STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF COMMUNITY NATURAL GAS CO., INC. FOR APPROVAL OF A TDSIC PLAN FOR ELIGIBLE TRANSMISSION AND DISTRIBUTION IMPROVEMENTS PURSUANT TO IND. CODE§ 8-1-39-1, et seq.	**CAUSE NO. 44710**

OUCC TESTIMONY OF

HEATHER R. POOLE - PUBLIC'S EXHIBIT NO. 2

ON BEHALF OF THE

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

January 21, 2016

Respectfully Submitted,

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

Jeffrey M. Reed, Atty. No. 11651-49
Deputy Consumer Counselor

CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing ***Office of Utility Consumer Counselor Testimony of Heather R. Poole*** has been served upon the following counsel of record in the captioned proceeding by electronic service and/or by depositing a copy of same in the United States mail, first class postage prepaid, on January 21, 2016.

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TESTIMONY OF OUCC WITNESS HEATHER R. POOLE
CAUSE NO. 44710
COMMUNITY NATURAL GAS COMPANY, INC.

I. INTRODUCTION

Q: Please state your name and business address.

A: My name is Heather R. Poole, and my business address is 115 West Washington Street, Suite 1500 South, Indianapolis, IN 46204.

Q: By whom are you employed and in what capacity?

A: I am employed by the Indiana Office of Utility Consumer Counselor ("OUCC") as a Senior Utility Analyst. I have worked as a member of the OUCC's Natural Gas Division since December of 2010. For a summary of my educational and professional experience, as well as my preparation for this case, please see the Appendix attached to my testimony.

Q: Please describe Community Natural Gas Company, Inc.'s ("Community" or "Petitioner") 7-Year Plan proposal.

A: Petitioner seeks approval of a 7-Year Plan for purposes of constructing certain distribution facilities in order to provide natural gas service to currently unserved areas within its service territory. Petitioner has identified five projects comprising its 7-Year Plan. All of these projects relate to rural extensions, and are expected to be completed by early summer 2019.

Q: What is the purpose of your testimony?

A: I recommend the Commission approve Community's proposed use of a 20-year margin revenue test for rural extensions, as part of the proposed 7-Year Plan in this case. I also make recommendations regarding Petitioner's recovery of

Transmission, Distribution and Storage System Improvement Charge ("TDSIC") costs included within the 7-Year Plan. OUCC witness Edward Rutter discusses the OUCC's review of Petitioner's 7-Year Plan, as well as the cost estimates included within the 7-Year Plan.

II. 20-YEAR MARGIN REVENUE TEST

Q: What is Petitioner's current margin revenue test?

A: Petitioner's current margin revenue test was approved in its last base rate case (Cause No. 44298). The service connection will be made at the utility's expense if the estimated margin (non-gas revenue) from the estimated sale of gas to the customer for a six year period -- commencing within a reasonable period of time following installation of such service -- exceeds the cost of installation.

Q: Does Ind. Code 8-1-39 ("TDSIC Statute") provide for the use of a 20-year margin test?

A: Yes. Ind. Code § 8-1-39-11(c) states:

> Notwithstanding any law or rule governing extension of service, a public utility that provides gas service may, on a nondiscriminatory basis, extend service in rural areas without a deposit or other adequate assurance of performance from the customer, to the extent that the extension of service results in a positive contribution to the utility's overall cost of service over a twenty (20) year period.

Q: Did Petitioner use a 20-year margin revenue test for the rural extension projects included in its 7-Year Plan?

A: Yes. As stated by Petitioner's witness Mr. Kieffer on page 18, lines 11-13 of his testimony, "Based on what we believe is the encouragement of the Indiana legislature to consider a 20-year analysis for extending mains into rural areas, we are using the 20-year analysis for these specific extensions." Petitioner's witness Ms. Leach provides the margin revenue test for each project area in Exhibit ML-1.

Q: Did Petitioner propose any tariff changes related to the use of a 20-year margin revenue test?

A: No. In relation to new tariff language, Mr. Kieffer states in his testimony on page 18, line 16, "We will defer to the Commission or the suggestions of the OUCC." He further states, on page 19, lines 4-7, "To the extent that the Commission or OUCC believes that a reference in our tariff describing the use of a 20-year period for analyzing free extensions is necessary or is warranted, we will follow that advice."

Q: Does the OUCC have any recommendations relating to new tariff language related to the use of a 20-year margin revenue test?

A: Yes. The OUCC recommends Petitioner adopt tariff language similar to that used by Southern Indiana Gas and Electric Company and/or Indiana Gas Company, Inc. Both of these companies currently use the 20-year margin test via a TDSIC filing, and both companies updated its Terms and Conditions for Service in consolidated Cause No. 44429. A copy of Indiana Gas Company's terms and conditions for service related to the use of a 20-year margin revenue test can be found on Attachment HRP-1.

Q: Please describe your review of Petitioner's expected revenue to be received from each project area.

A: I reviewed Petitioner's expected revenue to be received from each project area based on Petitioner's Exhibit ML-1. Petitioner's response to OUCC DR 2.1(a) indicates the source for the estimated number of customers in the project areas was primarily calculated using Petitioner's count of the existing propane tanks, reduced to 80%. Petitioner also states the 80% of all propane tanks used in the calculation represents historical experience of connections as soon as natural gas is available. (Attachment HRP-2.) Petitioner's calculation of the 80% of total propane tanks is shown in response to OUCC DR 2.1(c). (*Id.*)

Petitioner's response to OUCC DR 2.4 indicates residential customers used an average of 67 Dth in 2013 and 75 Dth in 2014. (Attachment HRP-3.) In response to OUCC DR 2.3(e), Petitioner states the weather-normalized average Dth usage for 2013 and 2014 was 65 and 67 Dth, respectively. (Attachment HRP-4.) However, Petitioner estimated only 45 Dth per residential customer in its revenue analysis. Using Petitioner's annual margin from the last cost of service study performed in Cause No. 44298, Petitioner then calculated the margin per customer per year. The same analysis was performed for large volume customers. I have reviewed Petitioner's calculation of expected margins over the 20-year period, and found no errors. Petitioner's calculated 20-year margin revenue test shows the revenue in all 5 project areas will cover the cost of each project.

Q: Please describe your review of Petitioner's expected construction costs for each project area.

A: I matched the construction costs used in Petitioner's calculation of the 20-year margin revenue test on Exhibit M-1 with Petitioner's Exhibit DJK-2. OUCC witness Ed Rutter discusses the OUCC's review of Petitioner's construction costs contained in Petitioner's Exhibit DJK-2.

Q: Did Petitioner include the cost of service lines and meters in determining the total construction costs for the 20-year margin test?

A: No. Petitioner excluded these costs from its 20-year margin test and only included the cost of main extensions. The OUCC supports this decision, as I discuss below.

Q: Did Petitioner prepare a calculation of the 20-year margin test with the cost of service lines and meters included?

A: Yes. In response to OUCC DR 2.3(c), Petitioner provided a calculation of the 20-year margin test including the cost of service lines and meters. (Attachment HRP-4.) As shown on the calculations, Petitioner's 20-year margin revenue test does cover the entire construction cost, including the service lines and meters.

Q: Does the OUCC have any concerns with rural extensions being included in TDSIC filings for recovery?

A: Yes. Historically, utilities have invested in plant to serve new customers between rate cases. The utility then receives a revenue margin from each new customer through existing rates. These existing rates, and the margin per customer, are set in the utility's last base rate case. When those rates are set in the rate case, they include a return on utility plant investment (rate base), depreciation, O&M expenses, and taxes. When a utility adds a new customer it receives a revenue margin from that customer, which includes a return on investment, depreciation, O&M expenses, and taxes. Essentially, customer growth pays for itself. The utility receives an embedded return on investment, and embedded recovery of depreciation and other expenses from each new customer.

When a utility receives a revenue margin from new rural extension customers – and *also* receives, through TDSIC rates, a return on the new plant investment, depreciation, O&M expenses, and taxes – then the utility is receiving a double recovery. New customers are paying the revenue margin for new gas service, and all customers are paying the TDSIC rates for that same investment. Therefore, ratepayers are paying two returns on the same investment, double the depreciation expense, and at least incrementally, excess O&M expenses, and taxes.

Q: Is the OUCC recommending a margin credit for rural extension cost recovery, as has been recommended in other natural gas TDSIC cases?

A: No. The OUCC advocated for a margin credit in the Northern Indiana Public Service Company ("NIPSCO") TDSIC-1 filing in Cause No. 44403. However, there are differences between Community and NIPSCO's rural extension investments within the TDSIC mechanism.

Q: Please explain these differences.

A: First, in Cause No. 44403 TDSIC-1 and TDSIC-3, NIPSCO included one hundred percent (100%) of costs relating to rural extensions in the TDSIC filing for recovery. In this Cause, and as discussed above, Community has only included the cost of main extensions in its 7-Year Plan as part of the company's TDSIC costs. Community has excluded services and meters in its 7-Year Plan filing. In the event a TDSIC tracker filing is made, Community will retain the incremental non-gas cost revenue from new customers to offset the investments and costs not included in the TDSIC tracker filing. Therefore, no margin credit is needed at this time.

Secondly, as discussed below, Community has not indicated whether a TDSIC tracker filing will be submitted to recover costs within the 7-Year Plan. If Community changes its methodology in the future regarding which rural extension costs are included in the TDSIC for recovery, the OUCC could suggest a margin credit at that time.

Q: Do you agree with Petitioner's calculations of the 20-year margin revenue test, as provided in Petitioner's Exhibit ML-1?

A: Yes. I reviewed Petitioner's calculation of both residential and large volume customer expected revenue, and found no errors. I also reviewed Petitioner's calculation of the 20-year margin test with service lines and meters included. I found nothing to indicate Petitioner had calculated the 20-year margin revenue test incorrectly.

III. RECOVERY OF TDSIC COSTS

Q: Is Community seeking approval of a tracker to recover TDSIC costs included in its 7-Year Plan?

A: No. Mr. Kieffer states on page 14, lines 9-10 of his testimony, "… the Petitioner has not as yet decided on whether it will make regular requests for recovery of these TDSIC costs through a TDSIC tracker." Furthermore, on page 2, lines 18-19 of Ms. Leach's testimony, she states, "…we are only seeking approval of our construction plan. Petitioner's Board of Directors has made no decision on when or how Petitioner should seek recovery of these investments."

Q: Does Ind. Code 8-1-39 require Petitioner to file a tracker to recover TDSIC costs included in a 7-Year Plan?

A: No. Ind. Code § 8-1-39-9(a) states:

> Subject to subsection (c), a public utility that provides electric or gas utility service *may* file with the commission rate schedules establishing a TDSIC that will allow the periodic automatic adjustment of the public utility's basic rates and charges to provide for timely recovery of eighty percent (80%) of approved capital expenditures and TDSIC costs. (*Emphasis* added.)

The statute does not indicate a gas utility *shall* or *must* file rate schedules establishing a TDSIC for the periodic automatic adjustment of a utility's basic rates and charges.

Q: Does Ind. Code 8-1-39 require Petitioner to file a rate case at the end of the 7-Year Plan?

A: Yes. Ind. Code § 8-1-39-9(d) states:

> A public utility that implements a TDSIC under this chapter shall, before the expiration of the public utility's approved seven (7) year plan, petition the commission for review and approval of the public utility's basic rates and charges with respect to the same type of utility service.

Q: Did Petitioner agree to file a new base rate case at the end of Petitioner's 7-Year Plan?

A: Petitioner did not specifically agree to file a base rate case at the end of its 7-Year Plan in its case-in-chief. However, in response to OUCC DR 1.4, Petitioner indicates it will file a base rate case before an approved 7-year plan has expired. (Attachment HRP-5.)

Q: Do other natural gas utilities with approved 7-Year Plans provide updates to the OUCC on the status of their plans?

A: Yes. In the NIPSCO (Cause No. 44403), Southern Indiana Gas and Electric Company (Cause No. 44429), and Indiana Gas Company, Inc. (Cause No. 44430) TDSIC filings, each utility company provides an update of the 7-Year Plan at least annually with the filing of its TDSIC tracker.

Q: Has Community proposed to provide updates to the OUCC at least annually?

A: Yes. On page 14, lines 7-8 of Mr. Kieffer's testimony, he states, "we anticipate making an annual filing under this Cause to the Commission, with the same information provided to the OUCC on our progress on each project."

Q: Does the OUCC have any concerns relating to Petitioner implementing a TDSIC tracker filing in the future?

A: Yes. If Petitioner deems it appropriate to implement a tracker filing to recover costs included within the 7-Year Plan, the OUCC requests Petitioner provide an advance copy of those revenue requirement schedules to the OUCC for review before submitting its first TDSIC tracker filing with the Commission.

IV. <u>CONCLUSION</u>

Q: What are your recommendations regarding Community's use of the 20-year margin revenue test?

A: I agree with Petitioner's methodology of calculating the 20-year margin revenue test, and found no errors in Petitioner's calculations. If Petitioner files a TDSIC tracker filing in the future, and Community changes its methodology regarding which rural extension costs are included in the tracker filing for recovery, the OUCC could suggest a margin credit at that time.

Q: What are your recommendations regarding Community's recovery of TDSIC costs?

A: The OUCC recommends Community provide annual updates to both the Commission and the OUCC, and also file a base rate case at the end of its 7-Year Plan. If Petitioner deems it appropriate to implement a tracker filing to recover costs included within the 7-Year Plan, the OUCC requests Petitioner provide an advance copy of those revenue requirement schedules to the OUCC for review before submitting its first TDSIC tracker filing with the Commission.

Q: Does this conclude your testimony?

A: Yes.

AFFIRMATION

I affirm, under the penalties for perjury, that the foregoing representations are true.

Heather R Poole
By: Heather R. Poole
Indiana Office of
Utility Consumer Counselor

1-21-16
Date:

APPENDIX TO TESTIMONY OF
OUCC WITNESS HEATHER R. POOLE

Q: Please describe your educational background and experience.

A: I graduated from the School of Business at Ball State University in Muncie, Indiana with a Bachelor of Science Degree in Accounting in May 2001 and a Master of Science Degree in Accounting in May 2002. From September 2002 through September 2010, I worked for London Witte Group, LLC, a CPA firm in Indianapolis, Indiana, as a Senior Staff Accountant. I prepared and reviewed individual, corporate, not-for-profit, property and payroll tax returns. I also prepared compilations, reviews and audit reports in compliance with GAAP for a variety of utility companies and not-for-profit organizations; prepared depreciation schedules; and guided clients through year-end accounting processes, including preparation and review of adjusting entries. I prepared and reviewed GCA petitions, as well as annual reports filed with the Commission for natural gas companies within the State of Indiana. I also prepared rate case exhibits and schedules filed with the Commission on behalf of various gas utility clients.

In December 2010, I began my employment with the OUCC as a Utility Analyst II. In October 2012, I was promoted to Senior Utility Analyst. My current responsibilities include reviewing and analyzing GCA petitions and rate cases filed by Indiana natural gas, electric and water utilities with the Commission. I also review special contracts, tariff, financing, certificate of public necessity, pipeline safety adjustment, gas demand side management, alternative regulatory plan, 7-Year Plan, and TDSIC Tracker cases for natural gas utilities.

While employed at the OUCC, I completed NARUC's Utility Rate School hosted by the Institute of Public Utilities at Michigan State University and the Institute of Public Utilities Advanced Regulatory Studies Program at Michigan State University. I am also a member of the Indiana CPA Society.

Q: Have you previously testified before the Commission?

A: Yes. I have testified in GCAs, rate cases, TDSIC tracker cases, 7-Year Plan cases, tariff, gas demand side management, and special contract cases involving gas and water utilities. I also provided extensive testimony in the Commission's investigation into the existing GCA procedures and schedules.

Q: Please describe the review and analysis you conducted to prepare your testimony.

A: I reviewed the petition, testimony, supplemental testimony, exhibits and supporting documentation submitted in this Cause. I reviewed Petitioner's responses to OUCC discovery requests. I also participated in numerous meetings and phone calls with other OUCC staff members and Petitioner's representatives to identify and address the issues in this Cause.

GENERAL TERMS AND CONDITIONS APPLICABLE TO GAS SERVICE

6. **EXTENSION OF COMPANY'S FACILITIES**

A. The obligation of Company to provide any extension of facilities shall be subject to the Restrictions on New and Additional Gas Service and Curtailment Procedures made effective pursuant to other provisions of Company's General Terms and Conditions and as otherwise provided by law.

B. Except as provided for in Rule 6.C., upon request for Gas Service by a prospective Customer or a group of prospective Customers located in the same area, Company will extend without charge its facilities including distribution mains, underground service pipes, meters and other equipment necessary to provide the service provided:

1) that Company's estimate of its Non-Gas Cost Revenue from such Gas Services provided to the prospective Customer(s) for a period of five and one-half (5.5) years is equivalent to or in excess of Company's estimate of the cost of providing such facilities, and;

2) the prospective patronage or demand is of such permanency as to warrant the capital expenditure involved.

C. Upon request for Gas Service by a prospective Customer in a Rural Area, or a group of prospective Customers located in the same Rural Area, that is (or are) eligible to receive service under Rate 210 – Residential Sales Service or Rate 220 – General Sales Service, Company will extend without charge its facilities including distribution mains, underground service pipes, meters and other equipment necessary to provide the service provided:

1) that Company's estimate of its Non-Gas Cost Revenue from such Gas Services provided to the prospective Customer(s) for a period of twenty (20) years is equivalent to or in excess of Company's estimate of the cost of providing such facilities, and;

2) the prospective patronage or demand is of such permanency as to warrant the capital expenditure involved; and

3) Company's capital investment in extension of facilities to such Rural Areas pursuant to Rule 6.C.(1) on and after January 1, 2014 through December 31, 2020 has not exceeded $6,000,000.

4) "Rural Area" is defined, for purposes of this Rule 6.C. as any area within Company's service territory that is unincorporated, or other areas as approved by the Commission.

D. If the cost of the facilities necessary to provide the Gas Service requested exceeds the applicable without-charge limit; Company may require either a deposit or adequate provision of the payment of a deposit equal to the cost of the facilities extension in excess of the without-charge limit.

E. Any refundable extension deposit accepted by Company shall be subject to refund until the expiration of the six-year contract period. For each Customer connected to the extension, Company shall refund an amount by which five and one-half (5.5) times the estimated annual Non-Gas Cost Revenue for gas appliances actually installed exceeds the estimated cost of connecting such Customer. At no time shall the aggregate refund made to any depositor exceed the amount of extension deposit received from such depositor.

F. Upon request for Gas Service by a prospective Customer where, in Company's opinion, the facilities extension is of such length and the prospective Non-Gas Cost Revenue which may be developed by it is so meager as to make it doubtful whether the Non-Gas Cost Revenue from the extension would ever pay a fair return on the investment involved, or in the case of a real estate development with slight or no immediate demand for service, or in the case of Industrial installations requiring slight or irregular service and requiring extensive equipment, such facilities extension requests shall be submitted to the Commission for investigation and determination as to the convenience and necessity of such extension, and if so required, the conditions under which they shall be made.

G. Targeted Economic Development Projects pursuant to Ind. Code Ch. 8-1-39 are excluded from the provisions of Rule 6.B.1.

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COMMUNITY NATURAL GAS CO., INC.'S RESPONSES TO THE INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR'S SECOND SET OF DATA REQUESTS

Comes now Community Natural Gas Co., Inc., and provides its responses to the OUCC's First Set of Data Requests dated December 16, 2015, as follows:

Q 2.1: As a follow-up to Data Request Q 1.6, regarding the estimated number of customers reflected in Exhibit ML-1, please respond to the following:

a. What is the source for the estimated number of customers?
b. To the extent the estimated customer number was calculated, please describe how the calculation was made.
c. Please provide all source data used to estimate and/or calculate the number of customers reflected in Exhibit ML-1.

Response:

a) **The source for estimated number of customers in the area was primarily Petitioner's count of the propane tanks existing, reduced to 80%, in keeping with Petitioner's historical experience of connections as soon as natural gas is available. In addition, Petitioner obtained the signatures of potential customers on surveys in each area.**

b) **The calculation is described in response to Question 2.1(a) above.**

c) **Holland SW Extension: 44 residential propane tanks x 80% = 35 new customers, 4 large commercial customers.**
Paxton Extension: 128 residential propane tanks x 80% = 102 new customers, 12 large commercial customers.
Patricksburg Extension: 168 residential propane tanks x 80% = 134 new customers.
Spencer CR 330 W Extension: 101 residential propane tanks x 80% = 81 new customers.
Jordan Village: 190 residential propane tanks x 80% = 152 new customers.

Q 2.4: Please provide the average annual number of Dth Community's residential customers used for the periods January through December 2013 and 2014.

Response:

Residential customers used an average of 67 Dth in 2013 and 75 Dth in 2014.

Respectfully submitted,

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Q 2.3: Regarding the calculations reflected in Exhibit ML-1, please respond to the following:

a. Was the cost of service lines and meters excluded from the amount shown for "Construction Cost plus material" in determining the 20-year margin test?
b. What is the average cost of lines and meters for new customers?
c. Please provide a 20-year margin test including cost of service lines and meters for each project.
d. Please provide all detailed calculations Community used for the $309 margin per customer at 45 Dth.
e. Please provide all detailed calculations Community used for the margin per customer at 65 Dth.
f. What is the calculated amount for margin per customer at 65 Dth?
g. Please provide the detailed calculation Community used for the $2,603 margin per large volume customer for the Holland Southwest Extension.
h. Please provide the detailed calculation Community used for the $1,760 margin per large volume customer for the Paxton Extension.

Response:

a) **The cost of service lines and meters was excluded.**
b) **$ 1,465. Calculation is attached.**
c) **Attached.**
d) **Calculation was made from last cost of service study, attached.**
e) **Ms. Leach looked at the calendar years 2013 and 2014. In 2013, Petitioner had an average of 5,918 residential customers who used 397,322 Dth. That amounts to 67.1/customer. It was 3.6% colder than normal which would make their normal use 65 Dth. In 2014, Petitioner had an average of 5,901 residential customers who used 442,458 Dth. That amounts to 75.0/customer. It was 10.9% colder than normal which would make their normal use 67.**
f) **Attached.**
g) **Attached.**
h) **Attached.**

IURC Cause No. 44710 - OUCC Data Request No. 2

Petitioner's Response 2.3(c)

<u>20 year with service line cost.</u>

Holland Southwest Extention		
Feasibility	($309 per customer per year x 35 (	216,300.00
	($2603 per large volume customer	208,240.00
	Construction Cost plus material	-327,047.90
	Service Line Cost	-57,135.00
Margin		40,357.10

Paxton Extention		
Feasibility	($309 per customer per year x 102 customers x 20 years)=	630,360.00
	($1760 per large volume customer x 12 customers x 20 years)	422,400.00
	Construction Cost plus material	-742,891.50
	Service Line Cost	-167,010.00
Margin		142,858.50

Patricksburg Extension		
Feasibility	($309 per customer per year x 135 customers x 20 years)=	834,300.00
	Construction Cost plus material	-619,214.15
	Service Line Cost	-197,775.00
Margin		17,310.85

Spencer CR 330 W Extension		
Feasibility	($309 per customer per year x 81 customers x 20 years)=	500,580.00
	Construction Cost plus material	-374,763.94
	Service Line Cost	-118,665.00
Margin		7,151.06

Jordan Village		
Feasibility	($309 per customer per year x 152 customers x 20 years)=	939,360.00
	Construction Cost plus material	-703,388.85
	Service Line Cost	-222,680.00
Margin		13,291.15

Q 1.4: Indiana Code § 8-1-39-9(d) states:

> A public utility that implements a TDSIC under this chapter shall, before the expiration of the public utility's approved seven (7) year plan, petition the commission for review and approval of the public utility's basic rates and charges with respect to the same type of utility service.

Based on the statute language above, please confirm Petitioner will file a base rate case before the expiration of the seven-year plan.

A. Petitioner will file a rate base case before an approved 7-year plan has expired.