

Northeast Ohio Natural Gas Corporation Exhibit No. _____

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Northeast Ohio)
Natural Gas Corp. for Approval of Alternative)
Regulation)

DIRECT TESTIMONY

OF

**JED D. HENTHORNE
ON BEHALF OF**

NORTHEAST OHIO NATURAL GAS CORP.

_____	Management Policies, Practices, and Organization
<u> X </u>	Operating Income
<u> X </u>	Rate Base
_____	Allocations
<u> X </u>	Rate of Return
<u> X </u>	Rates and Tariffs
_____	Other

September 29, 2020

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1 **I. BACKGROUND AND QUALIFICATIONS**

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

3 A. My name is Jed D. Henthorne. My business address is #1 First Avenue South, Great Falls,
4 Montana 59401.

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

6 A. I am Vice President Finance and Administration for Hearthstone Utilities, Inc. (“HUI”),
7 the ultimate parent company of Northeast Ohio Natural Gas Corp. (“NEO” or “Company”).
8 In this role, my duties generally include budgeting, financial reporting, rates, and other
9 regulatory matters. I am also President and General Manager for Energy West Montana,
10 Inc. (“EWM”) and Cut Bank Gas Company (“CBGC”), utilities in the HUI organization
11 affiliated with NEO. In this position, I am responsible for the overall operation and future
12 direction of EWM and CBGC, including employee relations, regulatory relations, and gas
13 supply.

14 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**
15 **BACKGROUND.**

16 A. I have a Bachelor of Science degree in Management Information Systems – Accounting
17 Option from the University of Wyoming. I also hold a Wyoming Certified Public
18 Accountant certificate, currently in inactive status. I have been employed by EWM,
19 CBGC, HUI, or their predecessors or affiliates since September 1, 1982. During that time,
20 my duties and experience have focused on accounting, rates, and information technology.
21 Specific roles include Manager – Information Technology from September 1998 – July
22 2005; Vice President Administration from August 2005 to November 2014; and Corporate
23 Controller from December 2014 to June 2016.

1 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC UTILITIES**
2 **COMMISSION OF OHIO (“COMMISSION”)?**

3 A. Yes. I previously testified in Case No. 18-1720-GA-AIR et al. at the Commission.

4 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

5 A. I am testifying on behalf of NEO.

6 **II. REASON FOR ALTERNATIVE RATE PLAN FILING**

7 **Q. WHY IS NEO PURSUING THIS ALTERNATIVE RATE PLAN FILING?**

8 A. As more fully explained in the Direct Testimony of Ken Oostman, in December 2019, the
9 Commission approved the receivership sale of certain pipeline assets, real property, books
10 and records, and other non-cash items (“Purchased Assets”) of Orwell-Trumbull Pipeline
11 (“OTP”) to NEO in Case No.19-1921-PL-ATR. In addition to sanctioning approval of the
12 receivership sale, the Commission granted NEO accounting authority to establish the value
13 of the Purchased Assets as \$13,310,881, with accumulated depreciation of \$4,100,921 as
14 of September 1, 2019, for a net asset value of \$9,209,960, subject to a used and useful
15 review by Staff. After receiving the foregoing approval from the Commission, NEO began
16 integrating the Purchased Assets into its distribution system operations and is currently
17 receiving the revenue based on billing OTP’s most recent rates for services provided.
18 However, the revenues associated with the Purchased Assets (aka OTP revenues¹) are not

¹ The testimony and Schedules prepared and cited herein may use the term “OTP” interchangeably with “Purchased Assets” for simplicity and abbreviation (e.g., OTP rate base = Purchased Assets rate base; OTP revenues = Purchased Assets revenues; OTP costs = Purchased Assets costs; OTP Revenue Requirement = Purchased Assets Revenue Requirement; OTP Adjusted Operating Income = Purchased Assets Adjusted Operating Income). *See **Schedule A-1-NEO***. However, this should not be misconstrued as NEO indicating it purchased the entity, OTP. Rather, NEO only purchased certain assets of OTP (i.e., “Purchased Assets”), which are further defined and enumerated in ¶ 2.1(a) of Attachment KO-1 to the Direct Testimony of Ken Oostman.

1 sufficient for NEO to recover the operating expenses related to OTP and the return of and
2 on the additional rate base, thus necessitating the filing of NEO's application for an
3 alternative rate plan ("Application") in this proceeding. Not only that, as explained in more
4 detail in the Direct Testimony of Ken Oostman, filing an alternative rate plan, as opposed
5 to filing an application for a distribution rate case, is beneficial to customers and other
6 interested stakeholders given that NEO only recently completed a fully litigated
7 distribution rate case last year in Case No. 18-1720-GA-AIR et al.

8 **Q. HOW DOES NEO PROPOSE TO INTEGRATE OTP'S EXISTING RATES AND**
9 **THE PROPOSED INCREASE INTO NEO'S EXISTING TARIFFS?**

10 A. NEO proposes to eliminate use of OTP's most recent rates and, instead, establish rates
11 under a separate rider called the Infrastructure Acquisition Adjustment Rider (or "OTP
12 Rider"), which is designed to collect OTP costs until NEO files its next distribution rate
13 case, at which point all OTP costs would be included as part of NEO's rate case. OTP
14 currently has four customers: Knox Energy, Newbury Schools, Gas Natural Resources
15 ("GNR"), and NEO. As part of the Application, NEO proposes retaining Knox Energy and
16 Newbury Schools as contract service (flex) customers with no change to their current rates
17 until their contracts expire. Normalized revenue from these two customers totaled \$13,141
18 for the twelve (12) months ended June 30, 2020. The third customer, GNR, is a gas
19 marketing company currently paying OTP to deliver gas transportation services to NEO on
20 behalf of GNR customers that are connected to NEO's distribution system. These GNR
21 customers are currently transportation customers of NEO. Instead of charging GNR the

1 current OTP rates, NEO proposes to apply the OTP Rider directly to all customers,
2 including these GNR transportation customers. Under NEO's proposal, GNR or another
3 gas marketer could continue to provide gas supply to any NEO transportation customers
4 that can be served from the OTP assets. As for NEO, the fourth customer of OTP, it
5 currently "pays itself" through the OTP tariff for gas transportation services to deliver gas
6 to full service customers connected to the NEO system and, in turn, recovers these costs
7 from its customers through the rates of NEO's Gas Cost Recovery ("GCR") rider. In the
8 Application, NEO proposes to remove these gas supply costs (approximately \$666,016)
9 from its GCR rates and roll them into the proposed OTP Rider rates.

10 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

11 A. My testimony is divided into three parts: 1) a description of the rate base; 2) the revenue
12 requirement impact of integrating the Purchased Assets into NEO; and 3) the related
13 revenue requirement impact on customer rates. Part 1 describes how integrating the
14 Purchased Assets into NEO impacts NEO's total rate base, revenue requirement, and
15 customers. Specifically, Part 1 starts with a summary of NEO's current rate base and
16 revenue requirement as established by the Commission in Case No. 18-1720-GA-AIR, and
17 adds in the increase to rate base from OTP and the proposed increase in the revenue
18 requirement. Part 2 describes in more detail the OTP-related rate base and the proposed
19 increase in the OTP revenue requirement. Finally, Part 3 presents **Schedules E-4-NEO**
20 and **E-4.1-NEO**, which compare the revenues for all NEO customers at current and

1 proposed rates, and **Schedule E-5-NEO**, which shows the typical bill comparisons for all
2 NEO customers.²

3 **Q. AS AN ALTERNATIVE RATE PLAN FILING, ARE YOU SPONSORING ANY**
4 **PORTIONS OF THE STANDARD FILING REQUIREMENTS (SFRs) FOR**
5 **SMALL UTILITIES IN YOUR TESTIMONY?**

6 A. For the OTP specific portion of the testimony, I have provided schedules conforming to
7 the SFRs for small utilities where possible, including Section A – Revenue Requirement,
8 Section B – Rate Base, and Section C – Operating Income. In addition, portions of Section
9 D – Rate of Return and portions of Section E – Rates and Tariffs provide data pertaining
10 to NEO as a whole, not just OTP.

11 **III. TEST YEAR AND BASIS OF PRESENTATION**

12 **Q. WHAT IS THE TEST YEAR AND DATE CERTAIN IN THIS PROCEEDING?**

13 A. The test year is the twelve months ending March 31, 2021, with a date certain of June 30,
14 2020. The test year represents three months of actual financial data for the months of April,
15 May, and June 2020, and nine months of projected data through March 31, 2021. The date
16 certain and test year relate only to OTP, the related revenue requirement, and the proposed
17 OTP Rider. NEO proposes no changes to the distribution rates related to the NEO rate
18 base and revenue requirement established last year in Case No. 18-1720-GA-AIR et al.
19

² In the sponsored schedules and related testimony, schedules designated with “NEO” at the end or with no designation at all present the impact on all NEO customers. Schedules designated with “OTP” at the end relate only to the Purchased Assets, their rate base, revenues, costs and proposed revenue increase.

1 **Q. PLEASE DESCRIBE THE PROCESS USED BY NEO TO DEVELOP THE NINE**
2 **MONTHS OF PROJECTED DATA INCLUDED IN THE TEST YEAR FOR OTP?**

3 A. As discussed by the Commission in its December 4, 2019 Finding and Order in Case No.
4 19-1921-PL-ATR, NEO acquired the Purchased Assets through a receivership sale;
5 therefore, there are few historical records of OTP's operations or costs.³ Consequently, for
6 revenues, NEO used the twelve months ending June 30, 2020, as the base, to which NEO
7 applied normalizing adjustments for weather and other items. For expenses, the nine
8 months of projected data are based on NEO's 2020 budget for OTP operations, updated for
9 known and measurable changes based on NEO's experience in operating the Purchased
10 Assets since December 2019. **Schedule C-2.1-OTP** presents the test year as the actual
11 three months through June 30, 2020, with nine months of projected data added to complete
12 the full twelve-month test year. With a few exceptions discussed later in my testimony,
13 the adjustments in **Schedule C-3-OTP** are designed to apply the normalizing adjustments
14 to the actual data in the three-month period. The result in **Schedule C-2-OTP** is an
15 adjusted test year that fairly represents the normalized on-going revenue and expenses for
16 the Purchased Assets.

³ See *In the Matter of the Joint Application of Northeast Ohio Gas Corp. and Orwell-Trumbull Pipeline Co., LLC, by and through Receiver Zachary B. Burkons, to Transfer Certain Pipeline Assets of Orwell-Trumbull Pipeline Co., LLC to Northeast Ohio Natural Gas Corp. Pursuant to R.C. 4905.48(B) and (C) and for Related Authority*, Case No. 19-1921-PL-ATR ("OTP Asset Approval Case"), Finding and Order (Dec. 4, 2019), ¶¶ 16, 19.

1 **IV. OVERALL EFFECT ON NEO CUSTOMERS**

2 **Q. CAN YOU PROVIDE MORE DETAIL CONCERNING THE EFFECT ON NEO**
3 **CUSTOMERS OF INTEGRATING THE PURCHASED ASSETS AND THE**
4 **PROPOSED REVENUE INCREASE?**

5 **A.** Yes. Four schedules detail the impact of NEO's proposals on customers. **Schedule A-1-**
6 **NEO** provides an overall financial summary. Specifically, column (D) shows NEO's rate
7 base, operating income, and revenue requirement as established by the Commission in Case
8 No. 18-1720-GA-AIR et al. Column (E) shows the proposed OTP rate base of \$8,946,359
9 and revenue requirement of \$1,558,041. Column (F) shows the gas costs of \$666,016 that
10 would be removed from NEO's GCR and incorporated into the proposed OTP Rider.
11 Column (G) shows the net effect to NEO's rate base and revenue requirement and indicates
12 an overall 3.16% increase to NEO's customers. **Schedules B-1-NEO** and **C-1-NEO**
13 provide further detail for rate base and operating income, respectively. **Schedule E-4-**
14 **NEO-Summary** provides a summary bill impact breakdown of the effect by customer
15 class. Column (G) shows the OTP distribution revenue increase. Column (H) shows the
16 gas cost revenue decrease while column (J) shows the net increase/(decrease).

17 **V. OTP RATE BASE AND REVENUE REQUIREMENT**

18 **Q. HOW ARE THE SCHEDULES RELATING TO THE OTP RATE BASE AND**
19 **REVENUE REQUIREMENT ORGANIZED?**

20 **A.** The Schedules are organized into the sections of the SFRs for small utilities where possible,
21 including Section A – Revenue Requirement, Section B - Rate Base, and Section C -
22 Operating Income.

1 **A. Revenue Requirement**

2 **Q. PLEASE DESCRIBE SCHEDULE A-1-OTP, THE FINANCIAL SUMMARY.**

3 A. Schedule A-1-OTP is an overall financial summary of the OTP rate base, operating
4 income, rate of return, and the proposed revenue increase. Specific references are made to
5 the various supporting schedules. As shown on line 3 of Schedule A-1-OTP, the current
6 earned rate of return on OTP rate base is 2.47%. However, just last year in Case No. 18-
7 1720-GA-AIR et al., the Commission determined that a fair and reasonable rate of return
8 on rate base for NEO was 8.12% (see line 4), which is significantly above the current
9 earned rate of return for OTP. Line 9 of Schedule A-1-OTP reflects NEO's proposed
10 revenue increase of \$639,640 for OTP.

11 **Q. PLEASE DESCRIBE SCHEDULE A-2-OTP, GROSS REVENUE CONVERSION**
12 **FACTOR.**

13 A. Schedule A-2-OTP presents the calculated Gross Revenue Conversion Factor used to
14 determine the overall revenue increase on Schedule A-1-OTP. The Gross Revenue
15 Conversion Factor uses the current statutory federal income tax rate of 21%, as reflected
16 on line 6, and is consistent with the Gross Revenue Conversion Factor used for NEO in
17 Case No. 18-1720-GA-AIR et al.

18 **B. Rate Base**

19 **Q. PLEASE SUMMARIZE OTP'S RATE BASE.**

20 A. Schedule B-1-OTP, line 8, shows the jurisdictional rate base for OTP to be \$8,946,359, as
21 of the June 30, 2020 date certain. The two supporting schedules referenced by Schedule
22 B-1-OTP are Schedule B-2-OTP (Plant in Service) and Schedule B-3-OTP (Reserve for
23 Accumulated Depreciation).

1 **Q. IS NEO INCLUDING CONSTRUCTION WORK IN PROGRESS (“CWIP”) IN**
2 **OTP’S RATE BASE?**

3 A. No. CWIP is not included in OTP’s rate base. As such, Schedules A-3, B-4, B-4.1, B-4.2
4 and B-9, all of which concern or otherwise relate to CWIP, are not applicable and have
5 been omitted.

6 **Q. ARE ALL OF OTP’S PLANT IN SERVICE USED AND USEFUL IN PROVIDING**
7 **UTILITY SERVICE IN THE STATE OF OHIO?**

8 A Yes.

9 **Q. ARE ALL OF NEO’S OPERATIONS RELATED TO THE PURCHASED ASSETS**
10 **SUBJECT TO THE JURISDICTION OF THE COMMISSION?**

11 A Yes. All of NEO’s operations are subject to the jurisdiction of the Commission. Therefore,
12 Schedules B-7, B7.1 and B7.2, all of which relate to jurisdictional allocation factors, are
13 not applicable and have been omitted.

14 **Q. HAS THE PLANT IN SERVICE BEEN IDENTIFIED BY ACCOUNTS AND**
15 **SUBACCOUNTS IN ACCORDANCE WITH THE FERC UNIFORM SYSTEM OF**
16 **ACCOUNTS AND NEO’S CONTINUING PROPERTY RECORDS FOR OTP?**

17 A. Yes. Schedule B-2-OTP summarizes, by major property groupings, the plant in service
18 as of the date certain, June 30, 2020. Schedule B-2.1-OTP details the Company’s
19 jurisdictional plant in service for OTP by account and subaccount as of the date certain.
20 The total of \$13,310,881 is consistent with the initial rate base value of the Purchased
21 Assets, as of September 1, 2019, that was established and approved by the Commission in
22 Case No. 19-1921-PL-ATR. Column (H) shows no further adjustments are necessary, as
23 further supported by Schedule B-2.2-OTP.

1 **Q. PLEASE DESCRIBE SCHEDULE B-2.3-OTP, THE PLANT IN SERVICE**
2 **ROLLFORWARD.**

3 A. Schedule B-2.3-OTP provides a roll-forward of the gross additions, retirements, and
4 transfers to/from plant in service from the Commission-approved total of \$13,310,881, as
5 of September 1, 2019, to June 30, 2020, i.e., the date certain in this proceeding. There were
6 no additions, retirements, or transfers to plant during this period.

7 **Q. DID NEO ACQUIRE ANY LEASED PROPERTY FROM OTP?**

8 A. No. As such, Schedules B-2.4 and B-3.4 have been omitted.

9 **Q. PLEASE DESCRIBE SCHEDULES B-3-OTP AND B-3.1-OTP RELATED TO THE**
10 **ACCUMULATED DEPRECIATION RESERVE.**

11 A. Schedule B-3-OTP details the current accumulated depreciation reserve as of June 30,
12 2020, for each account and subaccount, totaling \$4,364,522. Column (I) and Schedule B-
13 3.1 illustrate that no further adjustments are necessary to the accumulated depreciation
14 reserve.

15 **Q. PLEASE DESCRIBE THE DEPRECIATION EXPENSE CALCULATION IN**
16 **SCHEDULE B-3.2-OTP.**

17 A. Schedule B-3.2-OTP calculates depreciation expense using the rates and service lives
18 approved by the Commission in Case No. 18-1720-GA-AIR et al. and in Case No. 19-

1 1921-PL-ATR. Test year depreciation expense is adjusted to match this calculated
2 depreciation expense on Schedule C-3.7-OTP.

3 **Q. PLEASE DESCRIBE SCHEDULE B-3.3-OTP, THE ACCUMULATED**
4 **DEPRECIATION ROLLFORWARD.**

5 A. Schedule B-3.3-OTP details the depreciation reserve accruals, retirements, and transfers
6 from the Commission-approved total of \$4,100,921, as of September 1, 2019 (see Case No.
7 19-1921-PL-ATR), to June 30, 2020, the date certain in this proceeding, by account and
8 subaccount. The only change during this period was the additional depreciation accrual.

9 **Q. ARE THERE FURTHER RATE BASE ITEMS RELATED TO OTP?**

10 A. No. As an alternative rate plan filing, NEO's intent is to only include the plant in service
11 and accumulated depreciation for OTP, as established by the Commission in Case No.19-
12 1921-PL-ATR, and further rolled forward to the date certain in this case of June 30, 2020.

13 **C. Operating Income**

14 **Q. PLEASE DESCRIBE SECTION C OF THE APPLICATION REGARDING**
15 **OPERATING INCOME.**

16 A. Section C presents OTP's operating income for the test year, describes adjustments
17 necessary to reflect the fair, reasonable, and recurring items that are proper for establishing
18 an ongoing level of expenses and revenue, and reflects the pro forma adjustments resulting
19 from the requested increase to OTP's revenue.

20 **Q. PLEASE DESCRIBE THE PRO FORMA INCOME STATEMENT THAT IS**
21 **SCHEDULE C-1-OTP.**

22 A. Schedule C-1-OTP is the jurisdictional pro forma income statement showing the adjusted
23 revenues and expenses under existing customer rates and the impact of the proposed

1 revenue increase for OTP. Column (D) of **Schedule C-1-OTP** shows that under current
2 rates the Company's rate of return on the OTP rate base is 2.47%. Column (F) shows the
3 return on the OTP rate base using the current rate of return for NEO, i.e., 8.12%, as
4 established by the Commission in Case No. 18-1720-GA-AIR et al. Column (E) indicates
5 a revenue increase of \$639,640 is necessary to achieve the 8.12% return.

6 **Q. PLEASE DESCRIBE SCHEDULE C-2-OTP, ADJUSTED TEST YEAR**
7 **OPERATING INCOME.**

8 A. Column (E) of **Schedule C-2-OTP** identifies OTP's jurisdictional unadjusted revenue and
9 expenses for the test year (i.e., the twelve months ending March 31, 2021). Column (F)
10 contains adjustments to those revenues and expenses, as detailed in **Schedule C-3-OTP**
11 and as discussed later in my testimony. Column (G) contains the jurisdictional adjusted
12 revenue, expenses, and net operating income during the test year, and provides the source
13 for the adjusted revenue and expenses identified in column (D) of **Schedule C-1-OTP**.

14 **Q. PLEASE DESCRIBE SCHEDULE C-2.1-OTP, OPERATING REVENUES AND**
15 **EXPENSES BY ACCOUNT.**

16 A. **Schedule C-2.1-OTP** details by account the operating revenues and expenses for the test
17 year in accordance with the Uniform System of Accounts. The amounts on this schedule
18 reflect the unadjusted test year amounts, including the actual results for April, May, and
19 June 2020 and the projected amounts for the remaining nine months of the test year. The
20 costs included are all incurred to support the Purchased Assets and related customer base.

1 **Q. PLEASE DESCRIBE SCHEDULE C-3-OTP, ADJUSTMENTS TO REVENUES**
2 **AND EXPENSES.**

3 A. **Schedule C-3-OTP** summarizes the adjustments which are detailed in **Schedules C-3.1-**
4 **OTP** through **C-3.10-OTP**. The adjustments are needed to present an annualized and
5 normalized test year that reflects the annual effect of expenses and revenues. As described
6 earlier in my testimony, with the exception of the adjustment to income taxes, which is
7 presented as an adjustment to the full test year amount, the adjustments provide
8 normalizing effect to the actual three months. The nine projected months are already
9 normalized.

10 **Q. PLEASE DESCRIBE SCHEDULE C-3.1-OTP, ADJUSTMENTS TO NORMALIZE**
11 **REVENUE.**

12 A. **Schedule C-3.1-OTP** normalizes OTP's revenue for the three months of April, May, and
13 June 2020 for weather. The projected test year revenue is based on OTP's actual
14 transportation volumes and revenues for the 12 months ended June 30, 2020, normalized
15 for weather, with charges for telemetering services removed, as these charges were
16 previously paid to OTP by NEO and are already included in NEO's distribution rates. The
17 total adjustment to test year base revenue to normalize the three months of actual data for
18 weather is a reduction of \$19,343. Workpaper WPC-2.1 referenced by **Schedule 3.1-OTP**
19 provides details of the adjustment on page 2.

20 **Q. PLEASE DESCRIBE THE METHODOLOGY USED FOR THE WEATHER**
21 **NORMALIZATION ADJUSTMENT.**

22 A. Workpaper WPC-2.1 provides details of the weather normalization calculation, beginning
23 on page 3. Lines 55 – 58 show the ten year normal and actual degree days for the Cleveland

1 area, along with the difference and the factor to apply to the weather sensitive volumes.
2 Lines 59 – 66 show the actual delivery volumes for each of OTP’s customers. NEO is split
3 into NEO and Brainard (BRN). GNR volumes are split between weather sensitive and
4 process volumes (see page 4 provides further details on this split). Lines 67 – 74 detail the
5 base load volumes using the average of July and August volumes. Lines 75 – 82 show the
6 heat sensitive volumes. The volumes for June through September, as well as the GNR
7 process volumes, were considered to be not weather sensitive. Lines 83 – 89 apply the
8 degree day factor to the weather sensitive volumes while lines 91 – 98 show the total
9 weather normalized volume, including base load. Workpaper WPC-2.1, page 2, line 39
10 shows that for the entire test year, the normalization adds 34,806.3 Mcf and \$23,862 of
11 revenue. For the three months of actual data included in the test year, the normalization
12 reduces volume and revenue by 19,907.9 Mcf and \$19,115, respectively.

13 **Q. PLEASE DESCRIBE SCHEDULE C-3.2-OTP, ADJUSTMENTS TO TELE-**
14 **METERING EXPENSE.**

15 A. **Schedule C-3.2-OTP** removes from test year expenses the amounts for telemetering
16 services. These costs were historically paid to OTP by NEO and are included in the cost
17 of service upon which NEO’s rates are based. The costs are now paid directly by NEO to
18 the vendor, Cobra Pipeline Co. Ltd. The amount of \$6,796 has been removed.

19 **Q. PLEASE DESCRIBE SCHEDULE C-3.3-OTP, ADJUSTMENTS TO PAYROLL**
20 **AND RELATED EXPENSES.**

21 A. NEO has hired three employees to operate the Purchased Assets. **Schedule C-3.3-OTP**
22 shows the annualized payroll, associated benefits, and payroll taxes (lines 2, 5 and 8,
23 respectively). The test year amounts, which include three months of actual payroll during

the ramp up period of April, May, and June 2020, are shown on lines 1, 4, and 7. The total adjustment (i.e., the sum of lines 3, 6 and 9) is \$7,863. Further details are provided for payroll on Schedule C-3.3a-OTP Labor, for benefits on Schedule C-3.3b-OTP Benefits, and for payroll taxes on Schedule C-3.3c-Payroll Tax.

Q. PLEASE DESCRIBE SCHEDULE C-3.4-OTP, ADJUSTMENTS TO OTHER DISTRIBUTION EXPENSE.

A. In Schedule C-3.4-OTP, NEO projects its costs for account 880, other distribution expense, to be \$12,000 on a normalized test year basis. The unadjusted test year includes \$9,334 in other distribution expense, indicating an increase to expense of \$2,666.

Q. PLEASE DESCRIBE SCHEDULE C-3.5-OTP, ADJUSTMENTS TO PROFESSIONAL SERVICES.

A. In Schedule C-3.5-OTP, the unadjusted test year includes \$85,219 for professional services, primarily for legal fees needed to defend/resolve disputes over rights of way related to the Purchased Assets. Included in this amount is \$5,230, which is more properly included in account 887, maintenance of mains, not in account 923, professional services. NEO estimates the total annualized test year cost for legal fees to be \$100,000, calling for a \$14,781 adjustment to the test year.

Q. PLEASE DESCRIBE SCHEDULE C-3.6-OTP, ADJUSTMENT FOR DISTRIBUTION MAINTENANCE EXPENSE.

A. In Schedule C-3.6-OTP, NEO's projection for normalized distribution maintenance expense for OTP is \$60,000 annually. Accounting for the \$5,230 reclassification from account 923 to account 887 as described above, the necessary adjustment to the test year amount is \$14,119.

1 **Q. PLEASE DESCRIBE SCHEDULE C-3.7-OTP, ADJUSTMENT TO**
2 **DEPRECIATION EXPENSE.**

3 A. As noted earlier in my testimony, the calculations in Schedule B-3.2-OTP result in an
4 adjustment to test year depreciation expense. For the actual three months of the test year,
5 this adjustment totals \$74,136, as reflected on Schedule C-3.7-OTP. Total depreciation
6 expense for the test year, as calculated on Schedule B-3.2-OTP, is \$316,322.

7 **Q. PLEASE DESCRIBE SCHEDULE C-3.8-OTP, ADJUSTMENT TO PERSONAL**
8 **PROPERTY TAXES.**

9 A. The adjustment in Schedule C-3.8-OTP totaling an increase to expense of \$3,411 updates
10 the three actual months of the test year to reflect normalized property tax expense and is
11 based on the most recent property tax invoice information detailed in workpaper WPC-3.8.
12 The projected months of the test year also reflect the normalized amounts based on the
13 most recent information available to NEO.

14 **Q. PLEASE DESCRIBE SCHEDULE C-3.9-OTP, ADJUSTMENT TO EXCISE AND**
15 **GROSS RECEIPTS TAX.**

16 A. In Schedule C-3.9-OTP, the test year includes \$146 of excise/gross receipts tax expense,
17 which this adjustment removes, as this case relates only to NEO's distribution revenue
18 related to the Purchased Assets.

19 **Q. PLEASE DESCRIBE SCHEDULE C-3.10-OTP, ADJUSTMENTS TO FEDERAL**
20 **INCOME TAX EXPENSE.**

21 A. Based on the calculations in Schedule C-4-OTP, Schedule C-3.10-OTP shows an
22 adjustment of (\$1,789) needed to reflect income taxes on the normalized test year income.

The adjustments to the test year income tax expense reflect synchronized interest expense and the 21% federal income tax rate.

Q. PLEASE DESCRIBE SCHEDULE C-10.1-OTP, BALANCE SHEET.

A. Schedule C-10.1-OTP contains a balance sheet describing the operations of the OTP pipeline as of June 30, 2020. It includes the Purchased Assets as well as assets purchased since the acquisition of the Purchased Assets and also the assets and liabilities related to the operation of the pipeline. The OTP pipeline is not a separate entity and does not have a separate capital structure from NEO. The offset to assets minus liabilities is included as equity for purposes of this balance sheet. Only the Purchased Assets are included as the basis for the revenue requirement and the requested increase to rates.

Q. PLEASE DESCRIBE SCHEDULE C-10.2-OTP, INCOME STATEMENT.

A. Schedule C-10.2-OTP contains a comparative income statement. It presents income statements for the adjusted test year ending March 31, 2021 and for the 7 months ended June 30, 2020. NEO cannot provide a complete income statement of the last fiscal year for the reasons previously acknowledged by the Commission. NEO purchased OTP's assets from the receivership less than 12 months ago and therefore its access to data prior to December 1, 2019 is limited.

D. Rate of Return

Q. PLEASE DESCRIBE NEO'S PROPOSED RATE OF RETURN ON OTP'S RATE BASE IN THIS APPLICATION.

A. In this Application, NEO proposes an 8.12% rate of return, i.e., the same rate of return the Commission approved last year for NEO in Case No. 18-1720-GA-AIR et al. Schedule

D-1 summarizes NEO's capital structure and the cost of each component that calculate to the 8.12% return.

E. Rates and Tariffs

Q. PLEASE DESCRIBE SCHEDULES E-4-NEO AND E-4.1-NEO, BASE OPERATING REVENUES BY RATE SCHEDULE.

A. Schedules E-4-NEO and E-4.1-NEO contain the summary and detail, respectively, by rate schedule, of the base operating revenues at the current and proposed rates. As reflected on page 8 of Schedule E-4-NEO, current revenues, totaling \$28,216,122 (including \$10,578,093 of gas cost revenue and \$94,152 of miscellaneous revenue), represent the revenue requirement established by the Commission in Case No. 18-1720-GA-AIR et al. As illustrated by page 4 of Schedule E-4-NEO, proposed revenues total \$29,108,147, including \$9,912,077 of gas cost revenue and the same \$94,152 of miscellaneous revenue. The net increase to NEO customers of \$878,884 includes the \$1,558,041 of total OTP distribution revenue less the amount of \$13,141 for the contract customers offset by the reduction in NEO gas cost recovery of \$666,016.

Q. PLEASE DESCRIBE SCHEDULE E-5-NEO, TYPICAL BILL COMPARISONS.

A. Schedule E-5-NEO presents typical bill comparisons at various usage levels for each rate schedule at the current and proposed rates and charges.

VI. CONCLUSION

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, but I reserve the right to supplement my testimony.

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in

Case No(s). 20-1427-GA-ALT

Summary: Testimony of Jed D. Henthorne electronically filed by Mr. Trevor Alexander on behalf of Northeast Ohio Natural Gas Corp.