

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED JOINT PETITION OF INDIANA GAS)
COMPANY, INC. AND SOUTHERN INDIANA GAS)
AND ELECTRIC COMPANY PURSUANT TO IND.)
CODE 8-1-2.5 ET. SEQ., FOR THE APPROVAL OF AN)
ALTERNATIVE REGULATORY PLAN PURSUANT)
TO WHICH INDIANA GAS COMPANY, INC. AND)
SOUTHERN INDIANA GAS AND ELECTRIC)
COMPANY WOULD CONTINUE THEIR)
RESPECTIVE CUSTOMER BILL ASSISTANCE)
PROGRAMS THROUGH SEPTEMBER 30, 2020 AND)
REVISIONS TO THE UNIVERSAL SERVICE FUND)
RIDER CAP FOR RESIDENTIAL CUSTOMERS)

CAUSE NO. 44455

PUBLIC'S EXHIBIT NO. 1-S

SETTLEMENT TESTIMONY OF OUCC WITNESS BRADLEY E. LORTON

ON BEHALF OF THE

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

MAY 15, 2014

Respectfully submitted,



Randall C. Helmen
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Chief Deputy Consumer Counselor

**VECTREN ENERGY DELIVERY, INDIANA
CAUSE NO. 44455
SETTLEMENT TESTIMONY OF OUCC WITNESS BRADLEY E. LORTON**

I. INTRODUCTION

1 **Q: Please state your name and business address.**

2 A: My name is Bradley E. Lorton, and my business address is 115 W. Washington
3 Street, Suite 1500 South, Indianapolis, Indiana, 46204.

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

5 A: I am a Utility Analyst in the Natural Gas Division of the Indiana Office of Utility
6 Consumer Counselor (OUCC).

7 **Q: Please describe your educational background and experience.**

8 A: My expertise is in economics and public utility regulation. I hold Bachelor of
9 Science and Master of Science degrees in Economics from Indiana State
10 University. I also completed additional courses in Economics, Mathematics and
11 Labor Studies at Indiana University-Purdue University at Indianapolis. I have
12 completed the Regulatory Studies Program sponsored by the National Association
13 of Regulatory Utility Commissioners (NARUC) at Michigan State University.

14 I have over thirty-five years of experience in government and private
15 industry. My career in public utility regulation began in 2001 when I accepted
16 my current position with the OUCC. Prior to that, I served in management and
17 business analyst positions with the U.S. Department of the Navy at the Naval Air
18 Warfare Center in Indianapolis, and its privatized successor organizations. I also

1 served as an Economist at the Bureau of Labor Statistics, United States
2 Department of Labor, and as a Statistician for the Indiana Division of Labor.

3 **Q: What is the purpose of your testimony?**

4 A: I testify in support of the agreement between the OUCC and Vectren Energy
5 Delivery of Indiana (Vectren or Petitioner) to extend Petitioner's Universal
6 Service Program (USP). My testimony addresses the OUCC's support for the
7 Settlement Agreement filed on May 7 in the areas of extension of the program,
8 holding the rate cap for ratepayer contributions at \$0.007 per therm, and for
9 increasing the utility minimum contribution to USP costs to 30%. Analysis and
10 recommendations regarding the allocation of the cost of the USP program among
11 rate classes are included in the testimony of Public's witness Heather R. Poole.

12 **Q: Have you previously testified before the Indiana Utility Regulatory**
13 **Commission?**

14 A: Yes. I have previously testified before this Commission addressing economic and
15 financial issues over the past twelve years. Among the cases that I have testified
16 in is Cause No. 43669, which was the extension of the USP for Vectren, NIPSCO
17 and Citizens Gas in 2009.

18 **Q: Please describe the review and analysis you conducted in order to prepare**
19 **your testimony.**

20 A: I reviewed the petition along with Petitioner's case-in-chief evidence. I also
21 reviewed the settlement agreement in this Cause. I actively participated in OUCC
22 case team meetings and reviewed Petitioner's responses to OUCC data requests. I
23 researched Petitioner's previous filings regarding the creation and extension of the
24 Universal Service Program.

II. RELIEF SOUGHT AND THE SETTLEMENT AGREEMENT

1 **Q: Please describe the relief sought by Petitioner in this Cause.**

2 A: Petitioner seeks to extend the USP in both the Vectren North and South service
3 territories until September 30, 2020. Petitioner also sought to raise the cap on
4 residential customers' per therm charge for the program from \$0.007 to \$0.008 in
5 both the Vectren North and South territories. Petitioner did not propose increases
6 to the rate caps for commercial and industrial customers.

7 **Q: Please summarize the terms of the settlement agreement.**

8 A: The settlement agreement filed by the parties on May 7 includes the following
9 terms: (1) the USPs currently in place at Vectren North and South will be
10 extended through October 15, 2020, and both Vectren North and South will file a
11 petition by March 1, 2020 to further extend the programs; (2) if either Vectren
12 North or South has not filed a base rate case on or before October 15, 2017, the
13 OUCC may petition for review either company's USP; (3) during the extension
14 period, the existing USF rider caps applicable to residential customers will remain
15 the same; (4) Vectren Energy will contribute funds to support the USP equal to
16 30% of the actual annual cost, and the settling parties may propose a different
17 level of contribution at the time Vectren files a petition to extend the USPs, or at
18 such time the OUCC petitions for review of the USP; (5) Vectren Energy shall
19 round up (to \$0.0001 per therm) any USF Rider rate which otherwise rounds to
20 \$0.0000 per therm, and (6) Vectren Energy shall perform the reconciliation of
21 costs and USF Rider recoveries for each class of customers, based on the
22 allocation of costs applicable to each class.

III. USP HISTORY

1 **Q: Please describe the inception of the USP.**

2 A: The USP resulted from a Stipulation and Settlement Agreement in Cause No.
3 42590 filed by Vectren North and South, Citizens Gas, the OUCC, Citizens
4 Action Coalition, and an ad hoc group of Vectren and Citizens customers called
5 the "Manufacturing and Health Providing Customers." The Stipulation and
6 Agreement was approved by the Commission in its order of August 18, 2004.
7 The USP was established in accordance with the Alternative Utility Regulation
8 Act, Ind. Code 8-1-2.5. The stipulation established aspects and practices of the
9 program that have continued to this day, including eligibility requirements, bill
10 assistance percentages, and per therm caps on customer surcharges for the
11 participating rate classes in both Vectren and Citizens.

12 **Q: Has the USP been extended and/or modified previously?**

13 A: Yes. The USP was extended and modified in the Commission's orders of
14 November 19, 2009 in Cause No. 43669 (the 43669 Order), and on December 7,
15 2011 in Cause No. 44094. The 43669 Order extended the USP programs of
16 Vectren, NIPSCO and Citizens Gas and recommended steps to producing more
17 uniformity of these programs among the utilities. The 43669 Order also
18 attempted to deal with the question of the appropriate contribution of the utilities
19 to their respective USP funds. Programs were extended until the respective
20 utility's next rate case, or to October 31, 2012 whichever came sooner.

21 Cause No. 44094 resulted in an emergency order that set parameters for
22 what types of funding could be used for heating assistance in light of the lack of

1 funding for the federal Low-Income Energy Assistance Program in 2011-12. The
2 Order allowed the use of carryover funding, but forbade utilities from
3 relinquishing control of funds to Community Action Program agencies. It also
4 extended the Vectren USP until September 30, 2014.

5 **Q: Has the OUCC supported the USP in the past?**

6 A: Yes. The OUCC believes this program is in the public interest, and has
7 consistently supported it and the extensions of the Alternative Regulatory Plan
8 that authorizes it. In the earlier extensions, the OUCC proposed modifications
9 and adjustments to the program, and sought improvements in the sharing of costs
10 and benefits between the utilities, the participating recipients and non-
11 participating ratepayers.

IV. OUCC SUPPORTS EXTENSION OF USP AS DESCRIBED IN SETTLEMENT

12 **Q: Does the OUCC support the extension of Vectren's USP through October 15,**
13 **2020?**

14 A: Yes. The USP provides critical assistance to low income ratepayers, allowing
15 them to continue receiving natural gas service while contributing to the costs of
16 the utility's distribution system. The OUCC believes this is a critical program and
17 reaffirms its support. However, the settlement agreement allows the OUCC to
18 petition for review of either or both the Vectren North and South USPs if one or
19 both of these utilities has not filed a base rate case by October 15, 2017. The
20 OUCC believes this a necessary protection for ratepayers to ensure that the
21 programs remain effective and cost efficient.

22 **Q: Does the OUCC support the extension of the USP with no increase in the rate**
23 **cap for residential customers?**

1 A: Yes. The over- and-under-collection funding balances described by Petitioner's
2 witness Kelly have shrunk in recent years. The September 30, 2013 balance for
3 Vectren North was a cumulative over-collection of 304,506, while the balance for
4 Vectren South was a cumulative under-collection of \$326,129. These figures are
5 very close to balancing each other. The largest under-collections for both Vectren
6 North and South occurred in 2010, which was a year of extreme need due to
7 recession and unemployment. Vectren North has since shown cumulative over-
8 collections and Vectren South has made steady progress in reducing its
9 cumulative under-collection. A cap increase is not necessary for Vectren North,
10 and may not be necessary for Vectren South, either. In light of reductions in the
11 imbalances in both service territories the \$0.007 per therm cap appears to be
12 working.

13 **Q: Does the OUCC support the increase in the utility's minimum contribution**
14 **to the program as included in the settlement agreement?**

15 A: Yes. Since the 43669 Order, Petitioner, NIPSCO, and Citizens Gas, have been
16 required to cover a minimum of 25% of the USP's cost from shareholder funding.

17 We believe those interests would be balanced if we were to modify
18 Petitioners' ARPs and require increased utility contributions. The
19 evidence indicates the utilities are contributing between 18% and
20 23% of the costs of their respective programs. Conversely, the
21 utilities' ratepayers are contributing between 77% and 82% to the
22 USP and Winter Warmth Programs. This significant difference
23 between utility and ratepayer contributions does not represent an
24 appropriate balance given the fact these programs provide benefits
25 to both the utilities and the ratepayers. However, the Commission
26 finds the matching of ratepayer contributions should be done in a
27 more incremental approach than as proposed by the OUCC.

1 Therefore, the Commission finds that until these programs are
2 considered in a rate case, the utilities shall contribute at least 25%
3 of the program cost. The 25% utility contribution shall not include
4 administrative expenses. (Cause No. 43669, Order, pp. 35).

5 The Commission's Order of November 19, 2009 established the 25% minimum
6 contribution was part of a "more incremental approach." (*Id.*) In its case-in-chief
7 in that Cause, the OUCC proposed a 50-50 split of the cost of the program. The
8 Commission did not disagree with the OUCC proposal, but opted for a more
9 gradualist approach. Increasing the minimum utility contribution to 30% is an
10 important step in continuing the incremental process started in Cause No. 43669.

V. SUMMARY AND RECOMMENDATIONS.

11 **Q: Please summarize your testimony and recommendations.**

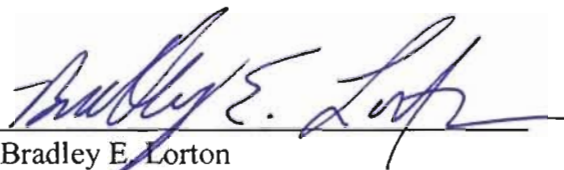
12 A: The OUCC continues to support the USP and believes the USP extension is in the
13 public interest. The OUCC also believes that the incremental process to create an
14 appropriate balance of cost sharing between the utility and the ratepayers is served
15 by the increase of the minimum utility contribution to 30% in the settlement.
16 Therefore, I recommend that the Commission approve the settlement agreement
17 filed in this Cause on May 7.

18 **Q: Does this conclude your testimony?**

19 A: Yes.

AFFIRMATION

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

A handwritten signature in blue ink that reads "Bradley E. Lorton". The signature is written in a cursive style and is positioned above a horizontal line.

Bradley E. Lorton
Utility Analyst II
Indiana Office of Utility Consumer Counselor
Cause No. 44455
Joint Petition of Indiana Gas Company, Inc.
and Southern Indiana Gas and Electric
Company

May 13, 2014
Date

CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing *Indiana Office of Utility Consumer Counselor's Public's Exhibit No. 1-S – Settlement Testimony of OUCC Witness Bradley E. Lorton* has been served upon the following counsel of record in the captioned proceeding by electronic service on May 15, 2014.

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