<u>5.50%</u>

Pro-Forma at Present Rates	\$	41,676
Less: Test Year Expense		<u>36,126</u>

Adjustment - Increase/(Decrease) in State Income Tax Expense	\$	<u>5,550</u>
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(b)

**Federal Income Tax:**

Net Operating Income before Federal and State Income Tax	\$	700,341
Less: Pro Forma State Income Tax		<u>41,676</u>

Federal Taxable Income	\$	658,665
Federal Tax Rate		<u>21%</u>

Adjusted Federal Income Tax Expense	\$	138,320
Less: Test Year Federal Income Tax		<u>166,444</u>

Adjustment - Increase/(Decrease) in Federal Income Tax Expense	\$	<u>(28,124)</u>
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(c)

**EADIT refund**

Agreed upon EAADIT refund total	\$	(885,312)
Agreed upon amortization period		<u>16</u>

	\$	<u>(55,645)</u>
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Adjustment - Decrease Income Taxes	\$	<u>(78,219)</u>
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**COMMUNITY NATURAL GAS COMPANY, INC**  
**MT. CARMEL, IL**

**DETAIL OF ADJUSTMENTS**

(A)

To adjust "Operating Revenues" to reflect proposed revenue increase.

Adjusted Sales of Gas at present rates	\$ 7,647,705	
Requested rate increase	<u>8.086%</u>	
Adjustment - Increase		<u>\$ 618,417</u>

(B)

To adjust Other "Operation and Maintenance" expense to reflect increase in IURC fee.

Proposed Revenue Increase	\$ 615,882	
Current effective IURC fee rate	<u>0.001296408</u>	
Adjustment - Increase		<u>\$ 798</u>

(C)

To adjust Other "Operation and Maintenance" expense to reflect increase in bad debts

Proposed Revenue Increase	\$ 618,417	
Bad Debt Rate	<u>0.40991%</u>	
Adjustment - Increase		<u>\$ 2,535</u>
Total "Operations and Maintenance" Adjustment		<u>\$ 3,333</u>

**COMMUNITY NATURAL GAS COMPANY, INC**  
**MT. CARMEL, IL**

**DETAIL OF ADJUSTMENTS**

(D)

To adjust "Taxes Other Than Income Tax"  
to reflect pro-forma changes in revenues and expenses.

**Utility Receipts Tax:**

Proposed Revenue Increase	\$ 618,417
Less: Increase in Bad Debts	(2,535)
	<hr/>
Net Increase for URT	\$ 615,882
Applicable Tax Rate	1.40%
	<hr/>

Adjustment - Increase \$ 8,622

(E)

To adjust "Income Taxes" to reflect pro-forma  
changes in revenues and expenses.

**State Income Tax:**

Proposed Revenue Increase	\$ 618,417
Less: Increase in IURC Fee	(798)
Less: Increase in Bad Debts	(2,535)
	<hr/>
Taxable Increase	615,084
Applicable Tax Rate	5.50%
	<hr/>

Adjustment - Increase \$ 33,830

**Federal Income Tax:**

Proposed Revenue Increase	\$ 618,417
Less: Increase in IURC Fee	(798)
Increase in Bad Debts	(2,535)
Increase in Utility Receipts Tax	(8,622)
Increase in State Income Tax	(33,830)
	<hr/>
Federal taxable income increase	572,632
Applicable tax rate	21%
	<hr/>

Adjustment-Increase \$ 120,253

Total Increase to Income Tax \$ 154,082



## COMMUNITY NATURAL GAS COMPANY, INC

## TOTAL REVENUE CALCULATION

Estimated volume of gas purchased	962,815
Base Cost of Gas Estimated	<u>\$ 3.7283</u>
Base Cost of Gas Revenues	3,589,708
Pro-Forma Present Sales Revenues	<u>4,057,997</u>
Total Revenues	7,647,705
Requested Increase	<u>8.09%</u>
Revenue Adjustment - Overall	<u><u>\$ 618,417</u></u>

**EXHIBIT D**

**COMMUNITY NATURAL GAS COMPANY, INC**  
**MT. CARMEL, IL**

**ORIGINAL COST RATE BASE**

Utility Plant In Service As Of September 2018		\$22,183,655
Increase in rate base through December 2018		1,615,787
Less: Accumulated Depreciation		(9,582,890)
Less: Accumulated Deprecation through December 2018		<u>(234,939)</u>
Net Utility Plant in Service		13,981,613
Plus:		
Working Capital	\$2,063,196 /8	257,899
Materials and Supplies		275,192
Gas in Storage		<u>176,289</u>
Total Original Cost Rate Base		<u><u>\$14,690,993</u></u>

**COMMUNITY NATURAL GAS COMPANY, INC**  
**MT. CARMEL, IL**

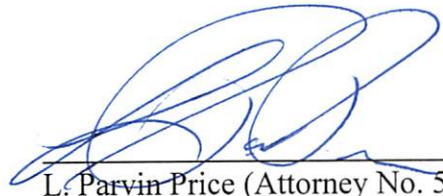
**CAPITAL STRUCTURE**  
**As of December 31, 2018**

<u>Description</u>	<u>Amount</u>	<u>Percent of Total</u>	<u>Cost</u>	<u>Weighted Cost</u>
Common Equity	\$8,562,194	69.23%	10.10%	6.99%
Line of Credit	2,049,583	16.57%	4.60%	0.76%
Customer Deposits	102,130	0.83%	6.00%	0.05%
Deferred Tax	<u>1,653,268</u>	<u>13.37%</u>	0.00%	<u>0.00%</u>
Total	<u><u>\$12,367,176</u></u>	<u><u>100.00%</u></u>		<u><u>7.81%</u></u>

**CERTIFICATE OF SERVICE**

I hereby certify that a copy of the foregoing has been served upon the following counsel  
of record by electronic delivery the 6<sup>th</sup> day of September, 2019:

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Tiffany Murray  
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