

FILED
November 30, 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, CHARGES, TARIFFS, RULES,) CAUSE NO. 45117
AND REGULATIONS)

IURC
PETITIONER'S
EXHIBIT NO. 5
12-21-18 DATE REPORTER A.T.

REBUTTAL TESTIMONY
OF
BONNIE J. MANN

ON BEHALF OF
SWITZERLAND COUNTY NATURAL GAS COMPANY, INC.

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

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

A. My name is Bonnie J. Mann; my business address is LWG CPAs and Advisors, 1776 N. Meridian, Suite 500, Indianapolis, Indiana 46202.

Q.2. MS. MANN, HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?

A. Yes, I have. I offered direct testimony in this Cause. Further, I have testified in multiple proceedings since I began working with my current firm in September 1988.

Q.3. MS. MANN, HAVE YOU EVER PARTICIPATED IN SMALL UTILITY FILINGS?

A. Yes, I have.

Q.4. MS. MANN, WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I have reviewed the testimony of OUCC Witnesses Gordon, Larsen, Golden, and Rutter. Having reviewed their proposed adjustments and the explanations offered for those adjustments, I disagree with them on a number of their adjustments and the positions they have taken. In previous cases, it has been my practice to address all the issues presented by the OUCC together and summarize those we agree and disagree with. However, due to the large number of OUCC witnesses used in this case, I am going to address the issues brought up by each witness separately.

Q.5. MS. MANN, PLEASE EXPLAIN WHAT ADJUSTMENTS HAVE BEEN MADE BY MS. GORDON WITH WHICH YOU DISAGREE, AND EXPLAIN WHY YOU DISAGREE.

1 A. Adjustment to test year information in Ms. Gordon's testimony, with which I disagree, is
2 the cost of natural gas. Ms. Gordon made two adjustments to the Petitioner's calculation
3 of estimated cost of natural gas. One adjustment was related to the cost of unaccounted
4 for gas for which the OUCC used more recent data. I will not disagree with this
5 approach. When new information is available, and in recognition that these rates will be
6 in place for a long period of time, I generally favor using the more recent information.
7 However, the second adjustment to the calculation of the estimated cost of natural gas
8 was to the cost of natural gas itself included in the Petitioner's proposed revenue
9 requirement. Petitioner used as an estimate its actual price of gas. Ms. Gordon indicates
10 that a change to this estimate is required to remove the cost of URT. I believe that Ms.
11 Gordon is focused on the wrong issue. As I write this testimony, based on the NYMEX
12 futures prices, the same gas purchased for the test year will have an average cost of just
13 over \$4.00 if purchased over the next 12 months which is higher than the cost of gas I
14 used in Petitioner's revenue requirement. The question Ms. Gordon should be asking is
15 whether the estimate used for the average future price of gas is reasonable. I believe that
16 in light of market changes increasing the price of gas, the estimated cost used by
17 Petitioner remains reasonable and does not need to be changed. Thus, I believe Ms.
18 Gordon's adjustment based on the estimated cost of natural gas should be rejected.
19 The next adjustment proposed by Ms. Gordon, with which I disagree, relates to the issue
20 of miscellaneous expenses. There are two specific issues within that total adjustment I
21 will discussing, one is outside services and the other is advertising. The outside services
22 that Ms. Gordon is removing she has identified as costs related to the current proceeding.
23 However, those costs were not related to the current proceeding but were related to the
24 adjustment of Petitioner's tariff to remove the cost of rate case expense from the tariff in

1 accordance with the settlement in Petitioner's last base rate case. Additionally, those
2 expenses were included in Petitioner's adjustment 3(h) to amortize the cost of those
3 required tariff adjustments. The OUCC had no objection to adjustment 3(h) which
4 amortizes those costs over the next 5 years. As a result, Petitioner believe Ms. Gordon's
5 miscellaneous expense adjustment of \$491 is incorrect and should be rejected.

6 The second issue related to miscellaneous expenses is an adjustment Ms. Gordon made
7 based on what she called advertising expenses. I reviewed the expenses Ms. Gordon
8 identified. I have included as an attachment to my testimony samples of the
9 advertisements that were included in those expenses. As evidenced by my Exhibit (BJM-
10 2R), those advertisements were all safety related. As such, those expenses should not be
11 mischaracterized and should be included in operating expenses. Therefore, Petitioner is
12 rejecting \$269 of mischaracterized advertising expense from Vevay Media Group for
13 these print advertisements which remind individuals and entities within Petitioner's
14 service area to call before they dig.

15 The next issues I will be addressing from Ms. Gordon's testimony are related to the
16 capital structure. These issues will include the date used for the capital structure, new
17 debt related to the purchase of a truck and the treatment of old debt in relation to a line
18 addition from 2005.

19 Ms. Gordon has objected to the capital structure as filed because the date of December
20 31, 2017 doesn't match the rate base date of September 30, 2017. Ms. Gordon believes
21 this to be inappropriate. Ms. Gordon also states that Petitioner responded to a data
22 request that it was unaware of any of any precedent for differing rate base and capital
23 structure dates. What the data request response in Attachment ILG-5, p. 1 actually says is
24 that no legal research had been performed. I have now reviewed my own records from

1 small gas utility base rate cases for many years. I have found several instances where
2 these dates differed. As an example, in Cause 44768, the rate base was dated September
3 30, 2016 and the capital structure was dated September 30, 2015; in Cause 44062, the
4 rate base was dated June 30, 2011 and capital structure was dated March 31, 2011. Both
5 of these rate cases were fully litigated. As was discussed in my direct pre-filed testimony
6 in this Cause, the change in the tax rate as of January 1, 2018 created a difference
7 between the tax rate used to calculate federal income taxes in the operating adjustments
8 and deferred taxes on the capital structure. It was the opinion of myself and Mr. Ridlen
9 that those tax rates should be the same and both should be stated at the current tax rate.
10 Because the OUCC witnesses have agreed with us that rates should be set based on the
11 current tax rate, we believe the OUCC's adjustment to the date of the capital structure is
12 incorrect.

13 Ms. Gordon has also expressed the opinion that Petitioner did not include new debt used
14 for the purchase of a truck. Ms. Gordon's evidence for this unrecorded debt was that
15 there was a new debt account in the general ledger in December 2017 that was not there
16 in September 2017 leading her to believe that there was additional debt that was not
17 reflected on the balance sheet as of September 2017. However, that is not the case.
18 When the debt was issued in September, it was included in a general ledger account that
19 already included other debt. Between September and December, Petitioner moved the
20 debt out of that account into a new account to make both loans easier to track. As a
21 result, Ms. Gordon is incorrect that the debt balance included in the capital structure was
22 missing the debt related to a new truck purchase. I will also point out that while Ms.
23 Gordon added \$25,000 to the balance of debt, she did not adjust the weighted average
24 cost of the debt. Since I disagree with Ms. Gordon's inclusion of non-existent new debt

1 in the capital structure, I don't believe any additional change is required related to the
2 weighted average cost of debt.

3 The final capital structure adjustment that Ms. Gordon presented with which I disagree is
4 related to the note with Belterra Resort. Ms. Gordon states that the note was not included
5 in Petitioner's capital structure and that without it the rate base was higher than the
6 capital structure. However, Petitioner removed from rate base the value of the plant built
7 with that note so that note did not fund any plant that was included in Petitioner's
8 originally filed rate base. But significantly more problematic for this Petitioner is the
9 OUCC's decision to reverse a capital structure and rate base arrangement that the OUCC
10 agreed with more than 10 years ago; and which has been used in every base rate
11 proceeding of the Petitioner since that time. The treatment of the Belterra Resort note
12 and the underlying utility plant in service were part of a settlement agreement made with
13 the Petitioner, the OUCC and Belterra Resort in 2005 as part Cause 42844. That
14 settlement agreement was accepted by the Commission. That settlement agreement also
15 included a moratorium on rates until 2009. Petitioner filed a new base rate case in 2010
16 (Cause No. 43897-U, Order date January 5, 2011) through the small utility filing process
17 resulting in a settlement that also excluded the Belterra Resort note and the underlying
18 utility plant. Petitioner filed its next base rate case in 2012. This case which was also
19 settled with the OUCC did not make any changes to either capital structure or rate base.
20 Petitioner is unsure why the OUCC has changed its position now. But as I indicated
21 above, the value of the utility plant paid for with the Belterra Resort note was removed
22 from rate base so there is no utility plant in rate base as filed by the Petitioner that was
23 funded from that debt. As a result of multiple settled cases, Petitioner rejects these
24 adjustments in both capital structure and rate base.

1 **Q.6. MS. MANN, PLEASE EXPLAIN THE ADJUSTMENTS MADE BY MS. LARSEN**
2 **WITH WHICH YOU DISAGREE, AND EXPLAIN WHY YOU DISAGREE.**

3 A. The first adjustment made by Ms. Larsen with which I disagree is related to the payment
4 of bonuses. Ms. Larsen argues that rate payers should not be required to pay for benefits
5 that are not necessary to the provision of utility service. There are very few benefits that
6 are directly necessary to provision of utility service. The provision of retirement
7 contributions and health insurance contributions are not directly necessary to the
8 provision of utility service but a utility can't provide service without employees. In order
9 to keep good quality employees that provide quality utility service, Petitioner offers
10 various benefits. One of those benefits was a bonus at Christmas time which employees
11 had come to expect. Petitioner is a very small utility with only about 750 customers and
12 three full time employees. In order to keep its payroll and benefit costs down, Petitioner
13 has operated since I began working with the Petitioner without a chief executive officer.
14 Thus, the OUCC's adjustment which eliminates an important employee benefit because
15 of the description of such benefit as a bonus can create significant long term problems for
16 the Petitioner. As I describe in greater detail below, the cost of losing employees is high
17 both in time and dollars. It is in the best interest of both the utility and customer to keep
18 current employees rather than spend time and resources it doesn't have to hire new
19 employees. As a result, Petitioner believes that this payroll expense, even though called
20 bonuses, be kept in the payroll calculation.

21 Ms. Larsen also addressed another payroll issue in her testimony. The Board of the
22 Petitioner was approached by employees in August 2018 requesting significant increases
23 in pay. The Petitioner's Board took the request under advisement, and at its September
24 27, 2018 meeting, the Board chose not to grant the employees their requested increase in

1 pay. As an independent utility consultant, I recognize that the Board was making a good
2 faith attempt to keep costs down for the utility and its customers. However, once notified
3 of the denial of salary increase, one employee resigned on October 1, 2018. This left the
4 Petitioner without field coverage if the remaining field employee was sick or on vacation
5 or multiple service calls occurred. Petitioner contacted a contractor who could provide
6 qualified employees for coverage. The Petitioner was advised that the cost would be
7 \$1,000 per day with additional costs for weekends or afterhours callouts. Thus, coverage
8 of an entire week required a minimum cost of \$8,000. With this new information, the
9 Board held an emergency meeting on October 2, 2018. During that meeting the Board
10 resolved to provide raises to all employees sufficient to bring back the employee who
11 resigned and keep other employees. The total of these salary increases is \$25,000
12 annually. In addition to salary, Petitioner will pay additional costs in payroll taxes and
13 retirement contributions. The actual increase in operating expenses is now an additional
14 \$29,413. The originally requested authorized net operating income was \$67,381. These
15 new expenses will represent 44% of those requested earnings. The authorized net
16 operating income recommended by the OUCC is \$47,484 which means that these
17 additional expenses will immediately absorb 62% of those earnings. This is not a
18 sustainable position for the Petitioner. If relief is not granted here, Petitioner will be
19 required to come back to the Commission as soon as legally possible to remedy the
20 situation. But since the Petitioner is already before the Commission for purposes of
21 changing its base rate revenue to cover its known operating expenses, I believe it is much
22 more efficient and less expensive to recognize that this is a unique situation which can
23 and should be addressed in this proceeding. Therefore, I disagree with Ms. Larsen's
24 position that the payroll should not be increased because the increase was adopted by the

1 Board two days after the twelve-month period from the end of the test year had run.

2 Because of my disagreement with Ms. Larsen's payroll positions, and recognizing that
3 retirement expenses are a mathematical calculation based on the payroll, I disagree with
4 the adjustment for retirement expenses made by Ms. Larsen.

5 Turning to the health insurance contribution adjustment proposed by Ms. Larsen, and the
6 rationale she offers to support her adjustment, I must disagree with Ms. Larsen's
7 adjustment. Ms. Larsen is correct that during the test year Petitioner paid \$300 to two of
8 its full time employees and \$262.50 for the remaining employee. The third employee
9 was receiving the lower amount because her health insurance costs was less than \$300.
10 However, as of January 1, 2018, the employee's health insurance costs increased to more
11 than \$300 and her insurance allowance was raised to the \$300 maximum to match that of
12 the other employees. Therefore, the OUCC adjustment for health insurance should be
13 rejected.

14 Ms. Larsen and I both calculated the payroll tax adjustment using the same methodology.
15 But since I disagree with Ms. Larsen's payroll adjustment, I must also disagree with Ms.
16 Larsen's payroll tax adjustment.

17 **Q.7. MS. MANN, PLEASE EXPLAIN THE ADJUSTMENTS PROPOSED BY MR.**
18 **GOLDEN WITH WHICH YOU DISAGREE, AND EXPLAIN WHY YOU**
19 **DISAGREE.**

20 A. My disagreements with Mr. Golden's testimony are based on adjustments he made to rate
21 base. My review of Mr. Golden's testimony causes me to believe that Mr. Golden's
22 adjustments are directly related to the adjustments proposed by OUCC Witness Gordon.
23 Thus, Mr. Golden added a truck worth \$25,000 to Petitioner's rate base as a result of new
24 debt OUCC Witness Gordon claimed to exist. As I indicated above, the debt and truck

1 were actually included in Petitioner's original filing. So, this adjustment is unnecessary
2 and should be rejected.

3 A second adjustment to rate base made by Mr. Golden is to adjust the rate base to remove
4 the negative amounts related to the utility plant added with the Belterra Resort note. This
5 adjustment is unnecessary. But more importantly, this adjustment represents a change to
6 the rate base methodology used by this Petitioner with the agreement of the Commission
7 and the OUCC in Cause No. 42844, Cause No. 43897-U, and Cause No. 44293. To the
8 extent that Mr. Golden proposes to change the methodology, I believe he needs to explain
9 the rationale behind such changes. I would also expect that any rationale supporting a
10 change would explain why an approach acceptable to the OUCC's accountants in the last
11 three base rate cases is no longer acceptable to the OUCC. This proposed change is
12 particularly problematic in the same case that the OUCC indicates it's trying to
13 encourage the Petitioner to use the small utility filing process for future rate cases. As a
14 result the Petitioner rejects this adjustment and encourages the Commission to reject this
15 adjustment as well.

16 **Q.8. YOU PREVIOUSLY REFERENCED YOUR REVIEW OF OUCC WITNESS**
17 **RUTTER'S TESTIMONY. DO YOU DISAGREE WITH OUCC WITNESS**
18 **RUTTER?**

19 A. Yes, I disagree with Mr. Rutter on a number of positions he takes and adjustments he
20 proposes.

21 **Q.9. PLEASE EXPLAIN YOUR DISAGREEMENT.**

22 A. Mr. Rutter's testimony focused on rate case expense and use of a small utility filing. On
23 the issue of rate case expense, Mr. Rutter indicated that rate case expense was too high
24 based on what Petitioner had already incurred. He determined this by multiplying a

1 number that is now almost three months old by 65%. Mr. Rutter suggests that the 65%
2 multiplier is adequate. What Mr. Rutter doesn't explain is how he knows that a 65%
3 multiplier is adequate. He doesn't indicate how that multiplier relates to the tasks
4 involved after that date, the number of consultants hired by the Petitioner, the number of
5 issues raised by the OUCC witnesses, or the number of OUCC witnesses filing
6 testimony. He also doesn't explain how any settlement negotiations successful or not
7 will impact his multiplier. I recently filed settlement testimony in a case filed the same
8 day as this case Cause No 46116. In that settlement, the Petitioner and the OUCC agreed
9 to a rate case expense of \$137,500. That case did not require rebuttal testimony from
10 Petitioner's witnesses; only settlement testimony based on already agreed upon numbers.
11 I do not reference this case to suggest that rate case expense of \$137,500 is reasonable.
12 But that case, which required significantly less effort, cost more than Mr. Rutter believes
13 is an acceptable rate case expense in this Cause. I was also struck by Mr. Rutter's
14 position in light of rate case expense recognized for South Eastern Indiana Natural Gas
15 Company, Inc. in Cause No. 45027 of \$230,000. Again, I note that this was a settled case
16 and thus, I don't offer it as an appropriate starting point; but as with the Indiana Utilities
17 case, Cause No. 46116 mentioned above, it does suggest Mr. Rutter's starting point is
18 significantly too low. But if we only looked at fully litigated small gas utility cases, I
19 would suggest that the Commission consider Midwest Natural Gas Corporation, Cause
20 No. 44880. That case which began in November of 2016 and concluded with a
21 Commission Order in August of 2017 (though the OUCC filed an appeal in that case)
22 included the recovery of \$260,000 of rate case expense. If I assume a starting point of
23 \$137,500, this still does not account for time spent for preparing rebuttal testimony, or
24 preparing for hearings, or creating proposed orders, or preparing compliance filings.

1 More importantly, this position of the OUCC does not recognize that the proposed rate
2 case expense of \$230,000 is significantly below the rate case expense of Midwest Natural
3 Gas in Cause No. 44880, and is the same as the rate case expense agreed in settlement for
4 South Eastern Indiana Natural Gas Company, Inc. in Cause No. 45027. The OUCC
5 filings in this case have questioned not only the ongoing operating expenses of the utility
6 but the way both rate base and capital structure are calculated. Due to the nature of the
7 issues brought by the OUCC in this case, the issues are more complicated than I have
8 seen in several years from the OUCC and I don't know how that factors into Mr. Rutter's
9 65%. As a result, the OUCC's adjustment to rate case expense should be rejected.

10 **Q.10. DO YOU AGREE WITH MR. RUTTER'S RECOMMENDATION ABOUT A**
11 **SMALL UTILITY FILING IN THE FUTURE BY THIS PETITIONER?**

12 A. No, I don't.

13 **Q.11. PLEASE EXPLAIN.**

14 A. Mr. Rutter is recommending that "the Commission send a signal" that the use of a small
15 utility filing will avoid the costs associated with this particular base rate case. I can't
16 agree with that recommendation. In the previous small utility rate case filed by this
17 Petitioner, the rate case cost was in excess of \$30,000 and Petitioner hired only one
18 outside consultant. However, in the most recent rate case filed by this Petitioner, at the
19 urging of the OUCC, the Commission ordered the Petitioner to file a cost of service
20 study. If Petitioner had filed a small utility filing, it would be reasonable to assume that
21 the cost of the small utility filing with a cost of service study would be higher than the
22 cost of one without such a study. During the OUCC investigation period of this rate
23 case, Petitioner encountered a highly unusual situation when one of its employees quit and
24 another threatened to quit 367 days after the end of the test year. Petitioner's

1 representatives contacted the OUCC 368 days after the end of the test year to discuss this
2 issue. Did the OUCC work with this small Petitioner to determine the best possible
3 outcome for everyone involved? No, it declared the expenses associated with the needed
4 payroll increase to be outside of the 365 day window of this Cause. This Petitioner
5 requested a modest increase in return on common equity from their current rate on
6 common equity which was set at the height of the recession. The OUCC filed testimony
7 of two witnesses, one offering DCF and CAPM models, and one offering what is styled
8 as supportive testimony. The conclusion of which is that the OUCC is recommending a
9 return on equity of 9.1%, while recognizing that this Petitioner's currently authorized
10 return on equity is 9.9%. Further, this recommendation comes when the OUCC knows
11 that other small gas utilities are authorized higher returns on equity. I would direct the
12 Commission's attention to the return on equity authorized in 2017 for Midwest Natural
13 Gas of 10.1% in Cause No. 44880. It is my belief that the small utility filing process was
14 established under the assumption that these smaller utilities have less complicated issues
15 that require little to no testimony up front and are relatively quick to resolve. But the
16 Commission should recognize the approach that the OUCC has used in this Cause. As an
17 example, I don't recall any time in my history of representing small natural gas utilities
18 where the OUCC filed testimony from seven different witnesses. In the fully litigated
19 Midwest Natural Gas Corporation proceeding, Cause No. 44880, the Order the
20 Commission reflects that the OUCC offered testimony from five witnesses. The signal
21 that the OUCC is sending the Petitioner is exactly the opposite of a signal encouraging
22 the use of this small utility filing process. This Petitioner has less than 750 customers.
23 The Shareholders of this Petitioner include the Town of Vevay, the Vevay/Switzerland
24 County Foundation and the Kiwanis Club of Vevay. These are not deep pocket

1 shareholders that are able to cover any losses created by the Petitioner's inability to
2 recover its reasonable costs to operate. While Petitioner is not opposed to using a small
3 utility filing in the future; there is nothing in the way the OUCC has handled this rate
4 case to indicate that such type of filing will be any less expensive than the filing
5 presented in Petitioner's direct case here.

6 **Q.12. MS. MANN, HAVE YOU PREPARED A REVISED REVENUE REQUIREMENT**
7 **WHICH REFLECTS THOSE OUCC ADJUSTMENTS WITH WHICH YOU**
8 **AGREE, BUT ALSO REFLECTS THOSE OUCC ADJUSTMENTS WITH**
9 **WHICH YOU DISAGREE FOR REASONS EXPLAINED ABOVE?**

10 A. Yes, I have. Attached is my Exhibit BJM-1R which reflects a revised revenue
11 requirement based on our agreement with some of the OUCC adjustments and
12 disagreement with other OUCC adjustments.

13 **Q.13. FOR PURPOSES OF REVIEWING YOUR REVISED REVENUE**
14 **REQUIREMENT, WOULD YOU PLEASE SET OUT WHAT OUCC**
15 **ADJUSTMENTS THE PETITIONER WILL ACCEPT AND WHAT OUCC**
16 **ADJUSTMENTS THE PETITIONER IS REJECTING?**

17 A. Yes. The Petitioner would be willing to accept adjustments made by the OUCC related
18 to the adjustment of revenue for changes in the NOAA weather normals, a decrease in the
19 estimated rate of unaccounted for gas, an update to the IURC rate used and the use of bad
20 debts as an offset of revenue in that calculation, miscellaneous expenses for charitable
21 contributions and \$115 in advertising expenses, and property tax expense. The Petitioner
22 also agrees with the OUCC methodology for calculating URT taxes, payroll taxes, state
23 income taxes, federal income taxes and the working capital portion of rate base.

24 But as previously noted in my testimony, and noted in the testimony of my colleague,

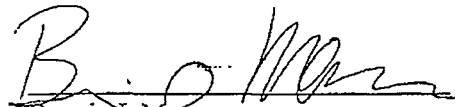
1 Mr. Ridlen, the Petitioner is rejecting OUCC adjustments related to payroll, pension,
2 health insurance, rate case expense, the estimated price of natural gas, miscellaneous
3 expenses related to compliance filings also included in Petitioner's adjustment 3(h),
4 advertising expenses related to safety advertisements in print media, depreciation, the
5 calculation of utility plant in rate base, the date of the capital structure, return on common
6 equity, and value of debt in the capital structure.

7 **Q.14 . DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

8 A. 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.


Bonnie J. Mann

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 30th day of November, 2018:

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